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AFLAC INC

Form 10-Q

May 04, 2018

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, 2018

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

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(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post 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 25, 2018

Common Stock, \$.10 Par Value 774,167,054

Aflac Incorporated and Subsidiaries  
 Quarterly Report on Form 10-Q  
 For the Quarter Ended March 31, 2018  
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The March 31, 2018, and 2017, 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.

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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, 2018, the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for the three-month periods ended March 31, 2018 and 2017, 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, 2017, 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 22, 2018, 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, 2017, 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  
May 3, 2018

Aflac Incorporated and Subsidiaries  
Consolidated Statements of Earnings

|  | Three Months<br>Ended<br>March 31, |         |
|--|------------------------------------|---------|
| (In millions, except for share and per-share amounts - Unaudited)                                  | 2018                               | 2017    |
| Revenues:  |                                    |         |
| Net premiums, principally supplemental health insurance  | \$4,745                            | \$4,638 |
| Net investment income  | 837                                | 794     |
| Realized investment gains (losses):  |                                    |         |
| Other-than-temporary impairment losses realized  | (7 )                               | (10 )   |
| Other gains (losses) <sup>(1)</sup>  | (127 )                             | (130 )  |
| Total realized investment gains (losses)   | (134 )                             | (140 )  |
| Other income (loss)  | 16                                 | 17      |
| Total revenues   | 5,464                              | 5,309   |
| Benefits and expenses:   |                                    |         |
| Benefits and claims, net   | 3,042                              | 3,052   |
| Acquisition and operating expenses:  |                                    |         |
| Amortization of deferred policy acquisition costs  | 314                                | 294     |
| Insurance commissions  | 337                                | 328     |
| Insurance and other expenses   | 733                                | 675     |
| Interest expense   | 56                                 | 62      |
| Total acquisition and operating expenses   | 1,440                              | 1,359   |
| Total benefits and expenses  | 4,482                              | 4,411   |
| Earnings before income taxes   | 982                                | 898     |
| Income taxes   | 265                                | 306     |
| Net earnings   | \$717                              | \$592   |
| Net earnings per share:  |                                    |         |
| Basic  | \$.92                              | \$.74   |
| Diluted  | .91                                | .73     |
| Weighted-average outstanding common shares used in<br>computing earnings per share (In thousands): |                                    |         |
| Basic  | 778,550                            | 802,259 |
| Diluted  | 783,852                            | 808,138 |
| Cash dividends per share   | \$.26                              | \$.22   |

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

See the accompanying Notes to the Consolidated Financial Statements.

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

| (In millions - Unaudited)   | Three Months<br>Ended |       |
|---|-----------------------|-------|
|   | 2018                  | 2017  |
| Net earnings  | \$717                 | \$592 |
| Other comprehensive income (loss) before income taxes:  |                       |       |
| Unrealized foreign currency translation gains (losses) during period  | 824                   | 375   |
| Unrealized gains (losses) on fixed maturity securities: <sup>(1)</sup>  |                       |       |
| Unrealized holding gains (losses) on fixed maturity securities during period                                  | (1,93)                | (526) |
| Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings | (2)                   | 16    |
| Unrealized gains (losses) on derivatives during period  | 6                     | 2     |
| Pension liability adjustment during period  | (3)                   | (2)   |
| Total other comprehensive income (loss) before income taxes   | (1,106)               | (135) |
| Income tax expense (benefit) related to items of other comprehensive income (loss)                            | (763)                 | (137) |
| Other comprehensive income (loss), net of income taxes  | (343)                 | 2     |
| Total comprehensive income (loss)   | \$374                 | \$594 |

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets

| (In millions)   | March 31,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|---|----------------------------------|----------------------|
| Assets:   |                                  |                      |
| Investments and cash:   |                                  |                      |
| Securities available for sale, at fair value:   |                                  |                      |
| Fixed maturity securities (amortized cost \$76,912 in 2018 and \$70,594 in 2017) <sup>(1)</sup>   | \$ 83,602                        | \$ 78,804            |
| Fixed maturity securities - consolidated variable interest entities (amortized cost \$4,695 in 2018 and \$4,538 in 2017) <sup>(1)</sup> | 5,431                            | 5,509                |
| Securities held to maturity, at amortized cost:   |                                  |                      |
| Fixed maturity securities (fair value \$40,468 in 2018 and \$38,072 in 2017)  | 33,377                           | 31,430               |
| Equity securities, at fair value:   |                                  |                      |
| Equity securities <sup>(1)</sup>  | 348                              | 270                  |
| Equity securities - consolidated variable interest entities   | 760                              | 753                  |
| Other investments <sup>(2)</sup>  | 5,073                            | 3,402                |
| Cash and cash equivalents   | 4,080                            | 3,491                |
| Total investments and cash  | 132,671                          | 123,659              |
| Receivables   | 906                              | 827                  |
| Accrued investment income   | 745                              | 769                  |
| Deferred policy acquisition costs   | 9,933                            | 9,505                |
| Property and equipment, at cost less accumulated depreciation   | 448                              | 434                  |
| Other <sup>(3)</sup>  | 2,653                            | 2,023                |
| Total assets  | \$ 147,356                       | \$ 137,217           |

<sup>(1)</sup> Includes perpetual securities, see Notes 1 and 3 of the Notes to the Consolidated Financial Statements

<sup>(2)</sup> Includes \$3,994 in 2018 and \$2,341 in 2017 of loan receivables and limited partnerships from consolidated variable interest entities

<sup>(3)</sup> Includes \$241 in 2018 and \$151 in 2017 of derivatives from consolidated variable interest entities

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets (continued)

| (In millions, except for share and per-share amounts)   | March 31,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|---|----------------------------------|----------------------|
| Liabilities and shareholders' equity:   |                                  |                      |
| Liabilities:  |                                  |                      |
| Policy liabilities:   |                                  |                      |
| Future policy benefits  | \$87,268                         | \$ 81,857            |
| Unpaid policy claims  | 4,630                            | 4,392                |
| Unearned premiums   | 6,084                            | 5,959                |
| Other policyholders' funds  | 7,417                            | 6,939                |
| Total policy liabilities  | 105,399                          | 99,147               |
| Income taxes  | 4,407                            | 4,745                |
| Payables for return of cash collateral on loaned securities   | 5,368                            | 606                  |
| Notes payable   | 5,372                            | 5,289                |
| Other <sup>(4)</sup>  | 2,523                            | 2,832                |
| Total liabilities   | 123,069                          | 112,619              |
| Commitments and contingent liabilities (Note 13)  |                                  |                      |
| Shareholders' equity:   |                                  |                      |
| Common stock of \$.10 par value. In thousands: authorized 3,800,000 shares in 2018 and 2017; issued 1,346,776 shares in 2018 and 1,345,762 shares in 2017 | 135                              | 135                  |
| Additional paid-in capital  | 2,089                            | 2,052                |
| Retained earnings   | 30,183                           | 29,895               |
| Accumulated other comprehensive income (loss):  |                                  |                      |
| Unrealized foreign currency translation gains (losses)  | (1,303 )                         | (1,750 )             |
| Unrealized gains (losses) on fixed maturity securities <sup>(5)</sup>   | 5,206                            | 5,964                |
| Unrealized gains (losses) on derivatives  | (21 )                            | (23 )                |
| Pension liability adjustment  | (197 )                           | (163 )               |
| Treasury stock, at average cost   | (11,805 )                        | (11,512 )            |
| Total shareholders' equity  | 24,287                           | 24,598               |
| Total liabilities and shareholders' equity  | \$147,356                        | \$ 137,217           |

<sup>(4)</sup> Includes \$86 in 2018 and \$128 in 2017 of derivatives from consolidated variable interest entities

<sup>(5)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.

See the accompanying Notes to the Consolidated Financial Statements.



Aflac Incorporated and Subsidiaries  
Consolidated Statements of Shareholders' Equity

| (In millions - Unaudited)   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2018               | 2017      |
| Common stock:   |                    |           |
| Balance, beginning of period  | \$135              | \$135     |
| Balance, end of period  | 135                | 135       |
| Additional paid-in capital:   |                    |           |
| Balance, beginning of period  | 2,052              | 1,908     |
| Exercise of stock options   | 14                 | 10        |
| Share-based compensation  | 10                 | 12        |
| Gain (loss) on treasury stock reissued  | 13                 | 10        |
| Balance, end of period  | 2,089              | 1,940     |
| Retained earnings:  |                    |           |
| Balance, beginning of period  | 29,895             | 25,981    |
| Cumulative effect of change in accounting principle - financial instruments, net of income taxes <sup>(1)</sup>                           | 148                | 0         |
| Cumulative effect of change in accounting principle - tax effects from tax reform <sup>(1)</sup>  | (374 )             | 0         |
| Net earnings  | 717                | 592       |
| Dividends to shareholders   | (203 )             | (173 )    |
| Balance, end of period  | 30,183             | 26,400    |
| Accumulated other comprehensive income (loss):  |                    |           |
| Balance, beginning of period  | 4,028              | 2,630     |
| Cumulative effect of change in accounting principle - financial instruments, net of income taxes <sup>(1)</sup>                           | (148 )             | 0         |
| Cumulative effect of change in accounting principle - tax effects from tax reform <sup>(1)</sup>  | 374                | 0         |
| Unrealized foreign currency translation gains (losses) during period, net of income taxes   | 447                | 333       |
| Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments <sup>(1)</sup> | (984 )             | (331 )    |
| Unrealized gains (losses) on derivatives during period, net of income taxes   | 2                  | 2         |
| Pension liability adjustment during period, net of income taxes   | (34 )              | (2 )      |
| Balance, end of period  | 3,685              | 2,632     |
| Treasury stock:   |                    |           |
| Balance, beginning of period  | (11,512 )          | (10,172 ) |
| Purchases of treasury stock   | (309 )             | (610 )    |
| Cost of shares issued   | 16                 | 15        |
| Balance, end of period  | (11,805 )          | (10,767 ) |
| Total shareholders' equity  | \$24,287           | \$20,340  |

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows

| (In millions - Unaudited)   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Cash flows from operating activities:   |                                 |          |
| Net earnings  | \$717                           | \$592    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                 |          |
| Change in receivables and advance premiums  | 14                              | 106      |
| Capitalization of deferred policy acquisition costs                                 | (349 )                          | (335 )   |
| Amortization of deferred policy acquisition costs                                   | 314                             | 294      |
| Increase in policy liabilities  | 572                             | 666      |
| Change in income tax liabilities  | (131 )                          | 271      |
| Realized investment (gains) losses  | 134                             | 140      |
| Other, net  | (33 )                           | 23       |
| Net cash provided (used) by operating activities                                    | 1,238                           | 1,757    |
| Cash flows from investing activities:   |                                 |          |
| Proceeds from investments sold or matured:  |                                 |          |
| Securities available for sale:  |                                 |          |
| Fixed maturity securities sold  | 433                             | 1,385    |
| Fixed maturity securities matured or called   | 510                             | 204      |
| Equity securities sold  | 157                             | 155      |
| Securities held to maturity:  |                                 |          |
| Fixed maturity securities matured or called   | 50                              | 228      |
| Other investments - loan receivables  | 146                             | 34       |
| Costs of investments acquired:  |                                 |          |
| Available-for-sale fixed maturity securities  | (3,975 )                        | (3,726 ) |
| Equity securities   | (166 )                          | (157 )   |
| Other investments - loan receivables  | (1,772 )                        | (123 )   |
| Other investments, excluding loan receivables, net                                  | (125 )                          | (114 )   |
| Settlement of derivatives, net  | (1 )                            | (44 )    |
| Cash received (pledged or returned) as collateral, net                              | 4,578                           | 654      |
| Other, net  | (34 )                           | (23 )    |
| Net cash provided (used) by investing activities                                    | (199 )                          | (1,527 ) |
| Cash flows from financing activities:   |                                 |          |
| Purchases of treasury stock   | (296 )                          | (610 )   |
| Proceeds from borrowings  | 2                               | 524      |
| Principal payments under debt obligations   | 0                               | (654 )   |
| Dividends paid to shareholders  | (195 )                          | (166 )   |
| Change in investment-type contracts, net  | 7                               | 18       |
| Treasury stock reissued   | 14                              | 11       |
| Other, net  | (5 )                            | 1        |
| Net cash provided (used) by financing activities                                    | (473 )                          | (876 )   |
| Effect of exchange rate changes on cash and cash equivalents                        | 23                              | (8 )     |
| Net change in cash and cash equivalents   | 589                             | (654 )   |
| Cash and cash equivalents, beginning of period                                      | 3,491                           | 4,859    |
| Cash and cash equivalents, end of period  | \$4,080                         | \$4,205  |
| Supplemental disclosures of cash flow information:                                  |                                 |          |
| Income taxes paid   | \$396                           | \$58     |
| Interest paid   | 36                              | 47       |

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|  |    |    |
|--|----|----|
| Noncash interest   | 21 | 15 |
| Impairment losses included in realized investment losses             | 7  | 10 |
| Noncash financing activities:  |    |    |
| Capital lease obligations  | 1  | 2  |
| Treasury stock issued for:   |    |    |
| Associate stock bonus  | 5  | 6  |
| Shareholder dividend reinvestment                                    | 8  | 7  |
| Share-based compensation grants                                      | 2  | 1  |
| See the accompanying Notes to the Consolidated Financial Statements. |    |    |

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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 (Aflac U.S.) and as a branch in Japan (Aflac Japan). The conversion of Aflac Japan from a branch to a legal subsidiary was completed on April 1, 2018 (see Note 14), after which date the Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan). 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 71% and 69% of the Company's total revenues in the three-month periods ended March 31, 2018 and 2017, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 85% at March 31, 2018, compared with 83% at December 31, 2017.

Basis of Presentation

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 these Notes to the Consolidated Financial Statements, 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 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, 2018, and December 31, 2017, the consolidated statements of earnings and comprehensive income (loss), shareholders' equity and cash flows for the three-month periods ended March 31, 2018 and 2017. 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

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Company's annual report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report).

Stock split: On February 13, 2018, the Board of Directors of the Parent Company declared a two-for-one stock split of the Company's common stock in the form of a 100% stock dividend payable on March 16, 2018 to shareholders of record at the close of business on March 2, 2018. The stock split was payable in the form of one additional common stock share for every share of common stock held. All equity and share-based data, including the number of shares outstanding and per share amounts, have been adjusted to reflect the stock split for all periods presented in this Quarterly Report on Form 10-Q.

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.

Perpetual securities have been reclassified in prior periods from a separate line item to fixed maturity securities to conform to current period reporting classifications. This reclassification had no impact on net earnings or total shareholder's equity.

#### New Accounting Pronouncements

#### Recently Adopted Accounting Pronouncements

**Technical Corrections and Improvements to Financial Instruments - Overall:** In February 2018, the FASB issued amendments to clarify certain aspects of the guidance issued in the original Financial Instruments - Overall - Recognition and Measurement pronouncement summarized below. Specifically, for entities who have chosen the measurement alternative approach for equity securities without readily determinable fair values, the amendments clarify that entities may change from a measurement alternative approach to a fair value method through an irrevocable election that would apply to a specific equity security and all identical or similar investments of the same issuer; entities should use an observable price at the date of the transaction rather than reporting date for the measurement alternative calculation; and insurance companies should use a prospective transition method when applying the measurement alternative. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted the Financial Instruments - Overall - Recognition and Measurement guidance discussed below. The Company elected to early adopt this technical correction and improvement guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

**Income Statement - Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income:** In February 2018, the FASB issued amendments which allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings of the effects of the change in the U.S. federal income tax rate resulting from the Tax Cuts and Jobs Act (Tax Act) on the gross deferred tax amounts and the corresponding valuation allowances related to items remaining in AOCI. The amendments eliminate the stranded tax effects resulting from the Tax Act and also require certain disclosures about the reclassified tax effects. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Public business entities may early adopt this guidance in any interim reporting period for which financial statements have not yet been issued. The amendments should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company elected to early adopt this guidance as of January 1, 2018. The amounts reclassified from AOCI to retained earnings include the income tax effects of the change in the federal corporate tax rate enacted by the Tax Act. The Company's policy is to follow the portfolio approach for releasing income tax effects from AOCI. The adoption of this guidance resulted in an increase to beginning 2018 AOCI of \$374 million with a corresponding decrease to beginning 2018 retained earnings as of January 1, 2018.

**Compensation - Stock Compensation - Scope of Modification Accounting:** In May 2017, the FASB issued amendments to provide guidance clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. An entity should apply modification accounting if the fair value, vesting conditions or classification of the award (as an equity instrument or liability instrument) changes as a result of the change in terms or conditions of the award. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

Compensation - Retirement Benefit - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: In March 2017, the FASB issued amendments requiring that an employer report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.

**Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets:** In February 2017, the FASB issued amendments that clarify the scope and accounting guidance for the derecognition of a nonfinancial asset or a financial asset that meets the definition of an "in substance nonfinancial asset." The amendments define an "in substance nonfinancial asset" and provide additional accounting guidance for partial sales of nonfinancial assets. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.

**Business Combinations - Clarifying the Definition of a Business:** In January 2017, the FASB issued amendments clarifying when a set of assets and activities is a business. The amendments provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

**Statement of Cash Flows - Restricted Cash:** In November 2016, the FASB issued amendments requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.

**Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory:** In October 2016, the FASB issued amendments that require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

**Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments:** In August 2016, the FASB issued amendments that provide guidance on eight specific statement of cash flows classification issues. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.

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

**Revenue from Contracts with Customers:** In May 2014, the FASB issued updated guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations,



or disclosures.

#### Accounting Pronouncements Pending Adoption

Leases - Land Easement Practical Expedient for Transition to Topic 842: In January 2018, FASB issued guidance which provides an entity with the option to elect a transition practical expedient to not evaluate, under Topic 842, land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. The amendments clarify that new or modified land easements should be evaluated under the new leases standard once an entity has adopted the new standard. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. 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.

**Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities:** In August 2017, FASB issued guidance which improves and simplifies the accounting rules around hedge accounting and will create more transparency around how economic results are presented on financial statements. Issues addressed in this new guidance include: 1) risk component hedging, 2) accounting for the hedged item in fair value hedges of interest rate risk, 3) recognition and presentation of the effects of hedging instruments, and 4) amounts excluded from the assessment of hedge effectiveness. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the guidance. The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

**Receivables - Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities:** In March 2017, the FASB issued amendments to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

**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 permitted for any goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a significant impact on its financial position, results of operations, or disclosures.

**Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments:** 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.

The Company has identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, loan 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.

Leases: In February 2016, the FASB issued updated guidance for accounting for leases. Per the amendments, lessees will be 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. A right-of-use asset will be recorded which represents the lessee's right to use, or to control the use of, a specified asset for a lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company has identified certain operating leases in scope of this guidance to include office space and equipment leases (See Note 15 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for current balances of leases in scope). The leases within scope of this guidance will increase the Company's right-of-use assets and lease liabilities recorded on its statement of financial position, however the Company estimates leases within scope of the guidance to represent less than 1% of its total assets as of March 31, 2018. The Company estimates that the adoption of this guidance will not have a significant impact on its financial position, results of operations, or disclosures.

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 2017 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. Operating business segments that are not individually reportable and business activities, including reinsurance retrocession activities, not included in Aflac Japan or Aflac U.S. are included in the "Corporate and other" category.

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 related to foreign currency denominated investments. 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 segment follows:

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| (In millions)  | Three Months<br>Ended<br>March 31,<br>2018    2017 |         |
|--|--|---------|
| Revenues:  |  |         |
| Aflac Japan:   |  |         |
| Net earned premiums  | \$3,263  | \$3,194 |
| Net investment income, less amortized hedge costs <sup>(1)</sup> | 588  | 557     |
| Other income   | 12   | 10      |
| Total Aflac Japan  | 3,863  | 3,761   |
| Aflac U.S.:  |  |         |
| Net earned premiums  | 1,427  | 1,390   |
| Net investment income  | 175  | 178     |
| Other income   | 2  | 1       |
| Total Aflac U.S.   | 1,604  | 1,569   |
| Corporate and other <sup>(2)</sup>                               | 79   | 67      |
| Total adjusted revenues  | 5,546  | 5,397   |
| Realized investment gains (losses) <sup>(1),(2)</sup>            | (82 )  | (88 )   |
| Total revenues   | \$5,464  | \$5,309 |

<sup>(1)</sup> Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were \$55 and \$52 for the three-month periods ended March 31, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing segment operations.

<sup>(2)</sup> Amortized hedge costs in Aflac Japan were offset by derivatives entered into as part of corporate activities and resulted in a benefit of \$2 for the three-month period ended March 31, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in net investment income when analyzing operations.

| (In millions)   | Three<br>Months<br>Ended<br>March 31,<br>2018    2017 |        |
|---|---|--------|
| Pretax earnings:  |   |        |
| Aflac Japan <sup>(1)</sup>  | \$818   | \$769  |
| Aflac U.S.  | 337   | 310    |
| Corporate and other <sup>(2)</sup>                                    | (46 )   | (52 )  |
| Pretax adjusted earnings  | 1,109   | 1,027  |
| Realized investment gains (losses) <sup>(1),(2),(3)</sup>             | (98 )   | (109 ) |
| Other income (loss)   | (29 )   | (20 )  |
| Total earnings before income taxes                                    | \$982   | \$898  |
| Income taxes applicable to pretax adjusted earnings                   | \$289   | \$351  |
| Effect of foreign currency translation on after-tax adjusted earnings | 21  | 5      |

<sup>(1)</sup> Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were \$55 and \$52 for the three-month periods ended March 31, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from pretax adjusted earnings when analyzing segment operations.

<sup>(2)</sup> Amortized hedge costs in Aflac Japan were offset by derivatives entered into as part of corporate activities and resulted in a benefit of \$2 for the three-month period ended March 31, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in pretax adjusted earnings when analyzing operations.

<sup>(3)</sup> Excluding a gain of \$17 and \$21 for the three-month periods ended March 31, 2018, and 2017, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is included in adjusted earnings when analyzing segment operations

Assets were as follows:

| (In millions)       | March 31,<br>2018 | December 31,<br>2017 |
|---------------------|-------------------|----------------------|
| Assets:             |                   |                      |
| Aflac Japan         | \$ 125,174        | \$ 114,402           |
| Aflac U.S.          | 19,706            | 19,893               |
| Corporate and other | 2,476             | 2,922                |
| Total assets        | \$ 147,356        | \$ 137,217           |

## 3. INVESTMENTS

## Investment Holdings

The amortized cost for the Company's investments in debt securities, the cost for equity securities and the fair values of these investments are shown in the following tables.

| (In millions)  | March 31, 2018          |                        |                         |                         |
|--|-------------------------|------------------------|-------------------------|-------------------------|
|  | Cost or Amortized Cost  | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value              |
| Securities available for sale, carried at fair value through other comprehensive income: |                         |                        |                         |                         |
| Fixed maturity securities: <sup>(1)</sup>  |                         |                        |                         |                         |
| Yen-denominated:   |                         |                        |                         |                         |
| Japan government and agencies  | \$32,961                | \$ 3,811               | \$ 192                  | \$36,580                |
| Municipalities   | 350                     | 33                     | 11                      | 372                     |
| Mortgage- and asset-backed securities  | 254                     | 30                     | 0                       | 284                     |
| Public utilities   | 1,739                   | 325                    | 4                       | 2,060                   |
| Sovereign and supranational  | 1,348                   | 212                    | 27                      | 1,533                   |
| Banks/financial institutions   | 5,157                   | 799                    | 76                      | 5,880                   |
| Other corporate  | 4,345                   | 754                    | 8                       | 5,091                   |
| Total yen-denominated  | 46,154                  | 5,964                  | 318                     | 51,800                  |
| U.S. dollar-denominated:   |                         |                        |                         |                         |
| U.S. government and agencies   | 148                     | 9                      | 1                       | 156                     |
| Municipalities   | 866                     | 135                    | 0                       | 1,001                   |
| Mortgage- and asset-backed securities  | 165                     | 7                      | 1                       | 171                     |
| Public utilities   | 5,223                   | 631                    | 107                     | 5,747                   |
| Sovereign and supranational  | 274                     | 59                     | 0                       | 333                     |
| Banks/financial institutions   | 2,841                   | 457                    | 34                      | 3,264                   |
| Other corporate  | 25,936                  | 1,736                  | 1,111                   | 26,561                  |
| Total U.S. dollar-denominated  | 35,453                  | 3,034                  | 1,254                   | 37,233                  |
| Total securities available for sale  | \$81,607 <sup>(1)</sup> | \$ 8,998               | \$ 1,572                | \$89,033 <sup>(1)</sup> |

<sup>(1)</sup> Includes perpetual securities (\$1,506 at amortized cost and \$1,774 at fair value)

| (In millions)   | March 31, 2018         |                        |                         |            |
|---|------------------------|------------------------|-------------------------|------------|
|   | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities held to maturity, carried at amortized cost: |                        |                        |                         |            |
| Fixed maturity securities:                              |                        |                        |                         |            |
| Yen-denominated:  |                        |                        |                         |            |
| Japan government and agencies                           | \$22,686               | \$ 5,631               | \$ 0                    | \$28,317   |
| Municipalities  | 379                    | 114                    | 0                       | 493        |
| Mortgage- and asset-backed securities                   | 26                     | 2                      | 0                       | 28         |
| Public utilities  | 3,508                  | 383                    | 0                       | 3,891      |
| Sovereign and supranational                             | 1,620                  | 299                    | 0                       | 1,919      |
| Banks/financial institutions                            | 2,300                  | 190                    | 13                      | 2,477      |
| Other corporate   | 2,858                  | 485                    | 0                       | 3,343      |
| Total yen-denominated                                   | 33,377                 | 7,104                  | 13                      | 40,468     |
| Total securities held to maturity                       | \$33,377               | \$ 7,104               | \$ 13                   | \$40,468   |





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|  | March 31, 2018         |
|--|------------------------|
| (In millions)  | Fair<br>Value          |
| Equity securities, carried at fair value through net earnings: |                        |
| Equity securities: <sup>(1)</sup>                              |                        |
| Yen-denominated  | \$711                  |
| U.S. dollar-denominated  | 397                    |
| Total equity securities  | \$1,108 <sup>(1)</sup> |

<sup>(1)</sup> Includes perpetual securities (\$71 at fair value)

|   | December 31, 2017            |                              |                               |                         |
|---|------------------------------|------------------------------|-------------------------------|-------------------------|
| (In millions)   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value           |
| Securities available for sale, carried at fair value: |                              |                              |                               |                         |
| Fixed maturity securities: <sup>(1)</sup>             |                              |                              |                               |                         |
| Yen-denominated:                                      |                              |                              |                               |                         |
| Japan government and agencies                         | \$27,980                     | \$ 3,363                     | \$ 271                        | \$31,072                |
| Municipalities  | 314                          | 28                           | 12                            | 330                     |
| Mortgage- and asset-backed securities                 | 242                          | 29                           | 0                             | 271                     |
| Public utilities                                      | 1,635                        | 352                          | 6                             | 1,981                   |
| Sovereign and supranational                           | 1,380                        | 190                          | 1                             | 1,569                   |
| Banks/financial institutions                          | 4,742                        | 811                          | 53                            | 5,500                   |
| Other corporate                                       | 4,085                        | 809                          | 7                             | 4,887                   |
| Total yen-denominated                                 | 40,378                       | 5,582                        | 350                           | 45,610                  |
| U.S. dollar-denominated:                              |                              |                              |                               |                         |
| U.S. government and agencies                          | 146                          | 13                           | 1                             | 158                     |
| Municipalities  | 872                          | 168                          | 0                             | 1,040                   |
| Mortgage- and asset-backed securities                 | 161                          | 12                           | 0                             | 173                     |
| Public utilities                                      | 5,116                        | 884                          | 27                            | 5,973                   |
| Sovereign and supranational                           | 267                          | 73                           | 0                             | 340                     |
| Banks/financial institutions                          | 2,808                        | 633                          | 8                             | 3,433                   |
| Other corporate                                       | 25,384                       | 2,620                        | 418                           | 27,586                  |
| Total U.S. dollar-denominated                         | 34,754                       | 4,403                        | 454                           | 38,703                  |
| Total securities available for sale                   | \$75,132 <sup>(1)</sup>      | \$ 9,985                     | \$ 804                        | \$84,313 <sup>(1)</sup> |

<sup>(1)</sup> Includes perpetual securities (\$1,462 at amortized cost and \$1,789 at fair value)

| (In millions)   | December 31, 2017      |                        |                         | Fair Value |
|---|------------------------|------------------------|-------------------------|------------|
|   | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |            |
| Securities held to maturity, carried at amortized cost: |                        |                        |                         |            |
| Fixed maturity securities:                              |                        |                        |                         |            |
| Yen-denominated:  |                        |                        |                         |            |
| Japan government and agencies                           | \$21,331               | \$ 5,160               | \$ 0                    | \$26,491   |
| Municipalities  | 357                    | 105                    | 0                       | 462        |
| Mortgage- and asset-backed securities                   | 26                     | 1                      | 0                       | 27         |
| Public utilities  | 3,300                  | 398                    | 0                       | 3,698      |
| Sovereign and supranational                             | 1,523                  | 312                    | 0                       | 1,835      |
| Banks/financial institutions                            | 2,206                  | 190                    | 9                       | 2,387      |
| Other corporate   | 2,687                  | 485                    | 0                       | 3,172      |
| Total yen-denominated                                   | 31,430                 | 6,651                  | 9                       | 38,072     |
| Total securities held to maturity                       | \$31,430               | \$ 6,651               | \$ 9                    | \$38,072   |

| (In millions)           | December 31, 2017                         | Fair Value |
|-------------------------|---|------------|
|                         | Equity securities, carried at fair value: |            |
| Equity securities:      |   |            |
| Yen-denominated         |   | \$695      |
| U.S. dollar-denominated |   | 328        |
| Total equity securities |   | \$1,023    |

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 2018 and 2017, 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, 2018, were as follows:

| (In millions)                                      | Amortized Fair |          |
|--|----------------|----------|
|  | Cost           | Value    |
| Available for sale: <sup>(1)</sup>                 |                |          |
| Due in one year or less                            | \$485          | \$502    |
| Due after one year through five years              | 9,685          | 9,551    |
| Due after five years through 10 years              | 10,637         | 11,143   |
| Due after 10 years                                 | 60,381         | 67,382   |
| Mortgage- and asset-backed securities              | 419            | 455      |
| Total fixed maturity securities available for sale | \$81,607       | \$89,033 |
| Held to maturity:                                  |                |          |
| Due in one year or less                            | \$1,036        | \$1,049  |
| Due after one year through five years              | 508            | 527      |
| Due after five years through 10 years              | 1,597          | 1,754    |
| Due after 10 years                                 | 30,210         | 37,110   |
| Mortgage- and asset-backed securities              | 26             | 28       |
| Total fixed maturity securities held to maturity   | \$33,377       | \$40,468 |

<sup>(1)</sup> Includes perpetual securities, categorized in accordance with their respective economic maturities (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)                            | March 31, 2018 |                |            | December 31, 2017 |                |            |
|--|----------------|----------------|------------|-------------------|----------------|------------|
|  | Credit Rating  | Amortized Cost | Fair Value | Credit Rating     | Amortized Cost | Fair Value |
| Japan National Government <sup>(1)</sup> | A              | \$54,465       | \$63,576   | A                 | \$48,399       | \$56,532   |

<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:

| (In millions)                             | Three Months<br>Ended<br>March 31, |                   |
|---|------------------------------------|-------------------|
|   | 2018                               | 2017              |
| Realized investment gains (losses):       |                                    |                   |
| Fixed maturity securities: <sup>(1)</sup> |                                    |                   |
| Available for sale:                       |                                    |                   |
| Gross gains from sales                    | \$9                                | \$12              |
| Gross losses from sales                   | (4 )                               | (15 )             |
| Net gains (losses) from redemptions       | (2 )                               | (28 )             |
| Other-than-temporary impairment losses    | 0                                  | (4 )              |
| Total fixed maturity securities           | 3                                  | (35 )             |
| Equity securities <sup>(2)</sup>          | (46 ) <sup>(1)</sup>               | 19 <sup>(3)</sup> |
| Loan loss reserves                        | (7 )                               | (1 )              |
| Derivatives and other:                    |                                    |                   |
| Derivative gains (losses)                 | 144                                | (52 )             |
| Foreign currency gains (losses)           | (228 )                             | (71 )             |
| Total derivatives and other               | (84 )                              | (123 )            |
| Total realized investment gains (losses)  | \$(134)                            | \$(140)           |

<sup>(1)</sup> Includes perpetual securities

<sup>(2)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.

<sup>(3)</sup> Includes \$6 of impairments

The unrealized holding losses, net of gains, recorded as a component of realized investment gains and losses for the three-month period ended March 31, 2018, that relates to equity securities still held at the March 31, 2018, reporting date was \$43 million.

## Unrealized Investment Gains and Losses

## Effect on Shareholders' Equity

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

| (In millions)  | March<br>31, 2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Unrealized gains (losses) on securities available for sale               | \$7,426           | \$ 9,358             |
| Deferred income taxes  | (2,220 )          | (3,394 )             |
| Shareholders' equity, unrealized gains (losses) on investment securities | \$5,206           | \$ 5,964             |

See Note 1 for discussion of the accounting treatment of tax on amounts recorded in accumulated other comprehensive income pursuant to the Tax Act and for the adoption of accounting guidance on January 1, 2018 related to financial instruments.

## 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.



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| (In millions)                             | March 31, 2018         |                      |                                      |                      |                                      |                      |
|---|------------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|
|   | Total<br>Fair<br>Value | Unrealized<br>Losses | Less than 12 months<br>Fair<br>Value | Unrealized<br>Losses | 12 months or longer<br>Fair<br>Value | Unrealized<br>Losses |
| Fixed maturity securities: <sup>(1)</sup> |                        |                      |                                      |                      |                                      |                      |
| U.S. government and agencies:             |                        |                      |                                      |                      |                                      |                      |
| U.S. dollar-denominated                   | \$ 79                  | \$ 1                 | \$ 71                                | \$ 1                 | \$ 8                                 | \$ 0                 |
| Japan government and agencies:            |                        |                      |                                      |                      |                                      |                      |
| Yen-denominated                           | 4,054                  | 192                  | 128                                  | 0                    | 3,926                                | 192                  |
| Municipalities:                           |                        |                      |                                      |                      |                                      |                      |
| Yen-denominated                           | 128                    | 11                   | 0                                    | 0                    | 128                                  | 11                   |
| Mortgage- and asset-backed securities:    |                        |                      |                                      |                      |                                      |                      |
| U.S. dollar-denominated                   | 91                     | 1                    | 71                                   | 1                    | 20                                   | 0                    |
| Public utilities:                         |                        |                      |                                      |                      |                                      |                      |
| U.S. dollar-denominated                   | 1,649                  | 107                  | 1,095                                | 52                   | 554                                  | 55                   |
| Yen-denominated                           | 90                     | 4                    | 0                                    | 0                    | 90                                   | 4                    |
| Sovereign and supranational:              |                        |                      |                                      |                      |                                      |                      |
| Yen-denominated                           | 302                    | 27                   | 302                                  | 27                   | 0                                    | 0                    |
| Banks/financial institutions:             |                        |                      |                                      |                      |                                      |                      |
| U.S. dollar-denominated                   | 685                    | 34                   | 596                                  | 28                   | 89                                   | 6                    |
| Yen-denominated                           | 1,467                  | 89                   | 645                                  | 14                   | 822                                  | 75                   |
| Other corporate:                          |                        |                      |                                      |                      |                                      |                      |
| U.S. dollar-denominated                   | 13,730                 | 1,111                | 8,903                                | 420                  | 4,827                                | 691                  |
| Yen-denominated                           | 302                    | 8                    | 276                                  | 6                    | 26                                   | 2                    |
| Total                                     | \$22,577               | \$ 1,585             | \$ 12,087                            | \$ 549               | \$ 10,490                            | \$ 1,036             |

<sup>(1)</sup> Includes perpetual securities

| (In millions)                             | December 31, 2017      |                      |               |                      |                                      |                      |
|---|------------------------|----------------------|---------------|----------------------|--------------------------------------|----------------------|
|   | Total<br>Fair<br>Value | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses | 12 months or longer<br>Fair<br>Value | Unrealized<br>Losses |
| Fixed maturity securities: <sup>(1)</sup> |                        |                      |               |                      |                                      |                      |
| U.S. government and<br>agencies:          |                        |                      |               |                      |                                      |                      |
| U.S. dollar-denominated                   | \$ 74                  | \$ 1                 | \$ 74         | \$ 1                 | \$ 0                                 | \$ 0                 |
| Japan government and<br>agencies:         |                        |                      |               |                      |                                      |                      |
| Yen-denominated                           | 5,255                  | 271                  | 1,264         | 9                    | 3,991                                | 262                  |
| Municipalities:                           |                        |                      |               |                      |                                      |                      |
| Yen-denominated                           | 129                    | 12                   | 10            | 0                    | 119                                  | 12                   |
| Public utilities:                         |                        |                      |               |                      |                                      |                      |
| U.S. dollar-denominated                   | 785                    | 27                   | 221           | 3                    | 564                                  | 24                   |
| Yen-denominated                           | 83                     | 6                    | 0             | 0                    | 83                                   | 6                    |
| Sovereign and supranational:              |                        |                      |               |                      |                                      |                      |
| Yen-denominated                           | 309                    | 1                    | 309           | 1                    | 0                                    | 0                    |
| Banks/financial institutions:             |                        |                      |               |                      |                                      |                      |
| U.S. dollar-denominated                   | 362                    | 8                    | 316           | 5                    | 46                                   | 3                    |
| Yen-denominated                           | 1,507                  | 62                   | 394           | 4                    | 1,113                                | 58                   |
| Other corporate:                          |                        |                      |               |                      |                                      |                      |
| U.S. dollar-denominated                   | 7,741                  | 418                  | 2,839         | 50                   | 4,902                                | 368                  |
| Yen-denominated                           | 440                    | 7                    | 349           | 4                    | 91                                   | 3                    |
| Total                                     | \$ 16,685              | \$ 813               | \$ 5,776      | \$ 77                | \$ 10,909                            | \$ 736               |

<sup>(1)</sup> Includes perpetual securities

#### 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 predictions, 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.





## Other Investments

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

| (In millions)                  | March 31, December 31, |          |
|--------------------------------|------------------------|----------|
|                                | 2018                   | 2017     |
| Other investments:             |                        |          |
| Transitional real estate loans | \$ 2,719               | \$ 1,235 |
| Commercial mortgage loans      | 917                    | 908      |
| Middle market loans            | 957                    | 859      |
| Policy loans                   | 227                    | 210      |
| Short-term investments         | 0                      | 57       |
| Other                          | 253                    | 133      |
| Total other investments        | \$ 5,073               | \$ 3,402 |

## Loans and Loan Receivables

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 other investments line on the consolidated balance sheets. The Company carries them on the balance sheet at amortized cost less an estimated allowance for loan losses. The Company's allowance for loan losses is established using both general and specific allowances. The general allowance is used for loans grouped by similar risk characteristics where a loan-specific or market-specific risk has not been identified, but for which the Company estimates probable incurred losses. The specific allowance is used on an individual loan basis when it is probable that a loss has been incurred. As of March 31, 2018, and December 31, 2017, the Company's allowance for loan losses was \$18 million and \$11 million, respectively. As of March 31, 2018, and December 31, 2017, 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, 2018, and December 31, 2017. The Company had no troubled debt restructurings during the three months ended March 31, 2018 and 2017.

### 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. As of March 31, 2018, the Company had \$436 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

As of March 31, 2018, the Company had \$54 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 generally considered to be below investment grade. The carrying value for middle market loans included an unfunded amount of \$76 million and \$109 million, as of March 31, 2018, and December 31, 2017, respectively, that is reflected in other liabilities on the consolidated balance sheets.

As of March 31, 2018, the Company had commitments of approximately \$985 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.

Other

Other investments primarily includes investments in limited partnerships. As of March 31, 2018, the Company had \$763 million in outstanding commitments to fund alternative investments in limited partnerships.

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## 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, 2018         |                 | December 31, 2017      |                |
|--|------------------------|-----------------|------------------------|----------------|
|  | Cost or Amortized Cost | Fair Value      | Cost or Amortized Cost | Fair Value     |
| <b>Assets:</b>   |                        |                 |                        |                |
| Fixed maturity securities, available for sale <sup>(1)</sup> | \$4,695                | \$5,431         | \$4,538                | \$5,509        |
| Equity securities  | 760                    | 760             | 606                    | 753            |
| Other investments <sup>(2)</sup>                             | 3,994                  | 3,974           | 2,341                  | 2,328          |
| Other assets <sup>(3)</sup>                                  | 241                    | 241             | 151                    | 151            |
| <b>Total assets of consolidated VIEs</b>                     | <b>\$9,690</b>         | <b>\$10,406</b> | <b>\$7,636</b>         | <b>\$8,741</b> |
| <b>Liabilities:</b>  |                        |                 |                        |                |
| Other liabilities <sup>(3)</sup>                             | \$86                   | \$86            | \$128                  | \$128          |
| <b>Total liabilities of consolidated VIEs</b>                | <b>\$86</b>            | <b>\$86</b>     | <b>\$128</b>           | <b>\$128</b>   |

<sup>(1)</sup> Includes perpetual securities

<sup>(2)</sup> Consists of TREs, CMLs, MMLs, and alternative investments in limited partnerships

<sup>(3)</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, and/or credit default swaps (CDS), 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 and the underlying collateral and the reference corporate entities covered by any CDS contracts were all investment grade at the time of issuance.

## 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, 2018 |            | December 31, 2017 |            |
|--|----------------|------------|-------------------|------------|
|  | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Assets:  |                |            |                   |            |
| Fixed maturity securities, available for sale <sup>(1)</sup> | \$5,194        | \$5,749    | \$5,004           | \$5,724    |
| Fixed maturity securities, held to maturity                  | 2,711          | 3,077      | 2,549             | 2,929      |
| Other investments  | 110            | 108        | 55                | 55         |
| Total investments in VIEs not consolidated                   | \$8,015        | \$8,934    | \$7,608           | \$8,708    |

<sup>(1)</sup> Includes perpetual securities

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's security lending policy requires that the fair value of the securities and/or unrestricted cash received as collateral be 102% or more of the fair value of the loaned securities. These securities continue to be carried as investment assets on the Company's balance sheet during the terms of the loans and are not reported as sales. The Company receives cash or other securities as collateral for such loans. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral.

Details of the Company's securities lending activities were as follows:

Securities Lending Transactions Accounted for as Secured

Borrowings

March 31, 2018

Remaining Contractual Maturity of the Agreements

| (In millions) | Overnight<br>and<br>Continuous <sup>(1)</sup> | Up to<br>30<br>days | Total |
|---------------|---|---------------------|-------|
|---------------|---|---------------------|-------|

Securities lending transactions:

Fixed maturity securities:

|                               |        |         |         |
|-------------------------------|--------|---------|---------|
| Japan government and agencies | \$ 0   | \$4,894 | \$4,894 |
| Public utilities              | 30     | 0       | 30      |
| Banks/financial institutions  | 52     | 0       | 52      |
| Other corporate               | 384    | 0       | 384     |
| Equity securities             | 8      | 0       | 8       |
| Total borrowings              | \$ 474 | \$4,894 | \$5,368 |

Gross amount of recognized liabilities for securities lending transactions

\$5,368

Amounts related to agreements not included in offsetting disclosure in Note 4

\$0

<sup>(1)</sup> These securities are pledged as collateral under the Company's U.S. securities lending program and can be called at its discretion; therefore, they are classified as Overnight and Continuous.

Securities Lending Transactions Accounted for as Secured

Borrowings

December 31, 2017

Remaining Contractual Maturity of the Agreements

| (In millions) | Overnight<br>and<br>Continuous <sup>(1)</sup> | Up<br>to<br>30<br>days | Total |
|---------------|---|------------------------|-------|
|---------------|---|------------------------|-------|

Securities lending transactions:

Fixed maturity securities:

|                               |        |       |       |
|-------------------------------|--------|-------|-------|
| Japan government and agencies | \$ 0   | \$ 49 | \$49  |
| Public utilities              | 73     | 0     | 73    |
| Banks/financial institutions  | 54     | 0     | 54    |
| Other corporate               | 415    | 0     | 415   |
| Equity securities             | 15     | 0     | 15    |
| Total borrowings              | \$ 557 | \$ 49 | \$606 |

Gross amount of recognized liabilities for securities lending transactions

\$606

Amounts related to agreements not included in offsetting disclosure in Note 4

\$0

<sup>(1)</sup> These securities are pledged as collateral under the Company's U.S. securities lending program and can be called at its 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, 2018, and December 31, 2017, 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: (1) foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated investments in Aflac Japan's portfolio; (2) 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; (3) swaps associated with the Company's notes payable, consisting of cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and its subordinated debentures; and (4) foreign currency swaps and credit default swaps that are associated with investments in special-purpose entities, including VIEs where the Company is the primary beneficiary. The Company does not use derivative financial instruments for trading purposes, nor does it engage in leveraged derivative transactions. 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 an accounting hedge. The Company utilizes a net investment hedge to mitigate foreign exchange exposure resulting from its net investment in Aflac Japan. In addition to designating derivatives as hedging instruments, the Company has designated the majority of the Parent Company's yen-denominated liabilities (notes payable and loans) as nonderivative hedging instruments for this net investment hedge.

##### 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 are 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 a fixed amount of U.S. dollar put options and sell U.S. dollar call options. The combination of these two actions 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.

Foreign currency forwards and options are also used to hedge the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agrees with another party to buy a fixed amount of U.S. dollars and sell a corresponding amount of yen at a specified price at a specified future date. In the option transactions, the Company uses 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 results in no net premium being paid (i.e. a costless or 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 currencies at a future date at an agreed upon exchange rate. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. 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.

The only CDS that the Company currently holds relates to components of an investment in a VIE and is used to assume credit risk related to an individual security. This CDS contract entitles the consolidated VIE to receive periodic fees in exchange for an obligation to compensate the derivative counterparties should the referenced security issuer experience a credit event, as defined in the contract.

Periodically, the Company may enter into other derivative transactions depending on general economic conditions.

## Derivative Balance Sheet Classification

The tables below summarize 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. 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, 2018  |                              |                                  | December 31, 2017 |                              |                                  |
|------------------------------------|-----------------|------------------------------|----------------------------------|-------------------|------------------------------|----------------------------------|
|                                    | Notional Amount | Asset Derivatives Fair Value | Liability Derivatives Fair Value | Notional Amount   | Asset Derivatives Fair Value | Liability Derivatives Fair Value |
| Hedge Designation/ Derivative Type |                 |                              |                                  |                   |                              |                                  |
| Cash flow hedges:                  |                 |                              |                                  |                   |                              |                                  |
| Foreign currency swaps             | \$75            | \$ 1                         | \$ (2 )                          | \$75              | \$ 0                         | \$ (8 )                          |
| Total cash flow hedges             | 75              | 1                            | (2 )                             | 75                | 0                            | (8 )                             |
| Fair value hedges:                 |                 |                              |                                  |                   |                              |                                  |
| Foreign currency forwards          | 5,550           | 244                          | (5 )                             | 7,640             | 2                            | (221 )                           |
| Foreign currency options           | 9,120           | 0                            | (3 )                             | 7,670             | 0                            | (2 )                             |
| Total fair value hedges            | 14,670          | 244                          | (8 )                             | 15,310            | 2                            | (223 )                           |
| Net investment hedge:              |                 |                              |                                  |                   |                              |                                  |
| Foreign currency forwards          | 0               | 0                            | 0                                | 5                 | 0                            | 0                                |
| Foreign currency options           | 0               | 0                            | 0                                | 434               | 12                           | (1 )                             |
| Total net investment hedge         | 0               | 0                            | 0                                | 439               | 12                           | (1 )                             |
| Non-qualifying strategies:         |                 |                              |                                  |                   |                              |                                  |
| Foreign currency swaps             | 5,426           | 369                          | (263 )                           | 5,386             | 296                          | (189 )                           |
| Foreign currency forwards          | 6,656           | 182                          | (80 )                            | 3,683             | 20                           | (53 )                            |
| Foreign currency options           | 299             | 0                            | 0                                | 770               | 0                            | 0                                |
| Credit default swaps               | 94              | 1                            | 0                                | 88                | 1                            | 0                                |
| Total non-qualifying strategies    | 12,475          | 552                          | (343 )                           | 9,927             | 317                          | (242 )                           |
| Total derivatives                  | \$27,220        | \$ 797                       | \$ (353 )                        | \$25,751          | \$ 331                       | \$ (474 )                        |
| Balance Sheet Location             |                 |                              |                                  |                   |                              |                                  |
| Other assets                       | \$18,248        | \$ 797                       | \$ 0                             | \$10,948          | \$ 331                       | \$ 0                             |
| Other liabilities                  | 8,972           | 0                            | (353 )                           | 14,803            | 0                            | (474 )                           |
| Total derivatives                  | \$27,220        | \$ 797                       | \$ (353 )                        | \$25,751          | \$ 331                       | \$ (474 )                        |

## Cash Flow Hedges

Certain of the Company's consolidated VIEs have foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, the Company has designated the derivative 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 maximum length of time for which these cash flows are hedged is nine years. The remaining derivatives in the Company's consolidated VIEs that have not qualified for hedge accounting are included in "non-qualifying strategies."

## Fair Value Hedges

The Company designates and accounts for certain foreign currency forwards and options as fair value hedges when they meet the requirements for hedge accounting. These foreign currency forwards and options hedge the foreign currency exposure of certain U.S. dollar-denominated investments. The Company recognizes gains and losses on these derivatives and the related hedged items in current earnings within derivative and other gains (losses). The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the assessment of hedge effectiveness. The change in fair value of the foreign currency option related to the time value of the option is excluded from the assessment of hedge effectiveness.



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)                      |                                      | Hedging Derivatives  |  |  | Hedged Items   |   |
|------------------------------------|--------------------------------------|----------------------|--|--|----------------|---|
| Hedging Derivatives                | Hedged Items                         | Total Gains (Losses) | Gains (Losses) Excluded from Effectiveness Testing | Gains (Losses) Included in Effectiveness Testing | Gains (Losses) | Ineffectiveness Recognized for Fair Value Hedge |
| Three Months Ended March 31, 2018: |                                      |                      |  |  |                |   |
| Foreign currency forwards          | Fixed maturity securities            | \$414                | \$ (39 )   | \$ 453   | \$ (464 )      | \$ (11 )  |
| Foreign currency options           | Fixed maturity securities            | (1 )                 | (1 )   | 0  | 0              | 0   |
| Three Months Ended March 31, 2017: |                                      |                      |  |  |                |   |
| Foreign currency forwards          | Fixed maturity and equity securities | \$341                | \$ (48 )   | \$ 389   | \$ (372 )      | \$ 17   |
| Foreign currency options           | Fixed maturity securities            | 24                   | 13   | 11   | (10 )          | 1   |

#### 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 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, 2018 and 2017, 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 derivative and other 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, 2018, the Parent Company had cross-currency interest rate swap agreements related to its \$550 million senior notes due March 2020, \$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 8 in this report and Note 9 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

The Company uses foreign exchange forwards and options to mitigate the currency risk of some of its U.S. dollar-denominated loan receivables held within the Aflac Japan segment. The Company has not elected to apply hedge accounting for these loan receivables due to the change in fair value of the foreign exchange forwards and the foreign currency remeasurement of the loan receivables being recorded through current period earnings, and generally offsetting each other within realized investment gains (losses).

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, starting in the first quarter of 2018, the

Parent Company began entering into offsetting hedge positions using foreign exchange forwards and options. This activity is reported in the Corporate and other segment.

## 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,                |   |   |   |
|--|---|---|---|---|
|  | 2018  |   | 2017  |   |
|  | Realized<br>Investment<br>Gains<br>(Losses) | Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> | Realized<br>Investment<br>Gains<br>(Losses) | Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> |
| Qualifying hedges:                       |   |   |   |   |
| Cash flow hedges:                        |   |   |   |   |
| Foreign currency swaps                   | \$ 1  | \$ 6  | \$ 0  | \$ 2  |
| Total cash flow hedges                   | 1   | 6   | 0   | 2   |
| Fair value hedges:                       |   |   |   |   |
| Foreign currency forwards <sup>(2)</sup> | (50 )                                       | 0   | (31 )                                       | 0   |
| Foreign currency options <sup>(2)</sup>  | (1 )  | 0   | 14  | 0   |
| Total fair value hedges                  | (51 )                                       | 0   | (17 )                                       | 0   |
| Net investment hedge:                    |   |   |   |   |
| Non-derivative hedging instruments       | 0   | (84 )   | 0   | (17 )   |
| Foreign currency forwards                | 0   | 0   | 0   | (9 )  |
| Foreign currency options                 | 0   | (8 )  | 0   | (23 )   |
| Total net investment hedge               | 0   | (92 )   | 0   | (49 )   |
| Non-qualifying strategies:               |   |   |   |   |
| Foreign currency swaps                   | 14  | 0   | (8 )  | 0   |
| Foreign currency forwards                | 179   | 0   | (27 )                                       | 0   |
| Foreign currency options                 | 1   | 0   | 0   | 0   |
| Total non-qualifying strategies          | 194   | 0   | (35 )                                       | 0   |
| Total                                    | \$ 144                                      | \$ (86 )  | \$(52)                                      | \$ (47 )  |

<sup>(1)</sup> Cash flow hedge items are recorded as unrealized gains (losses) on derivatives and net investment hedge items are recorded in the unrealized foreign currency translation gains (losses) line in the consolidated statement of comprehensive income (loss).

<sup>(2)</sup> Impact shown net of effect of hedged items (see Fair Value Hedges section of this Note 4 for further detail)

The Company reclassified an immaterial amount related to its cash flow hedges from accumulated other comprehensive income (loss) into earnings for the three-month periods ended March 31, 2018 and 2017. There was no gain or loss reclassified from accumulated other comprehensive income (loss) into earnings related to the net investment hedge for the three-month periods ended March 31, 2018 and 2017. As of March 31, 2018, 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; foreign currency options; and interest rate

swaptions, 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, foreign currency options and interest rate swaptions is mitigated by collateral posting requirements that counterparties to those transactions must meet.



As of March 31, 2018, there were 15 counterparties to the Company's derivative agreements, with four comprising 59% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

| (In millions)                  | March 31, 2018                 |                              |                                  | December 31, 2017              |                              |                                  |
|--------------------------------|--------------------------------|------------------------------|----------------------------------|--------------------------------|------------------------------|----------------------------------|
|                                | Notional Amount of Derivatives | Asset Derivatives Fair Value | Liability Derivatives Fair Value | Notional Amount of Derivatives | Asset Derivatives Fair Value | Liability Derivatives Fair Value |
| Counterparties' credit rating: |                                |                              |                                  |                                |                              |                                  |
| AA                             | \$4,685                        | \$ 123                       | \$ (12 )                         | \$4,708                        | \$ 52                        | \$ (37 )                         |
| A                              | 22,081                         | 673                          | (290 )                           | 20,604                         | 271                          | (370 )                           |
| BBB                            | 454                            | 1                            | (51 )                            | 439                            | 8                            | (67 )                            |
| Total                          | \$27,220                       | \$ 797                       | \$ (353 )                        | \$25,751                       | \$ 331                       | \$ (474 )                        |

The Company engages in derivative transactions directly with unaffiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentation. Most of the ISDA agreements also include Credit Support Annexes (CSAs) provisions, which generally provide for two-way collateral postings at the first dollar of exposure. The Company mitigates the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value while generally requiring that collateral be posted at the outset of the transaction. In addition, a significant portion of the derivative transactions have provisions that give the counterparty the right to terminate the transaction upon a downgrade of Aflac's financial strength rating. The actual amount of payments that the Company could be required to make depends on market conditions, the fair value of outstanding affected transactions, and other factors prevailing at and after the time of the downgrade.

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 \$154 million and \$264 million as of March 31, 2018, and December 31, 2017, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2018, the Company estimates that it would be required to post a maximum of \$5 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 Aflac and its 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, 2018

| (In millions)  | Gross<br>Amount<br>of<br>Recognized<br>Assets | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net<br>Amount<br>of Assets<br>Presented<br>in<br>Balance<br>Sheet | Gross Amounts Not Offset<br>in Balance Sheet |                          |                                | Net<br>Amount |
|--|---|--|---|--|--------------------------|--------------------------------|---------------|
|  |   |  |   | Financial<br>Instrument                      | Securities<br>Collateral | Cash<br>Collateral<br>Received |               |
| Derivative<br>assets:  |   |  |   |  |                          |                                |               |
| Derivative<br>assets subject to a<br>master netting<br>agreement or<br>offsetting<br>arrangement     | \$556   | \$ 0   | \$ 556  | \$(116)                                      | \$(343 )                 | \$(67 )                        | \$ 30         |
| Derivative<br>assets not subject<br>to a master netting<br>agreement or<br>offsetting<br>arrangement | 241   |  | 241   |  |                          |                                | 241           |
| Total derivative<br>assets   | 797   | 0  | 797   | (116 )                                       | (343 )                   | (67 )                          | 271           |
| Securities lending<br>and similar<br>arrangements  | 5,249   | 0  | 5,249   | 0  | 0                        | (5,249 )                       | 0             |
| Total  | \$6,046                                       | \$ 0   | \$ 6,046  | \$(116)                                      | \$(343 )                 | \$(5,316)                      | \$ 271        |

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December 31, 2017

| (In millions)  | Gross Amounts Not Offset<br>in Balance Sheet  |  |   |                          |                          |                                |               |
|--|---|--|---|--------------------------|--------------------------|--------------------------------|---------------|
|  | Gross<br>Amount<br>of<br>Recognized<br>Assets | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net<br>Amount<br>of Assets<br>Presented<br>in<br>Balance<br>Sheet | Financial<br>Instruments | Securities<br>Collateral | Cash<br>Collateral<br>Received | Net<br>Amount |
| Derivative<br>assets:  |   |  |   |                          |                          |                                |               |
| Derivative<br>assets subject to a<br>master netting<br>agreement or<br>offsetting<br>arrangement     | \$180   | \$ 0   | \$ 180  | \$(82)                   | \$ 0                     | \$(98 )                        | \$ 0          |
| Derivative<br>assets not subject<br>to a master netting<br>agreement or<br>offsetting<br>arrangement | 151   |  | 151   |                          |                          |                                | 151           |
| Total derivative<br>assets   | 331   | 0  | 331   | (82 )                    | 0                        | (98 )                          | 151           |
| Securities lending<br>and similar<br>arrangements  | 592   | 0  | 592   | 0                        | 0                        | (592 )                         | 0             |
| Total  | \$923   | \$ 0   | \$ 923  | \$(82)                   | \$ 0                     | \$(690 )                       | \$ 151        |

Offsetting of Financial Liabilities and Derivative Liabilities

March 31, 2018

| (In millions)  | Gross Amounts Not Offset<br>in Balance Sheet    |  |  |                          |                          |                               |               |
|--|---|--|--|--------------------------|--------------------------|-------------------------------|---------------|
|  | Gross<br>Amount of<br>Recognized<br>Liabilities | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net<br>Amount of<br>Liabilities<br>Presented<br>in<br>Balance<br>Sheet | Financial<br>Instruments | Securities<br>Collateral | Cash<br>Collateral<br>Pledged | Net<br>Amount |
| Derivative<br>liabilities:   |   |  |  |                          |                          |                               |               |
| Derivative<br>liabilities subject<br>to a master netting<br>agreement or | \$(267 )  | \$ 0   | \$(267 )   | \$116                    | \$ 36                    | \$ 113                        | \$(2 )        |

|  |           |      |           |         |       |        |         |
|--|-----------|------|-----------|---------|-------|--------|---------|
| offsetting<br>arrangement  |           |      |           |         |       |        |         |
| Derivative<br>liabilities not<br>subject to a<br>master netting<br>agreement or<br>offsetting<br>arrangement | (86 )     |      | (86 )     |         |       |        | (86 )   |
| Total derivative<br>liabilities  | (353 )    | 0    | (353 )    | 116     | 36    | 113    | (88 )   |
| Securities lending<br>and similar<br>arrangements  | (5,368 )  | 0    | (5,368 )  | 5,249   | 0     | 0      | (119 )  |
| Total  | \$(5,721) | \$ 0 | \$(5,721) | \$5,365 | \$ 36 | \$ 113 | \$(207) |

December 31, 2017

| (In millions)  | Gross Amounts Not Offset<br>in Balance Sheet    |  |  |                          |                          |                               |               |
|--|---|--|--|--------------------------|--------------------------|-------------------------------|---------------|
|  | Gross<br>Amount of<br>Recognized<br>Liabilities | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net<br>Amount of<br>Liabilities<br>Presented<br>in<br>Balance<br>Sheet | Financial<br>Instruments | Securities<br>Collateral | Cash<br>Collateral<br>Pledged | Net<br>Amount |
| Derivative liabilities:  |   |  |  |                          |                          |                               |               |
| Derivative liabilities subject to a master netting agreement or offsetting arrangement     | \$(346 )  | \$ 0   | \$(346 )   | \$82                     | \$ 245                   | \$ 10                         | \$(9 )        |
| Derivative liabilities not subject to a master netting agreement or offsetting arrangement | (128 )  |  | (128 )   |                          |                          |                               | (128 )        |
| Total derivative liabilities   | (474 )  | 0  | (474 )   | 82                       | 245                      | 10                            | (137 )        |
| Securities lending and similar arrangements  | (606 )  | 0  | (606 )   | 592                      | 0                        | 0                             | (14 )         |
| Total  | \$(1,080)                                       | \$ 0   | \$(1,080)  | \$674                    | \$ 245                   | \$ 10                         | \$(151)       |

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 2017 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.

| (In millions)   | March 31, 2018  |  |  |                        |
|---|---|--|--|------------------------|
|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| Assets:   |   |  |  |                        |
| Securities available for sale, carried at fair value: |   |  |  |                        |
| Fixed maturity securities: <sup>(1)</sup>             |   |  |  |                        |
| Government and agencies                               | \$35,325  | \$ 1,411   | \$ 0   | \$36,736               |
| Municipalities  | 0   | 1,373  | 0  | 1,373                  |
| Mortgage- and asset-backed securities                 | 0   | 269  | 186  | 455                    |
| Public utilities                                      | 0   | 7,724  | 83   | 7,807                  |
| Sovereign and supranational                           | 0   | 1,866  | 0  | 1,866                  |
| Banks/financial institutions                          | 0   | 9,120  | 24   | 9,144                  |
| Other corporate                                       | 0   | 31,509   | 143  | 31,652                 |
| Total fixed maturity securities                       | 35,325  | 53,272   | 436  | 89,033 <sup>(1)</sup>  |
| Equity securities <sup>(1)</sup>                      | 1,015   | 77   | 16   | 1,108 <sup>(1)</sup>   |
| Cash and cash equivalents                             | 4,080   | 0  | 0  | 4,080                  |
| Other assets:   |   |  |  |                        |
| Foreign currency swaps                                | 0   | 130  | 240  | 370                    |
| Foreign currency forwards                             | 0   | 426  | 0  | 426                    |
| Credit default swaps                                  | 0   | 0  | 1  | 1                      |
| Total other assets                                    | 0   | 556  | 241  | 797                    |
| Total assets  | \$40,420  | \$ 53,905  | \$ 693   | \$95,018               |
| Liabilities:  |   |  |  |                        |
| Other liabilities:                                    |   |  |  |                        |
| Foreign currency swaps                                | \$0   | \$ 179   | \$ 86  | \$265                  |
| Foreign currency forwards                             | 0   | 85   | 0  | 85                     |
| Foreign currency options                              | 0   | 3  | 0  | 3                      |
| Total liabilities                                     | \$0   | \$ 267   | \$ 86  | \$353                  |

<sup>(1)</sup> Includes perpetual securities

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| (In millions)   | December 31, 2017 |             |              |                       |
|---|-------------------|-------------|--------------|-----------------------|
|   | Quoted            |             |              |                       |
|   | Prices in         |             |              |                       |
|   | Active            | Significant | Significant  | Total                 |
|   | Markets           | Observable  | Unobservable |                       |
| for   | Inputs            | Inputs      | Fair         |                       |
| Identical   | (Level 2)         | (Level 3)   | Value        |                       |
|   | Assets            |             |              |                       |
|   | (Level 1)         |             |              |                       |
| Assets:   |                   |             |              |                       |
| Securities available for sale, carried at fair value: |                   |             |              |                       |
| Fixed maturity securities: <sup>(1)</sup>             |                   |             |              |                       |
| Government and agencies                               | \$30,109          | \$ 1,121    | \$ 0         | \$31,230              |
| Municipalities  | 0                 | 1,370       | 0            | 1,370                 |
| Mortgage- and asset-backed securities                 | 0                 | 269         | 175          | 444                   |
| Public utilities                                      | 0                 | 7,886       | 68           | 7,954                 |
| Sovereign and supranational                           | 0                 | 1,909       | 0            | 1,909                 |
| Banks/financial institutions                          | 0                 | 8,908       | 25           | 8,933                 |
| Other corporate                                       | 0                 | 32,327      | 146          | 32,473                |
| Total fixed maturity securities                       | 30,109            | 53,790      | 414          | 84,313 <sup>(1)</sup> |
| Equity securities                                     | 1,001             | 6           | 16           | 1,023                 |
| Other investments                                     | 57                | 0           | 0            | 57                    |
| Cash and cash equivalents                             | 3,491             | 0           | 0            | 3,491                 |
| Other assets:   |                   |             |              |                       |
| Foreign currency swaps                                | 0                 | 146         | 150          | 296                   |
| Foreign currency forwards                             | 0                 | 22          | 0            | 22                    |
| Foreign currency options                              | 0                 | 12          | 0            | 12                    |
| Credit default swaps                                  | 0                 | 0           | 1            | 1                     |
| Total other assets                                    | 0                 | 180         | 151          | 331                   |
| Total assets  | \$34,658          | \$ 53,976   | \$ 581       | \$89,215              |
| Liabilities:  |                   |             |              |                       |
| Other liabilities:                                    |                   |             |              |                       |
| Foreign currency swaps                                | \$0               | \$ 69       | \$ 128       | \$197                 |
| Foreign currency forwards                             | 0                 | 274         | 0            | 274                   |
| Foreign currency options                              | 0                 | 3           | 0            | 3                     |
| Total liabilities                                     | \$0               | \$ 346      | \$ 128       | \$474                 |

<sup>(1)</sup> Includes perpetual securities



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.

| (In millions)   | March 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 |
| Assets:   |                |  |   |   |                  |
| Securities held to maturity, carried at amortized cost: |                |  |   |   |                  |
| Fixed maturity securities:                              |                |  |   |   |                  |
| Government and agencies                                 | \$22,686       | \$28,317   | \$0                                     | \$0                                       | \$28,317         |
| Municipalities  | 379            | 0  | 493                                     | 0   | 493              |
| Mortgage and asset-backed securities                    | 26             | 0  | 9                                       | 19  | 28               |
| Public utilities  | 3,508          | 0  | 3,891                                   | 0   | 3,891            |
| Sovereign and supranational                             | 1,620          | 0  | 1,919                                   | 0   | 1,919            |
| Banks/financial institutions                            | 2,300          | 0  | 2,477                                   | 0   | 2,477            |
| Other corporate   | 2,858          | 0  | 3,343                                   | 0   | 3,343            |
| Other investments <sup>(1)</sup>                        | 4,608          | 0  | 15                                      | 4,575                                     | 4,590            |
| Total assets  | \$37,985       | \$28,317   | \$12,147                                | \$4,594                                   | \$45,058         |
| Liabilities:  |                |  |   |   |                  |
| Other policyholders' funds                              | \$7,417        | \$0  | \$0                                     | \$7,307                                   | \$7,307          |
| Notes payable (excluding capital leases)                | 5,352          | 0  | 5,146                                   | 281                                       | 5,427            |
| Total liabilities                                       | \$12,769       | \$0  | \$5,146                                 | \$7,588                                   | \$12,734         |

<sup>(1)</sup> Excludes policy loans of \$227 and equity method investments of \$238, at carrying value

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| (In millions)   | December 31, 2017 |  |   |   |                  |
|---|-------------------|--|---|---|------------------|
|   | 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 |
| Assets:   |                   |  |   |   |                  |
| Securities held to maturity, carried at amortized cost: |                   |  |   |   |                  |
| Fixed maturity securities:                              |                   |  |   |   |                  |
| Government and agencies                                 | \$21,331          | \$26,491   | \$0                                     | \$0                                       | \$26,491         |
| Municipalities  | 357               | 0  | 462                                     | 0   | 462              |
| Mortgage and asset-backed securities                    | 26                | 0  | 8                                       | 19  | 27               |
| Public utilities  | 3,300             | 0  | 3,698                                   | 0   | 3,698            |
| Sovereign and supranational                             | 1,523             | 0  | 1,835                                   | 0   | 1,835            |
| Banks/financial institutions                            | 2,206             | 0  | 2,387                                   | 0   | 2,387            |
| Other corporate   | 2,687             | 0  | 3,172                                   | 0   | 3,172            |
| Other investments <sup>(1)</sup>                        | 3,017             | 0  | 15                                      | 2,987                                     | 3,002            |
| Total assets  | \$34,447          | \$26,491   | \$11,577                                | \$3,006                                   | \$41,074         |
| Liabilities:  |                   |  |   |   |                  |
| Other policyholders' funds                              | \$6,939           | \$0  | \$0                                     | \$6,841                                   | \$6,841          |
| Notes payable (excluding capital leases)                | 5,267             | 0  | 5,288                                   | 265                                       | 5,553            |
| Total liabilities                                       | \$12,206          | \$0  | \$5,288                                 | \$7,106                                   | \$12,394         |

<sup>(1)</sup> Excludes policy loans of \$210 and equity method investments of \$118, 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.

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| (In millions)  | March 31, 2018  |  |  | Total<br>Fair<br>Value  |
|--|---|--|--|-------------------------|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                         |
| Securities available for sale, carried at fair value:    |   |  |  |                         |
| Fixed maturity securities: <sup>(1)</sup>                |   |  |  |                         |
| Government and agencies:                                 |   |  |  |                         |
| Third party pricing vendor                               | \$35,325  | \$ 1,411   | \$ 0   | \$36,736                |
| Total government and agencies                            | 35,325  | 1,411  | 0  | 36,736                  |
| Municipalities:  |   |  |  |                         |
| Third party pricing vendor                               | 0   | 1,373  | 0  | 1,373                   |
| Total municipalities                                     | 0   | 1,373  | 0  | 1,373                   |
| Mortgage- and asset-backed securities:                   |   |  |  |                         |
| Third party pricing vendor                               | 0   | 269  | 0  | 269                     |
| Broker/other   | 0   | 0  | 186  | 186                     |
| Total mortgage- and asset-backed securities              | 0   | 269  | 186  | 455                     |
| Public utilities:  |   |  |  |                         |
| Third party pricing vendor                               | 0   | 7,724  | 0  | 7,724                   |
| Broker/other   | 0   | 0  | 83   | 83                      |
| Total public utilities                                   | 0   | 7,724  | 83   | 7,807                   |
| Sovereign and supranational:                             |   |  |  |                         |
| Third party pricing vendor                               | 0   | 1,866  | 0  | 1,866                   |
| Total sovereign and supranational                        | 0   | 1,866  | 0  | 1,866                   |
| Banks/financial institutions:                            |   |  |  |                         |
| Third party pricing vendor                               | 0   | 9,120  | 0  | 9,120                   |
| Broker/other   | 0   | 0  | 24   | 24                      |
| Total banks/financial institutions                       | 0   | 9,120  | 24   | 9,144                   |
| Other corporate:   |   |  |  |                         |
| Third party pricing vendor                               | 0   | 31,509   | 0  | 31,509                  |
| Broker/other   | 0   | 0  | 143  | 143                     |
| Total other corporate                                    | 0   | 31,509   | 143  | 31,652                  |
| Total securities available for sale                      | \$35,325  | \$ 53,272  | \$ 436   | \$89,033 <sup>(1)</sup> |
| Equity securities, carried at fair value: <sup>(1)</sup> |   |  |  |                         |
| Third party pricing vendor                               | \$1,015   | \$ 77  | \$ 0   | \$1,092                 |
| Broker/other   | 0   | 0  | 16   | 16                      |
| Total equity securities                                  | \$1,015   | \$ 77  | \$ 16  | \$1,108 <sup>(1)</sup>  |

<sup>(1)</sup> Includes perpetual securities



| (In millions)   | March 31, 2018  |  |  | Total<br>Fair<br>Value |
|---|---|--|--|------------------------|
|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
| Securities held to maturity, carried at amortized cost: |   |  |  |                        |
| Fixed maturity securities:                              |   |  |  |                        |
| Government and agencies:                                |   |  |  |                        |
| Third party pricing vendor                              | \$28,317  | \$ 0   | \$ 0   | \$28,317               |
| Total government and agencies                           | 28,317  | 0  | 0  | 28,317                 |
| Municipalities:   |   |  |  |                        |
| Third party pricing vendor                              | 0   | 493  | 0  | 493                    |
| Total municipalities                                    | 0   | 493  | 0  | 493                    |
| Mortgage- and asset-backed securities:                  |   |  |  |                        |
| Third party pricing vendor                              | 0   | 9  | 0  | 9                      |
| Broker/other  | 0   | 0  | 19   | 19                     |
| Total mortgage- and asset-backed securities             | 0   | 9  | 19   | 28                     |
| Public utilities:                                       |   |  |  |                        |
| Third party pricing vendor                              | 0   | 3,891  | 0  | 3,891                  |
| Total public utilities                                  | 0   | 3,891  | 0  | 3,891                  |
| Sovereign and supranational:                            |   |  |  |                        |
| Third party pricing vendor                              | 0   | 1,919  | 0  | 1,919                  |
| Total sovereign and supranational                       | 0   | 1,919  | 0  | 1,919                  |
| Banks/financial institutions:                           |   |  |  |                        |
| Third party pricing vendor                              | 0   | 2,477  | 0  | 2,477                  |
| Total banks/financial institutions                      | 0   | 2,477  | 0  | 2,477                  |
| Other corporate:  |   |  |  |                        |
| Third party pricing vendor                              | 0   | 3,343  | 0  | 3,343                  |
| Total other corporate                                   | 0   | 3,343  | 0  | 3,343                  |
| Total securities held to maturity                       | \$28,317  | \$ 12,132  | \$ 19  | \$40,468               |

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| (In millions)   | December 31, 2017   |  |  | Total<br>Fair<br>Value  |
|---|---|--|--|-------------------------|
|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                         |
| Securities available for sale, carried at fair value: |   |  |  |                         |
| Fixed maturity securities: <sup>(1)</sup>             |   |  |  |                         |
| Government and agencies:                              |   |  |  |                         |
| Third party pricing vendor                            | \$30,109  | \$ 1,121   | \$ 0   | \$31,230                |
| Total government and agencies                         | 30,109  | 1,121  | 0  | 31,230                  |
| Municipalities:                                       |   |  |  |                         |
| Third party pricing vendor                            | 0   | 1,370  | 0  | 1,370                   |
| Total municipalities                                  | 0   | 1,370  | 0  | 1,370                   |
| Mortgage- and asset-backed securities:                |   |  |  |                         |
| Third party pricing vendor                            | 0   | 269  | 0  | 269                     |
| Broker/other  | 0   | 0  | 175  | 175                     |
| Total mortgage- and asset-backed securities           | 0   | 269  | 175  | 444                     |
| Public utilities:                                     |   |  |  |                         |
| Third party pricing vendor                            | 0   | 7,886  | 0  | 7,886                   |
| Broker/other  | 0   | 0  | 68   | 68                      |
| Total public utilities                                | 0   | 7,886  | 68   | 7,954                   |
| Sovereign and supranational:                          |   |  |  |                         |
| Third party pricing vendor                            | 0   | 1,807  | 0  | 1,807                   |
| Broker/other  | 0   | 102  | 0  | 102                     |
| Total sovereign and supranational                     | 0   | 1,909  | 0  | 1,909                   |
| Banks/financial institutions:                         |   |  |  |                         |
| Third party pricing vendor                            | 0   | 8,908  | 0  | 8,908                   |
| Broker/other  | 0   | 0  | 25   | 25                      |
| Total banks/financial institutions                    | 0   | 8,908  | 25   | 8,933                   |
| Other corporate:                                      |   |  |  |                         |
| Third party pricing vendor                            | 0   | 32,327   | 0  | 32,327                  |
| Broker/other  | 0   | 0  | 146  | 146                     |
| Total other corporate                                 | 0   | 32,327   | 146  | 32,473                  |
| Total securities available for sale                   | \$30,109  | \$ 53,790  | \$ 414   | \$84,313 <sup>(1)</sup> |
| Equity securities, carried at fair value:             |   |  |  |                         |
| Third party pricing vendor                            | \$1,001   | \$ 6   | \$ 0   | \$1,007                 |
| Broker/other  | 0   | 0  | 16   | 16                      |
| Total equity securities                               | \$1,001   | \$ 6   | \$ 16  | \$1,023                 |

<sup>(1)</sup> Includes perpetual securities



| (In millions)   | December 31, 2017   |  |  | Total<br>Fair<br>Value |
|---|---|--|--|------------------------|
|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
| Securities held to maturity, carried at amortized cost: |   |  |  |                        |
| Fixed maturity securities:                              |   |  |  |                        |
| Government and agencies:                                |   |  |  |                        |
| Third party pricing vendor                              | \$26,491  | \$ 0   | \$ 0   | \$26,491               |
| Total government and agencies                           | 26,491  | 0  | 0  | 26,491                 |
| Municipalities:   |   |  |  |                        |
| Third party pricing vendor                              | 0   | 462  | 0  | 462                    |
| Total municipalities                                    | 0   | 462  | 0  | 462                    |
| Mortgage- and asset-backed securities:                  |   |  |  |                        |
| Third party pricing vendor                              | 0   | 8  | 0  | 8                      |
| Broker/other  | 0   | 0  | 19   | 19                     |
| Total mortgage- and asset-backed securities             | 0   | 8  | 19   | 27                     |
| Public utilities:                                       |   |  |  |                        |
| Third party pricing vendor                              | 0   | 3,698  | 0  | 3,698                  |
| Total public utilities                                  | 0   | 3,698  | 0  | 3,698                  |
| Sovereign and supranational:                            |   |  |  |                        |
| Third party pricing vendor                              | 0   | 1,835  | 0  | 1,835                  |
| Total sovereign and supranational                       | 0   | 1,835  | 0  | 1,835                  |
| Banks/financial institutions:                           |   |  |  |                        |
| Third party pricing vendor                              | 0   | 2,387  | 0  | 2,387                  |
| Total banks/financial institutions                      | 0   | 2,387  | 0  | 2,387                  |
| Other corporate:  |   |  |  |                        |
| Third party pricing vendor                              | 0   | 3,172  | 0  | 3,172                  |
| Total other corporate                                   | 0   | 3,172  | 0  | 3,172                  |
| Total securities held to maturity                       | \$26,491  | \$ 11,562  | \$ 19  | \$38,072               |

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. 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 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 and subordinated debentures 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.

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.

#### Other investments

Other investments where fair value is disclosed above include short-term investments and loan receivables. Loan receivables 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 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, 2018 and 2017, 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, 2018

| (In millions)  | Fixed Maturity Securities                          |                     |                                     |                    | Equity Securities | Derivatives <sup>(1)</sup>   |                            | Total |
|--|--|---------------------|-------------------------------------|--------------------|-------------------|------------------------------|----------------------------|-------|
|  | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Banks/<br>Financial<br>Institutions | Other<br>Corporate |                   | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>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     |
| 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 realized investment gains (losses) | \$0  | \$ 0                | \$ 0                                | \$ 0               | \$ 0              | \$ 126                       | \$ 0                       | \$126 |

<sup>(1)</sup> Derivative assets and liabilities are presented net

Three Months Ended  
March 31, 2017

| (In millions)   | Fixed Maturity Securities                          |                     |                                     |                    | Equity Securities | Derivatives <sup>(1)</sup>   |                            | Total |
|---|--|---------------------|-------------------------------------|--------------------|-------------------|------------------------------|----------------------------|-------|
|   | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Banks/<br>Financial<br>Institutions | Other<br>Corporate |                   | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps |       |
| Balance, beginning of period                            | \$198  | \$ 16               | \$ 25                               | \$ 0               | \$ 3              | \$(21 )                      | \$ 2                       | \$223 |
| Realized investment gains (losses) included in earnings | 0  | 0                   | 0                                   | 0                  | 0                 | 38                           | 0                          | 38    |
| Unrealized gains (losses) included in other             | 6  | 0                   | (1 )                                | 0                  | 0                 | 2                            | 0                          | 7     |

|   |       |       |       |       |      |      |      |       |
|---|-------|-------|-------|-------|------|------|------|-------|
| comprehensive income (loss)   |       |       |       |       |      |      |      |       |
| Purchases, issuances, sales and settlements:  |       |       |       |       |      |      |      |       |
| Purchases   | 0     | 0     | 0     | 35    | 2    | 0    | 0    | 37    |
| Issuances   | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0     |
| Sales   | 0     | 0     | 0     | 0     | (1 ) | 0    | 0    | (1 )  |
| Settlements   | (9 )  | 0     | 0     | 0     | 0    | 0    | 0    | (9 )  |
| Transfers into Level 3  | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0     |
| Transfers out of Level 3  | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0     |
| Balance, end of period  | \$195 | \$ 16 | \$ 24 | \$ 35 | \$ 4 | \$19 | \$ 2 | \$295 |
| Changes in unrealized gains (losses) relating<br>to Level 3 assets and liabilities still held at<br>the end of the period included in realized<br>investment gains (losses) | \$0   | \$ 0  | \$ 0  | \$ 0  | \$ 0 | \$38 | \$ 0 | \$38  |

(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, 2018

| (In millions)   | Fair Value | Valuation Technique(s) | Unobservable Input   | Range (Weighted Average) |     |
|---|------------|------------------------|----------------------|--------------------------|-----|
| Assets:   |            |                        |                      |                          |     |
| Securities available for sale, carried at fair value: |            |                        |                      |                          |     |
| Fixed maturity securities:                            |            |                        |                      |                          |     |
| Mortgage- and asset-backed securities                 | \$186      | Consensus pricing      | Offered quotes       | N/A                      | (c) |
| Public utilities                                      | 83         | Discounted cash flow   | Credit spreads       | N/A                      | (c) |
| Banks/financial institutions                          | 24         | Consensus pricing      | Offered quotes       | N/A                      | (c) |
| Other corporate                                       | 143        | Discounted cash flow   | Credit spreads       | N/A                      | (c) |
| Equity securities                                     | 16         | Net asset value        | Offered quotes       | N/A                      | (c) |
| Other assets:   |            |                        |                      |                          |     |
| Foreign currency swaps                                | 185        | Discounted cash flow   | Interest rates (USD) | 2.78% - 2.82%            | (a) |
|   |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
|   |            |                        | CDS spreads          | 13 - 101 bps             |     |
|   |            |                        | Interest rates (USD) | 2.78% - 2.82%            | (a) |
| Credit default swaps                                  | 55         | Discounted cash flow   | Interest rates (JPY) | .26% - .85%              | (b) |
|   |            |                        | Base correlation     | 49.98% - 54.13%          | (d) |
|   |            |                        | CDS spreads          | 15 bps                   |     |
|   |            |                        | Recovery rate        | 37.24%                   |     |
| Total assets  | \$693      |                        |                      |                          |     |

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

(c) 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.

(d) Range of base correlation for the Company's bespoke tranche for attachment and detachment points corresponding to market indices

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March 31, 2018

| (In millions)          | Fair Value | Valuation Technique(s) | Unobservable Input   | Range (Weighted Average) |     |
|------------------------|------------|------------------------|----------------------|--------------------------|-----|
| Liabilities:           |            |                        |                      |                          |     |
| Other liabilities:     |            |                        |                      |                          |     |
| Foreign currency swaps | \$ 84      | Discounted cash flow   | Interest rates (USD) | 2.78% - 2.82%            | (a) |
|                        |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
|                        |            |                        | CDS spreads          | 17 - 170 bps             |     |
|                        | 2          | Discounted cash flow   | Interest rates (USD) | 2.78% - 2.82%            | (a) |
|                        |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
| Total liabilities      | \$ 86      |                        |                      |                          |     |

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

December 31, 2017

| (In millions)   | Fair Value | Valuation Technique(s) | Unobservable Input   | Range (Weighted Average) |     |
|---|------------|------------------------|----------------------|--------------------------|-----|
| Assets:   |            |                        |                      |                          |     |
| Securities available for sale, carried at fair value: |            |                        |                      |                          |     |
| Fixed maturity securities:                            |            |                        |                      |                          |     |
| Mortgage- and asset-backed securities                 | \$175      | Consensus pricing      | Offered quotes       | N/A                      | (c) |
| Public utilities                                      | 68         | Discounted cash flow   | Credit spreads       | N/A                      | (c) |
| Banks/financial institutions                          | 25         | Consensus pricing      | Offered quotes       | N/A                      | (c) |
| Other corporate                                       | 146        | Discounted cash flow   | Credit spreads       | N/A                      | (c) |
| Equity securities                                     | 16         | Net asset value        | Offered quotes       | N/A                      | (c) |
| Other assets:   |            |                        |                      |                          |     |
| Foreign currency swaps                                | 80         | Discounted cash flow   | Interest rates (USD) | 2.40% - 2.54%            | (a) |
|   |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
|   | 70         | Discounted cash flow   | CDS spreads          | 9 - 90 bps               |     |
|   |            |                        | Interest rates (USD) | 2.40% - 2.54%            | (a) |
|   |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
|   |            |                        | Base correlation     | 46.33% - 49.65%          | (d) |
| Credit default swaps                                  | 1          | Discounted cash flow   | CDS spreads          | 25 bps                   |     |
|   |            |                        | Recovery rate        | 37.24%                   |     |
| Total assets  | \$581      |                        |                      |                          |     |

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

(c) 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.

(d) Range of base correlation for the Company's bespoke tranche for attachment and detachment points corresponding to market indices



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December 31, 2017

| (In millions)          | Fair Value | Valuation Technique(s) | Unobservable Input   | Range (Weighted Average) |     |
|------------------------|------------|------------------------|----------------------|--------------------------|-----|
| Liabilities:           |            |                        |                      |                          |     |
| Other liabilities:     |            |                        |                      |                          |     |
| Foreign currency swaps | \$ 120     | Discounted cash flow   | Interest rates (USD) | 2.40% - 2.54%            | (a) |
|                        |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
|                        |            |                        | CDS spreads          | 13 - 157 bps             |     |
|                        | 8          | Discounted cash flow   | Interest rates (USD) | 2.40% - 2.54%            | (a) |
|                        |            |                        | Interest rates (JPY) | .26% - .85%              | (b) |
| Total liabilities      | \$ 128     |                        |                      |                          |     |

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(b) 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, CDS Spreads, Foreign Exchange Rates

The significant drivers of the valuation of the interest and foreign exchange swaps are interest rates, foreign exchange rates and CDS spreads. The Company's swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. Since most of the Company's yen-denominated cross currency swaps are in a net liability position, an increase in interest rates will decrease the liabilities and increase the value of the swap.

Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal receivables at the termination of the swap. An increase in yen interest rates will decrease the value of the final settlement foreign exchange receivables and decrease the value of the swap, and an increase in U.S. dollar interest rates will increase the swap value.

A similar sensitivity pattern is observed for the foreign exchange rates. When the spot U.S. dollar/Japanese yen (USD/JPY) foreign exchange rate decreases and the swap is receiving a final exchange payment in JPY, the swap value will increase due to the appreciation of the JPY. Most of the Company's swaps are designed to receive payments in JPY at the termination and will thus be impacted by the USD/JPY foreign exchange rate in this way. In cases where there is no final foreign exchange receivable in JPY and the Company is paying JPY as interest payments and receiving USD, a decrease in the foreign exchange rate will lead to a decrease in the swap value.

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.

#### Base Correlations, CDS Spreads, Recovery Rates

The Company's remaining collateralized debt obligation (CDO) is a tranche on a basket of single-name credit default swaps. The risk in this synthetic CDO comes from the single-name CDS risk and the correlations between the single names. The valuation of synthetic CDOs is dependent on the calibration of market prices for interest rates, single name CDS default probabilities and base correlation using financial modeling tools. Since there is limited or no observable data available for this tranche, the base correlations must be obtained from commonly traded market

tranches such as the CDX and iTraxx indices. From the historical prices of these indices, base correlations can be obtained to develop a pricing curve of CDOs with different seniorities. Since the reference entities of the market indices do not match those in the portfolio underlying the synthetic CDO to be valued, several processing steps are taken to map the CDO in the Company's portfolio to the indices. With the base correlation determined and the appropriate spreads selected, a valuation is calculated. An increase in the CDS spreads in the underlying portfolio leads to a decrease in the value due to higher probability of defaults and losses. The impact on the valuation due to base correlation depends on a number of factors, including the riskiness between market tranches and the modeled tranche based on the Company's portfolio and the equivalence between detachment points in these tranches. Generally speaking, an increase in base correlation will

decrease the value of the senior tranches while increasing the value of junior tranches. This may result in a positive or negative value change.

The CDO tranche in the Company's portfolio is a senior mezzanine tranche and, due to the low level of credit support for this type of tranche, exhibits equity-like behavior. As a result, an increase in recovery rates tends to cause its value to decrease.

Base correlations, CDS spreads, and recovery rates are unobservable inputs in the determination of fair value of credit default swaps.

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 2017 Annual Report.

## 6. POLICY LIABILITIES

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

| (In millions)   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| Unpaid supplemental health claims, beginning of period        | \$3,884                            | \$3,707 |
| Less reinsurance recoverables                                 | 30                                 | 27      |
| Net balance, beginning of period                              | 3,854                              | 3,680   |
| Add claims incurred during the period related to:             |                                    |         |
| Current year  | 1,842                              | 1,737   |
| Prior years   | (192 )                             | (111 )  |
| Total incurred  | 1,650                              | 1,626   |
| Less claims paid during the period on claims incurred during: |                                    |         |
| Current year  | 518                                | 505     |
| Prior years   | 1,116                              | 1,055   |
| Total paid  | 1,634                              | 1,560   |
| Effect of foreign exchange rate changes on unpaid claims      | 142                                | 80      |
| Net balance, end of period                                    | 4,012                              | 3,826   |
| Add reinsurance recoverables                                  | 31                                 | 29      |
| Unpaid supplemental health claims, end of period              | 4,043                              | 3,855   |
| Unpaid life claims, end of period                             | 587                                | 375     |
| Total liability for unpaid policy claims                      | \$4,630                            | \$4,230 |

The incurred claims development related to prior years reflects favorable claims experience compared to previous estimates. The favorable claims development of \$192 million for the three-month period ended March 31, 2018 comprises approximately \$97 million from Japan, which represents approximately 51% of the total. Excluding the impact of foreign exchange of a loss of approximately \$5 million from December 31, 2017 to March 31, 2018, the favorable claims development in Japan would have been approximately \$92 million, representing approximately 48% of the total.

The Company has experienced continued favorable claim trends in 2018 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, 2018, 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, 2018, 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 \$969 million and \$908 million as of March 31, 2018, and December 31, 2017, respectively. The increase in the reinsurance recoverable balance was driven by two aggregating factors: yen strengthening and the growth in reserves related to the business that has been reinsured as the policies age. The spot yen/dollar exchange rate strengthened by approximately 6.4% and ceded reserves increased approximately .4% from December 31, 2017, to March 31, 2018.

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

| (In millions)  | Three Months<br>Ended<br>March 31, |         |
|--|------------------------------------|---------|
|  | 2018                               | 2017    |
| Direct premium income                                      | \$4,833                            | \$4,724 |
| Ceded to other companies:                                  |                                    |         |
| Ceded Aflac Japan closed blocks                            | (129 )                             | (130 )  |
| Other  | (15 )                              | (12 )   |
| Assumed from other companies:                              |                                    |         |
| Retrocession activities                                    | 54                                 | 54      |
| Other  | 2                                  | 2       |
| Net premium income   | \$4,745                            | \$4,638 |
| Direct benefits and claims                                 | \$3,119                            | \$3,129 |
| Ceded benefits and change in reserves for future benefits: |                                    |         |
| Ceded Aflac Japan closed blocks                            | (117 )                             | (122 )  |
| Eliminations   | 12                                 | 13      |
| Other  | (12 )                              | (11 )   |
| Assumed from other companies:                              |                                    |         |
| Retrocession activities                                    | 52                                 | 54      |
| Eliminations   | (12 )                              | (13 )   |
| Other  | 0                                  | 2       |
| Benefits and claims, net                                   | \$3,042                            | \$3,052 |

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. This reinsurance facility agreement was renewed in 2017 and is effective until December 31, 2018. There are also additional commitment periods of a one-year duration each which are automatically extended unless notification is received from the reinsurer within 60 days prior to the expiration.

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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, 2018, the Company has not executed a reinsurance treaty under this committed reinsurance facility.

## 8. NOTES PAYABLE

A summary of notes payable follows:

| (In millions)   | March 31, 2018 | December 31, 2017 |
|---|----------------|-------------------|
| 2.40% senior notes due March 2020   | \$ 548         | \$ 548            |
| 4.00% senior notes due February 2022  | 348            | 348               |
| 3.625% senior notes due June 2023   | 697            | 697               |
| 3.625% senior notes due November 2024   | 746            | 745               |
| 3.25% senior notes due March 2025   | 446            | 446               |
| 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               |
| Yen-denominated senior notes and subordinated debentures:   |                |                   |
| .932% senior notes due January 2027 (principal amount 60.0 billion yen)                                   | 562            | 528               |
| 2.108% subordinated debentures due October 2047 (principal amount 60.0 billion yen)                       | 559            | 526               |
| Yen-denominated loans:  |                |                   |
| Variable interest rate loan due September 2021 (.32% in 2018 and 2017, principal amount 5.0 billion yen)  | 47             | 44                |
| Variable interest rate loan due September 2023 (.47% in 2018 and 2017, principal amount 25.0 billion yen) | 234            | 220               |
| Capitalized lease obligations payable through 2025  | 20             | 22                |
| Total notes payable   | \$ 5,372       | \$ 5,289          |

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.



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A summary of the Company's lines of credit as of March 31, 2018 follows:

| Borrower                     | Type                  | Original Term | Expiration Date  | Capacity   | Amount Outstanding | Interest Rate on Borrowed Amount   | Maturity Period                                 | Commitment Fee   | Business Purpose  |
|------------------------------|-----------------------|---------------|--|--|--------------------|--|---|--|---|
| Aflac Incorporated and Aflac | uncommitted bilateral | 364 days      | November 30, 2018  | \$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. | Up to 3 months                                  | None   | General corporate purposes  |
| Aflac Incorporated           | unsecured revolving   | 3 years       | March 31, 2019, or the date commitments are terminated pursuant to an event of default | 100.0 billion yen                                    | 0.0 billion yen    | A rate per annum equal to, at the Company's option, either, (a) London   | No later than March 31, 2019                    | .30% to .50%, depending on the Parent Company's debt ratings as of the date of determination | General corporate purposes including capital contingencies plan for the operation of the Parent Company |
| Aflac Incorporated and Aflac | unsecured revolving   | 5 years       | September 18, 2020, or the date commitments are terminated pursuant to an U.S.         | 18,550 billion yen, or the equivalent amount in U.S. | 0.0 billion yen    | A rate per annum equal to, at the Company's option, either, (a) London   | No later than September 18, 2020 <sup>(1)</sup> | .085% to .225%, depending on the Parent Company's debt ratings as                            | General corporate purposes including capital contingencies  |

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| event of default <sup>(1)</sup> | dollars               |                |                |              |             | 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 | Up to 3 months | None | of the date of determination of the Pa Company plan for t operation of the Pa Company |
|---------------------------------|-----------------------|----------------|----------------|--------------|-------------|---|----------------|------|---|
| Aflac Incorporated and Aflac    | uncommitted bilateral | None specified | None specified | \$50 million | \$0 million | A rate per annum equal to, at the Parent Company's option, either (a) a eurocurrency rate determined by reference to the agent's LIBOR for the interest period relevant to such borrowing or (b) the base   | Up to 3 months | None | General corporate purposes  |

|                                   |                       |          |                   |                  |                 |  |          |      |                            |
|-----------------------------------|-----------------------|----------|-------------------|------------------|-----------------|--|----------|------|----------------------------|
| Aflac <sup>(2)</sup>              | uncommitted revolving | 364 days | November 30, 2018 | \$250 million    | \$0 million     | 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<br>USD<br>three-month LIBOR plus 75 basis points per annum | 3 months | None | General corporate purposes |
| Aflac Incorporated <sup>(2)</sup> | uncommitted revolving | 364 days | April 2, 2018     | 37.5 billion yen | 0.0 billion yen | Three-month TIBOR plus 80 basis points per annum   | 3 months | None | General corporate purposes |

(1) Expiration and maturity period dates were updated in April 2018 to April 4, 2023

(2) Intercompany credit agreement

The Company was in compliance with all of the covenants of its notes payable and lines of credit at March 31, 2018. No events of default or defaults occurred during the three-month period ended March 31, 2018.

For additional information, see Notes 4 and 9 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

## 9. INCOME TAXES

For the United States, the Tax Cuts and Jobs Act (Tax Act) was signed into law on December 22, 2017. Effective January 1, 2018, the Tax Act imposes a broad number of changes in tax law, including the permanent reduction of the U.S. federal statutory corporate income tax rate from 35% to 21%.

The Company expects to complete its accounting for the effects of the Tax Act over the measurement period of up to one year from the enactment date, as permitted by SEC Staff Accounting Bulletin No. 118 (SAB 118). As of the enactment date, the Company estimated provisional amounts for its deferred taxes, including related valuation allowance, resulting in a reduction of its deferred tax assets (DTAs) by approximately \$1.0 billion and its deferred tax liabilities (DTLs) by \$2.9 billion, for a net DTL reduction of approximately \$1.9 billion. The Company believes that these amounts represent reasonable estimates in accordance with SAB 118. The provisions of ASC 740-10, Income Taxes, require that the effects of changes in tax law on deferred taxes be recognized as a component of the income tax provision in the period the tax rate change was enacted. Therefore, the \$1.9 billion provisional amount of net DTL reduction was recorded in the fourth quarter of 2017 as a reduction in the "Income tax expense, Deferred" line item of the Company's consolidated statement of earnings. As of the first quarter of 2018, the Company has no update to this estimated benefit.

The following includes an overview of the existing current and deferred balances for which calculation of income tax effects of the Tax Act has not been completed:

**Japan deferred tax balances:** The Tax Act reduces the U.S. tax rate to 21%, effective January 1, 2018. Prior to the reduction in rate, the Japan deferred tax balances were completely offset by an anticipatory foreign tax credit. As a result of the rate reduction, the Japan deferred tax balance will no longer be offset by an anticipatory foreign tax credit as all of the foreign tax credits will be used to offset the U.S. deferred tax balance of the Aflac Japan branch.

The Company has not yet completed its analysis of the components of the Japan tax computation, including a complete validation of the Aflac Japan tax basis. Additional time is needed to collect, analyze, and validate the detailed data underlying the deferred tax amounts in the Aflac Japan branch. As of the fourth quarter of 2017, the Company had recorded a provisional amount of \$4.5 billion of net DTL related to this item.

**Valuation allowances:** The Company must assess whether its valuation allowance analyses are impacted by various aspects of the Tax Act with a primary focus on any unused anticipatory foreign tax credits. As the Company has recorded provisional amounts related to the Japan deferred tax balances, any corresponding determination of the need for or change in a valuation allowance is also provisional. As of the fourth quarter of 2017, the Company had recorded a provisional valuation allowance of \$.7 billion against its anticipatory foreign tax credit asset.

The impact of the Tax Act may differ, possibly materially, from the recorded provisional amounts.

## 10. SHAREHOLDERS' EQUITY

See Note 1 for a discussion of the stock split that occurred in March 2018. All share and per-share amounts have been adjusted to reflect the stock split for any of the periods presented.

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)                                    | 2018      | 2017      |
|---|-----------|-----------|
| Common stock - issued:                                      |           |           |
| Balance, beginning of period                                | 1,345,762 | 1,342,498 |
| Exercise of stock options and issuance of restricted shares | 1,014     | 868       |
| Balance, end of period                                      | 1,346,776 | 1,343,366 |
| Treasury stock:   |           |           |
| Balance, beginning of period                                | 564,852   | 530,877   |
| Purchases of treasury stock:                                |           |           |
| Open market   | 6,640     | 16,986    |
| Other   | 315       | 288       |
| Dispositions of treasury stock:                             |           |           |
| Shares issued to AFL Stock Plan                             | (384 )    | (494 )    |
| Exercise of stock options                                   | (305 )    | (256 )    |
| Other   | (99 )     | (40 )     |
| Balance, end of period                                      | 571,019   | 547,361   |
| Shares outstanding, end of period                           | 775,757   | 796,005   |

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.

| (In thousands)                   | Three<br>Months<br>Ended<br>March<br>31,<br>2018 | 2017 |
|----------------------------------|--|------|
| Anti-dilutive share-based awards | 9  | 642  |

#### 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. During the first three months of 2017, the Company repurchased 17.0 million shares of its common stock in the open market for \$600 million as part of its share repurchase program. In August 2017, the Company's board of directors authorized the purchase of an additional 80 million shares of its common stock. As of March 31, 2018, a remaining balance of 91.4 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, 2018

| (In millions)  | Unrealized<br>Foreign<br>Currency<br>Translation<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses)<br>on<br>Investment<br>Securities | Unrealized<br>Gains<br>(Losses)<br>on<br>Derivatives | Pension<br>Liability<br>Adjustment | Total    |
|--|---|---|--|------------------------------------|----------|
| Balance, beginning of period   | \$ (1,750 )   | \$ 5,964  | \$ (23 )   | \$ (163 )                          | \$ 4,028 |
| Other comprehensive<br>income (loss) before<br>reclassification                  | 447   | (983 )  | 2  | (37 )                              | (571 )   |
| Amounts reclassified from<br>accumulated other<br>comprehensive income<br>(loss) | 0   | 225 <sup>(1)</sup>  | 0  | 3                                  | 228      |
| Net current-period other<br>comprehensive<br>income (loss)                       | 447   | (758 )  | 2  | (34 )                              | (343 )   |
| Balance, end of period   | \$ (1,303 )   | \$ 5,206  | \$ (21 )   | \$ (197 )                          | \$ 3,685 |

<sup>(1)</sup> 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.

Three Months Ended

March 31, 2017

| (In millions)  | Unrealized<br>Foreign<br>Currency<br>Translation<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses)<br>on<br>Investment<br>Securities | Unrealized<br>Gains<br>(Losses)<br>on<br>Derivatives | Pension<br>Liability<br>Adjustment | Total    |
|--|---|---|--|------------------------------------|----------|
| Balance, beginning of period   | \$ (1,983 )   | \$ 4,805  | \$ (24 )   | \$ (168 )                          | \$ 2,630 |
| Other comprehensive<br>income (loss) before<br>reclassification                  | 333   | (341 )  | 2  | (4 )                               | (10 )    |
| Amounts reclassified from<br>accumulated other<br>comprehensive income<br>(loss) | 0   | 10  | 0  | 2                                  | 12       |
| Net current-period other<br>comprehensive<br>income (loss)                       | 333   | (331 )  | 2  | (2 )                               | 2        |
| Balance, end of period   | \$ (1,650 )   | \$ 4,474  | \$ (22 )   | \$ (170 )                          | \$ 2,632 |

All amounts in the table above are net of tax.

For the three-month period ended March 31, 2018, see Note 1 for discussion of the amounts reclassified between AOCI and retained earnings upon the adoption of new accounting pronouncements.

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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<br>Ended<br>March 31,<br>2018<br>Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income | Affected Line Item in the<br>Statements of Earnings |
|---|---|---|
| Details about Accumulated Other Comprehensive Income Components |   |   |
| Unrealized gains (losses) on available-for-sale securities      | \$ 2  | Sales and redemptions                               |
|   | 0   | Other-than-temporary impairment losses realized     |
|   | 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 12 for additional details).

| (In millions)   | Three Months<br>Ended<br>March 31,<br>2017<br>Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income | Affected Line Item in the<br>Statements of Earnings |
|---|---|---|
| Details about Accumulated Other Comprehensive Income Components |   |   |
| Unrealized gains (losses) on available-for-sale securities      | \$ (6 )   | Sales and redemptions                               |
|   | (10 )   | Other-than-temporary impairment losses realized     |
|   | (16 )   | Total before tax                                    |



|  |          |   |
|--|----------|---|
|  | 6        | Tax (expense) or benefit <sup>(1)</sup>           |
|  | \$ (10 ) | Net of tax  |
| Amortization of defined benefit pension items: |          |   |
| Actuarial gains (losses)                       | \$ (3 )  | 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>           |
|  | \$ (2 )  | Net of tax  |
| Total reclassifications for the period         | \$ (12 ) | Net of tax  |

<sup>(1)</sup> Based on 35% tax rate

<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 12 for additional details)

## 11. SHARE-BASED COMPENSATION

See Note 1 for a discussion of the stock split that occurred in March 2018. All share and per-share amounts have been adjusted to reflect the stock split for any of the periods presented.

As of March 31, 2018, 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, 2018, approximately 40.5 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, 2018, 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-year cliff basis. The Compensation Committee of the Board of Directors has the discretion to determine vesting schedules.

Share-based awards granted to U.S.-based grantees are settled with authorized but unissued Company stock, while those issued to Japan-based grantees are settled with treasury shares.

The following table provides information on stock options outstanding and exercisable at March 31, 2018.

|             | Stock<br>Option Shares<br>(in thousands) | Weighted-Average<br>Remaining Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in millions) | Weighted-Average<br>Exercise Price Per<br>Share |
|-------------|--|--|--|---|
| Outstanding | 6,306                                    | 5.5  | \$ 99  | \$ 28.03  |
| Exercisable | 4,439                                    | 4.4  | 77   | 26.45   |

The Company received cash from the exercise of stock options in the amount of \$23 million during the first three months of 2018, compared with \$17 million in the first three months of 2017. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$12 million in the first three months of 2018, compared with \$14 million in the first three months of 2017.

As of March 31, 2018, total compensation cost not yet recognized in the Company's financial statements related to restricted stock awards was \$62 million, of which \$30 million (826 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 1.5 years. There are no other contractual terms covering restricted stock awards once vested.

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

| (In thousands of shares)              | Shares | Weighted-Average<br>Grant-Date Fair<br>Value<br>Per Share |
|---------------------------------------|--------|---|
| Restricted stock at December 31, 2017 | 3,635  | \$ 32.40  |
| Granted in 2018                       | 918    | 44.12   |
| Canceled in 2018                      | (56 )  | 33.18   |
| Vested in 2018                        | (980 ) | 31.50   |
| Restricted stock at March 31, 2018    | 3,517  | \$ 35.70  |

In February 2018, the Company granted 432 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 2017 Annual Report.

## 12. 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 five years; (4) active employees who were age 55 or older and who would meet the 15 years of service requirement within the next five years; and (5) current retirees. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

Pension and other postretirement benefit expenses are included in acquisition and operating expenses in the consolidated statement of earnings, which includes \$5 million of other components of net periodic pension cost and postretirement costs (other than service costs) for the three months ended March 31, 2018 and 2017, respectively.

Total net periodic cost includes the following components:

| (In millions)                            | Three Months Ended March 31, |      |      |      |                               |      |
|--|------------------------------|------|------|------|-------------------------------|------|
|  | Pension Benefits             |      |      |      | Other Postretirement Benefits |      |
|  | Japan                        |      | U.S. |      | 2018                          | 2017 |
|  | 2018                         | 2017 | 2018 | 2017 | 2018                          | 2017 |
| Components of net periodic benefit cost: |                              |      |      |      |                               |      |
| Service cost                             | \$5                          | \$5  | \$7  | \$6  | \$0                           | \$0  |
| Interest cost                            | 2                            | 1    | 9    | 8    | 0                             | 0    |
| Expected return on plan assets           | (2)                          | (1)  | (7)  | (6)  | 0                             | 0    |
| Amortization of net actuarial loss       | 0                            | 0    | 4    | 3    | 0                             | 0    |
|  | 0                            | 0    | 0    | 0    | 0                             | 0    |

Amortization of prior service  
cost (credit)

|                             |     |     |      |      |     |     |
|-----------------------------|-----|-----|------|------|-----|-----|
| Net periodic (benefit) cost | \$5 | \$5 | \$13 | \$11 | \$0 | \$0 |
|-----------------------------|-----|-----|------|------|-----|-----|

During the three months ended March 31, 2018, Aflac Japan contributed approximately \$6 million (using the weighted-average yen/dollar exchange rate for the three-month period ending March 31, 2018) to the Japanese funded defined benefit plan, and Aflac U.S. contributed \$10 million to the U.S. funded defined benefit plan.

As a result of U.S. tax reform legislation enacted in December 2017, the Company announced it would make a one-time contribution of \$500 to the U.S. 401(k) plan to all employees active on December 31, 2017. This contribution was

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made by January 31, 2018. The Company also announced that it would increase its matching contributions to 100% of each employee's contributions which were not in excess of 4% of the employee's annual cash compensation. This increase became effective on January 1, 2018.

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 2017 Annual Report.

### 13. COMMITMENTS AND CONTINGENT LIABILITIES

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 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, 2018, and a majority of the tax credits will be realized over the next four years. 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, 2018 were immaterial.

### 14. SUBSEQUENT EVENTS

On April 1, 2018, the Company completed the conversion of Aflac Japan from a branch structure to a legal subsidiary. The treatment of Aflac Japan as a branch for U.S. tax purposes did not change following the completion of this conversion.



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 “expect,” “anticipate,” “believe,” “goal,” “objective,” “may,” “should,” “estimate,” “intends,” “projects,” “will,” “assumes,” “potential,” “target,” “ou words as well as specific projections of future results, generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements.

The Company cautions readers that the following factors, in addition to other factors mentioned from time to time, could cause actual results to differ materially from those contemplated by the forward-looking statements:

- difficult conditions in global capital markets and the economy
- exposure to significant interest rate risk
- concentration of business in Japan
- foreign currency fluctuations in the yen/dollar exchange rate
- failure to implement the conversion of the Japan branch to a legal subsidiary
- limited availability of acceptable yen-denominated investments
- deviations in actual experience from pricing and reserving assumptions
- ability to continue to develop and implement improvements in information technology systems
- governmental actions for the purpose of stabilizing the financial markets
- 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
- ongoing changes in the Company's industry
- 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
- ability to attract and retain qualified sales associates, brokers, employees and distribution partners
- decline in creditworthiness of other financial institutions
- subsidiaries' ability to pay dividends to Aflac Incorporated
- 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
- significant valuation judgments in determination of amount of impairments taken on the Company's investments
- 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 U.S. and/or Japanese accounting standards



• loss of consumer trust resulting from events external to the Company's operations  
• increased expenses and reduced profitability resulting from changes in assumptions for pension and other postretirement benefit plans  
• level and outcome of litigation  
• failure of internal controls or corporate governance policies and procedures

## 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 periods ended March 31, 2018 and 2017, 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, 2017 (2017 Annual Report). This MD&A is divided into the following sections:

- The Company's Business
- Performance Highlights
- Critical Accounting Estimates
- Results of Operations, consolidated and by segment
- Analysis of Financial Condition
- Capital Resources and Liquidity

## 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 (Aflac U.S.) and as a branch in Japan (Aflac Japan). The conversion of Aflac Japan from a branch to a legal subsidiary was completed on April 1, 2018, after which date the Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan). (For more information about the conversion of Aflac Japan to a legal subsidiary, see the Insurance Operations subsection of this MD&A). 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 its 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. The spot yen/dollar exchange rate at March 31, 2018 was 106.24, or 6.4% stronger than the spot yen/dollar exchange rate of 113.00 at December 31, 2017. The weighted-average yen/dollar exchange rate for the three-month period ended March 31, 2018 was 108.05, or 5.1% stronger than the weighted-average yen/dollar exchange rate of 113.56 for the same period in 2017. Total revenues were \$5.5 billion in the first quarter of 2018, compared with \$5.3 billion in the first quarter of 2017. Net earnings were \$717 million, or \$.91 per diluted share in the first quarter of 2018, compared with \$592 million, or \$.73 per diluted share, in the first quarter of 2017.

Results in the first quarter of 2018 included pretax net realized investment losses of \$134 million, compared with net realized investment losses of \$140 million in the first quarter of 2017. Net investment losses in the first quarter of 2018 included \$7 million of other-than-temporary impairment losses and changes in loan loss reserves. Effective January 1, 2018 upon the adoption of new accounting guidance, changes in fair value of equity securities are recorded in earnings as a component of realized investment gains and losses. The Company reported net losses on equity securities of \$46 million in the first quarter of 2018.

On February 13, 2018, the Board of Directors of the Parent Company declared a two-for-one stock split of the

Company's common stock in the form of a 100% stock dividend payable on March 16, 2018 to shareholders of record at the close of business on March 2, 2018. The stock split was paid in the form of one additional common stock share for every share of common stock held. All equity and share-based data, including the number of shares outstanding and per share amounts, have been adjusted to reflect the stock split for all periods presented in this report.

In the first three months of 2018, the Company repurchased 6.6 million shares of its common stock in the open market for \$296 million under its share repurchase program.

## 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™ (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 78% of its liabilities are reported as of March 31, 2018, 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, 2018. For additional information, see the Critical Accounting Estimates section of MD&A included in the 2017 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, 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, which are a component of adjusted earnings, measure the periodic currency risk management costs associated with hedging a portion of Aflac Japan's U.S. dollar-denominated investments and are an important component of net investment income.

Beginning with the first quarter of 2018, the Company began utilizing the term "adjusted earnings" for the measure formerly referred to as "operating earnings" on both a pretax and after-tax basis, as well as an absolute and per-share basis. This change only pertained to the label of the measure and did not alter its definition or calculation.

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 related to foreign currency denominated investments. 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 represent costs incurred in using foreign currency forward contracts to hedge the foreign exchange risk of a portion of U.S. dollar-denominated assets in the Company's Japan segment investment portfolio. These amortized hedge costs 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.

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 dollar based fluctuations driven solely from 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, |        |
|   | 2018                         | 2017  | 2018                         | 2017   |
| Net earnings  | \$717                        | \$592 | \$ .91                       | \$ .73 |
| Items impacting net earnings:   |                              |       |                              |        |
| Realized investment (gains) losses <sup>(2),(3),(4)</sup>                         | 98                           | 109   | .13                          | .14    |
| Other and non-recurring (income) loss   | 29                           | 20    | .04                          | .02    |
| Income tax (benefit) expense on items excluded from adjusted earnings             | (24 )                        | (45 ) | (.03 )                       | (.05 ) |
| Adjusted earnings   | 821                          | 676   | 1.05                         | .84    |
| Current period foreign currency impact <sup>(5)</sup>                             | (21 )                        | N/A   | (.03 )                       | N/A    |
| Adjusted earnings excluding current period foreign currency impact <sup>(6)</sup> | \$800                        | \$676 | \$ 1.02                      | \$ .84 |

(1) "Adjusted earnings" was formerly referred to as "operating earnings." Amounts may not foot due to rounding.

(2) Excludes amortized hedge costs of \$55 and \$52 for the three-month periods ended March 31, 2018, and 2017, respectively, related to hedging U.S. dollar-denominated investments held in Aflac Japan which are classified as a component of adjusted earnings to conform to current year reporting. See "Hedge Costs" discussion below for further information.

(3) Amortized hedge costs in Aflac Japan were offset by derivatives entered into as part of corporate activities and resulted in a benefit of \$2 for the three-month period ended March 31, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in net investment income when analyzing operations.

(4) Excludes a gain of \$17 and \$21 for the three-month periods ended March 31, 2018 and 2017, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

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

(6) Amounts excluding current period foreign currency impact are computed using the average yen/dollar exchange rate for the comparable prior-year period, which eliminates dollar-based fluctuations driven solely from 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, and derivative and foreign currency activities. Effective January 1, 2018, changes in fair value of equity

securities are also included in earnings as a component of realized investment gains and losses.

#### 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; foreign currency swaps associated with certain senior notes and subordinated debentures; and foreign currency swaps and credit defaults swaps held in consolidated variable interest entities (VIEs). 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. Certain derivative and foreign currency gains (losses) exclude amortized hedge costs (see Hedge Cost section below) and the interest rate component of the change in fair value of foreign currency swaps on notes payable that are both included in adjusted earnings.

### Hedge Costs

Effective January 1, 2017, adjusted earnings includes the impact of amortized hedge costs. Amortized hedge costs represent costs incurred in using foreign currency forward contracts to hedge the foreign exchange risk of a portion of U.S. dollar-denominated assets in the Company's Japan segment investment portfolio. These amortized hedge costs 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.

Hedge costs 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. Hedge costs have increased in recent periods due to changes in the previously mentioned factors. In late 2017, the Company took steps to mitigate rising hedge costs by increasing the amount of unhedged U.S. dollar-denominated investments held in Aflac Japan and to reduce hedge cost volatility by extending hedge duration. For additional information regarding 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.

Based on the underlying nature of these assessments, effective January 1, 2017, the Company adopted a policy of excluding any charges associated with U.S. guaranty fund assessments and the corresponding tax benefit or expense from adjusted earnings.

For the Penn Treaty liquidation that was recognized by judicial authority in March 2017, the Company estimated and recognized a discounted liability for 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. For additional information regarding guaranty fund assessments, see Note 13 of the Notes to the Consolidated Financial Statements.



Effective January 1, 2017, 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 amounted to \$29 million and \$6 million for the three-month periods ended March 31, 2018 and 2017, respectively.

#### Tax Reform Adjustment

Among other changes, the U.S. Tax Cuts and Job Act (Tax Act) reduced the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. Because changes to tax rates are accounted for in the period of enactment, the Company recognized a non-recurring estimated \$1.9 billion benefit in the three-month period and full year

ended December 31, 2017. While the Company believes that this estimate is reasonable, it is relying upon guidance provided by SEC Staff Accounting Bulletin No. 118 that provides a measurement period of up to one year from the enactment date of December 22, 2017 in order for the Company to complete the accounting for the effects of the Tax Act.

The estimated impact of tax reform, which was included in U.S. GAAP net income, but excluded from adjusted earnings as defined, for the year ended December 31, 2017, and is included in equity as of March 31, 2018, is a preliminary estimate and may be adjusted for the current and future periods, possibly materially, due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, tax guidance that may be issued and actions the Company may take as a result of tax reform.

For further information about the impact of tax reform, see the Critical Accounting Estimates - Income Taxes section of MD&A and Note 10 in the Notes to the Consolidated Financial Statements in the 2017 Annual Report, and Note 9 of the Notes to the Consolidated Financial Statements in this report.

#### 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 27.0% for the three-month period ended March 31, 2018, compared with 34.1% for the same period in 2017. The reduction in the tax rate for the three-month period ended March 31, 2018 was primarily due to the decrease in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. The impact of the Tax Act, including the Company's combined U.S. and Japanese effective income tax rate, may be adjusted in future periods due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, tax guidance that may be issued and actions the Company make take as a result of the Tax Act.

#### INSURANCE OPERATIONS

Aflac's insurance business consists of two segments: Aflac Japan and Aflac U.S. Aflac Japan is the principal contributor to consolidated earnings. Operating business segments that are not individually reportable and business activities, including reinsurance retrocession activities, not included in the Aflac Japan or Aflac U.S. are included in the "Corporate and other" category.

On December 2, 2016, the Company publicly announced that it would pursue the conversion of Aflac Japan from a branch structure to a subsidiary structure, with the subsidiary incorporated as a “Kabushiki Kaisha,” or Japanese stock corporation. The conversion was completed on April 1, 2018. While the branch structure remains an acceptable legal form, the subsidiary structure has emerged as the more prevalent structure for both domestic and foreign companies operating in Japan. In addition, emerging global regulatory standards generally favor the subsidiary structure for foreign insurance and financial service companies. The adoption of this new organizational framework is expected to be tax-neutral and not to have a material impact on the daily operations of either Aflac Japan or Aflac U.S. as a result of this conversion. In addition, the Company expects to obtain enhanced flexibility in capital management and business development as a result of the conversion. Effective January 1, 2018, investments of Aflac U.S. as well as certain sub-advised assets of Aflac Japan, are managed by the Company’s U.S. asset management subsidiary, Aflac Asset Management LLC (AAM), and investments of Aflac Japan are managed pursuant to an investment advisory agreement

between Aflac Japan and the Company's asset management subsidiary in Japan, Aflac Asset Management Japan Ltd. (AAMJ). AAMJ is licensed as a discretionary asset manager under the Japan Financial Instruments and Exchange Act and is subject to rules of the Japan Investment Advisors Association, a self-regulatory organization with mandatory membership for Japan investment managers. Beginning with the first quarter of 2018, AAM and AAMJ are reported in the "Other business segments" category; however, the assets that they manage will be reported in the respective Aflac Japan and Aflac U.S. business segments. Effective April 1, 2018, Aflac Life Insurance Japan Ltd., a Japanese stock corporation, has assumed the business of Aflac Japan. The Parent Company had also formed wholly-owned U.S. subsidiary Aflac Holdings LLC, which is the parent company of Aflac Life Insurance Japan Ltd.

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.

The Company evaluates its sales efforts using new annualized premium sales, an industry operating measure. New annualized premium sales, which include both new sales and the incremental increase in premiums due to conversions, generally represent the premiums that the Company would collect 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. Premium income, or earned premiums, is a financial performance measure that reflects collected or due premiums that have been earned ratably on policies in force during the reporting period.

## AFLAC JAPAN SEGMENT

## Aflac Japan Pretax Adjusted Earnings

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

## Aflac Japan Summary of Operating Results

| (In millions)   | Three Months Ended |         |
|---|--------------------|---------|
|   | March 31, 2018     | 2017    |
| Net premium income  | \$3,263            | \$3,194 |
| Net investment income:  |                    |         |
| Yen-denominated investment income   | 331                | 323     |
| U.S. dollar-denominated investment income                                 | 312                | 286     |
| Net investment income   | 643                | 609     |
| Amortized hedge costs related to foreign currency denominated investments | 55                 | 52      |
| Net investment income, less amortized hedge costs                         | 588                | 557     |
| Other income (loss)   | 12                 | 10      |
| Total adjusted revenues   | 3,863              | 3,761   |
| Benefits and claims, net  | 2,294              | 2,288   |
| Adjusted expenses:  |                    |         |
| Amortization of deferred policy acquisition costs                         | 168                | 154     |
| Insurance commissions   | 190                | 184     |
| Insurance and other expenses  | 393                | 366     |
| Total adjusted expenses   | 751                | 704     |
| Total benefits and expenses   | 3,045              | 2,992   |
| Pretax adjusted earnings <sup>(1)</sup>                                   | \$818              | \$769   |
| Weighted-average yen/dollar exchange rate                                 | 108.05             | 113.56  |

| Percentage change over previous period:           | In Dollars                        |       | In Yen                            |        |
|---|-----------------------------------|-------|-----------------------------------|--------|
|   | Three Months Ended March 31, 2018 | 2017  | Three Months Ended March 31, 2018 | 2017   |
| Net premium income                                | 2.2%                              | .5%   | (2.6)%                            | (1.1)% |
| Net investment income, less amortized hedge costs | 5.6                               | (5.4) | .0                                | (6.3)  |
| Total adjusted revenues                           | 2.7                               | (.4)  | (2.2)                             | (1.9)  |
| Pretax adjusted earnings <sup>(1)</sup>           | 6.4                               | (4.7) | .9                                | (5.6)  |

<sup>(1)</sup> 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.

In yen terms, Aflac Japan's net premium income decreased in the three-month period ended March 31, 2018, with growth in third sector premium more than offset by an anticipated reduction in first sector premium due to savings products reaching premium paid-up status. In dollar terms, net investment income, net of amortized hedge costs, increased largely due to higher-yielding U.S. dollar investments.

Annualized premiums in force decreased 2.7% to 1.54 trillion yen as of March 31, 2018, compared with 1.59 trillion yen as of March 31, 2017. 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 \$14.5 billion at March 31, 2018, compared with \$14.1 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 operating 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 yen/dollar exchange rates remained unchanged from the comparable period in the prior year. In order to compare the current period to the prior period without the impact of foreign currency, the current period income statement is translated at the prior year's comparable period average exchange rate.

Aflac Japan Percentage Changes Over Previous Period

(Yen Operating Results)

For the Periods Ended March 31,

|   | Including Foreign<br>Currency Changes |           | Excluding<br>Foreign<br>Currency<br>Changes <sup>(2)</sup> |          |
|---|---------------------------------------|-----------|--|----------|
|   | Three Months                          |           | Three<br>Months  |          |
|   | 2018                                  | 2017      | 2018   | 2017     |
| Net investment income, less amortized hedge costs | .0                                    | % (6.3 )% | 2.7  | % (5.5)% |
| Total adjusted revenues                           | (2.2 )                                | (1.9 )    | (1.8)  | (1.8)    |
| Pretax adjusted earnings <sup>(1)</sup>           | .9                                    | (5.6 )    | 2.7  | (5.1)    |

<sup>(1)</sup> 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.

<sup>(2)</sup> Amounts excluding foreign currency impact on U.S. dollar-denominated items (a non-U.S. GAAP 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<br>Months<br>Ended<br>March 31, |        |
|---|---------------------------------------|--------|
| Ratios to total revenues:                         | 2018                                  | 2017   |
| Benefits and claims, net                          | 59.4 %                                | 60.8 % |
| Adjusted expenses:                                |                                       |        |
| Amortization of deferred policy acquisition costs | 4.4                                   | 4.1    |
| Insurance commissions                             | 4.9                                   | 4.9    |
| Insurance and other expenses                      | 10.2                                  | 9.7    |
| Total adjusted expenses                           | 19.5                                  | 18.7   |
| Pretax adjusted earnings <sup>(1)</sup>           | 21.1                                  | 20.5   |

<sup>(1)</sup> 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.

In the three-month period ended March 31, 2018, the benefit ratio decreased, compared with the same respective period in the prior year, primarily due to the change in mix of first and third sector business as first sector products become paid-up and a de-emphasis on sales of first sector savings products, as well as continued favorable claims experience. In the three-month period ended March 31, 2018, the operating expense ratio increased primarily due to

lower premium income impacted by first sector products becoming paid-up, however expenses incurred remained consistent. In total, the pretax operating profit margin increased in the three-month period ended March 31, 2018, reflecting the decrease in the benefit ratio partially offset by a smaller increase in the expense ratio. For the full year of 2018, the Company anticipates the Aflac Japan pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) to remain stable.



## Aflac Japan Sales

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

| (In millions of dollars and billions of yen) | In Dollars   |         | In Yen       |         |
|--|--------------|---------|--------------|---------|
|  | Three Months |         | Three Months |         |
|  | 2018         | 2017    | 2018         | 2017    |
| New annualized premium sales                 | \$178        | \$194   | 19.2         | 22.1    |
| Increase (decrease) over prior period        | (8.6 )%      | (28.3)% | (13.0)%      | (29.2)% |

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

|                                    | Three Months |        |
|------------------------------------|--------------|--------|
|                                    | 2018         | 2017   |
| Cancer                             | 55.5 %       | 50.2 % |
| Medical                            | 34.0         | 36.8   |
| Income support                     | 2.1          | 2.0    |
| Ordinary life:                     |              |        |
| WAYS                               | .5           | .6     |
| Child endowment                    | .5           | .9     |
| Other ordinary life <sup>(1)</sup> | 6.3          | 8.3    |
| Other                              | 1.1          | 1.2    |
| Total                              | 100.0%       | 100.0% |

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

The foundation of Aflac Japan's product portfolio has been, and continues to be, third sector products, which include cancer, medical and Income Support insurance products. Sales of third sector products on a yen basis decreased 10.4% during the first quarter of 2018, compared with the same respective period in 2017. As expected, third sector sales faced difficult comparisons, due in part to the launch of Aflac Japan's refreshed medical insurance product in the first quarter of 2017 and the planned introduction of the new cancer insurance product following the completion of the Aflac Japan branch conversion. Aflac Japan has been focusing more on promotion of cancer and medical insurance products in this low-interest-rate environment. These products are less interest-rate sensitive and more profitable compared to first sector products. With continued cost pressure on Japan's health care system, the Company expects the need for third sector products will continue to rise in the future and that the medical and cancer insurance products Aflac Japan provides will continue to be an important part of its product portfolio.

Independent corporate agencies and individual agencies contributed 43.3% of total new annualized premium sales for Aflac Japan in the first quarter of 2018, compared with 47.3% for the same period in 2017. Affiliated corporate agencies, which include Japan Post, contributed 52.0% of total new annualized premium sales in the first quarter of 2018, compared with 44.7% in the first quarter of 2017. Japan Post offers Aflac's cancer insurance products in more than 20,000 post offices. The Company believes this alliance with Japan Post has and will further benefit its cancer insurance sales. During the three-month period ended March 31, 2018, Aflac Japan recruited 28 new sales agencies. At March 31, 2018, Aflac Japan was represented by more than 10,600 sales agencies, with approximately 109,000 licensed sales associates employed by those agencies.

At March 31, 2018, Aflac Japan had agreements to sell its products at 372 banks, approximately 90% of the total number of banks in Japan. Bank channel sales accounted for 4.7% of new annualized premium sales in the first quarter of 2018 for Aflac Japan, compared with 8.0% during the first quarter of 2017.

## Aflac Japan Investments

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



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

The following table details the investment purchases for Aflac Japan.

| (In millions)                   | Three Months<br>Ended March<br>31, |         |
|---------------------------------|------------------------------------|---------|
|                                 | 2018                               | 2017    |
| Yen-denominated:                |                                    |         |
| Fixed maturity securities:      |                                    |         |
| Japan government and agencies   | \$3,187                            | \$2,541 |
| Other fixed maturity securities | 412                                | 538     |
| Equity securities               | 99                                 | 149     |
| Total yen-denominated           | \$3,698                            | \$3,228 |
| U.S. dollar-denominated:        |                                    |         |
| Fixed maturity securities:      |                                    |         |
| Other fixed maturity securities | \$40                               | \$58    |
| Infrastructure debt             | 0                                  | 30      |
| Bank loans <sup>(1)</sup>       | 180                                | 0       |
| Equity securities               | 41                                 | 7       |
| Other investments:              |                                    |         |
| Transitional real estate loans  | 1,570                              | 0       |
| Commercial mortgage loans       | 13                                 | 48      |
| Middle market loans             | 117                                | 97      |
| Limited partnerships            | 127                                | 0       |
| Total dollar-denominated        | \$2,088                            | \$240   |
| Total Aflac Japan purchases     | \$5,786                            | \$3,468 |

<sup>(1)</sup> In 2017, represents funding made to unit trust structures

Aflac Japan's yen-denominated private placement portfolio had declined over the last several years as a result of call and maturity activity and no reinvestment activity. However, beginning in 2016 Aflac Japan began to selectively purchase yen-denominated private placements. In the first three months of 2018, Aflac Japan purchased \$162 million of yen-denominated private placements, after purchasing \$1.1 billion for the full year of 2017.

See the Analysis of Financial Condition section of this MD&A for further discussion of these investment programs, and see Notes 3 and 4 of the Notes to the Consolidated Financial Statements and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for more information regarding loans and loan receivables.

The following table presents the results of Aflac Japan's investment yields for the periods ended March 31.

|   | Three Months |         |
|---|--------------|---------|
|   | 2018         | 2017    |
| Total purchases for the period (in millions) <sup>(1)</sup>                                       | \$5,659      | \$3,468 |
| New money yield <sup>(1), (2)</sup>   | 2.54 %       | 1.21 %  |
| Return on average invested assets <sup>(3)</sup>  | 2.26         | 2.36    |
| Portfolio book yield, including U.S. dollar-denominated investments, end of period <sup>(1)</sup> | 2.55 %       | 2.57 %  |

<sup>(1)</sup> Includes fixed maturity securities, loan receivables, equity securities, and excludes alternative investments in limited partnerships

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

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

The increase in the Aflac Japan new money yield in the three-month period ended March 31, 2018 was primarily due to increased allocations to higher yielding U.S. dollar denominated asset classes.

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

#### AFLAC U.S. SEGMENT

##### Aflac U.S. Pretax Adjusted Earnings

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

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

| (In millions)                                     | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| Net premium income                                | \$1,427                            | \$1,390 |
| Net investment income                             | 175                                | 178     |
| Other income                                      | 2                                  | 1       |
| Total adjusted revenues                           | 1,604                              | 1,569   |
| Benefits and claims                               | 697                                | 710     |
| Adjusted expenses:                                |                                    |         |
| Amortization of deferred policy acquisition costs | 146                                | 140     |
| Insurance commissions                             | 147                                | 145     |
| Insurance and other expenses                      | 277                                | 264     |
| Total adjusted expenses                           | 570                                | 549     |
| Total benefits and expenses                       | 1,267                              | 1,259   |
| Pretax adjusted earnings <sup>(1)</sup>           | \$337                              | \$310   |
| Percentage change over previous period:           |                                    |         |
| Net premium income                                | 2.7                                | % 1.7 % |
| Net investment income                             | (1.7 )                             | 2.0     |
| Total adjusted revenues                           | 2.2                                | 1.7     |
| Pretax adjusted earnings <sup>(1)</sup>           | 8.7                                | (6.7 )  |

<sup>(1)</sup> 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.

Annualized premiums in force increased 2.7% to \$6.0 billion at March 31, 2018, compared with \$5.9 billion at March 31, 2017.

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The following table presents a summary of operating ratios for Aflac U.S.

|   | Three<br>Months<br>Ended<br>March 31, |        |
|---|---------------------------------------|--------|
| Ratios to total revenues:                         | 2018                                  | 2017   |
| Benefits and claims                               | 43.5 %                                | 45.2 % |
| Adjusted expenses:                                |                                       |        |
| Amortization of deferred policy acquisition costs | 9.1                                   | 8.9    |
| Insurance commissions                             | 9.2                                   | 9.2    |
| Insurance and other expenses                      | 17.3                                  | 17.0   |
| Total adjusted expenses                           | 35.6                                  | 35.1   |
| Pretax adjusted earnings <sup>(1)</sup>           | 21.0                                  | 19.7   |

<sup>(1)</sup> 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.

The benefit ratio in the three-month period ended March 31, 2018 decreased when compared with the same period in 2017 primarily due to slightly elevated lapses of older individual cancer policies and a few other, primarily cancer, reserve adjustments. For the three-month period ended March 31, 2018, the operating expense ratio increased compared with the same period in 2017, primarily due to planned spending increases reflecting elevated investments in the platform. The pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) increased slightly for the three-month period ended March 31, 2018, compared with the same period in 2017. For the full year of 2018, the Company expects benefit ratios to be relatively stable to 2017 levels, and expects somewhat higher expense ratios reflecting further investments in its U.S. platform. Note that all of these ratios-to-revenue reflect reduced net investment income due to the Company's planned drawdown of excess capital to lower Risk-Based Capital (RBC) ratios. (See the Capital Resources and Liquidity section of this MD&A for further discussion of the planned reduction of RBC.)

#### Aflac U.S. Sales

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

|                                       | Three Months |       |
|---------------------------------------|--------------|-------|
| (In millions)                         | 2018         | 2017  |
| New annualized premium sales          | \$335        | \$333 |
| Increase (decrease) over prior period | .6 %         | 1.7 % |

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

|                              | Three Months |         |
|------------------------------|--------------|---------|
|                              | 2018         | 2017    |
| Accident                     | 29.3 %       | 29.2 %  |
| Short-term disability        | 23.0         | 25.0    |
| Critical care <sup>(1)</sup> | 22.1         | 20.8    |
| Hospital indemnity           | 14.9         | 13.8    |
| Dental/vision                | 5.3          | 5.8     |
| Life                         | 5.4          | 5.4     |
| Total                        | 100.0 %      | 100.0 % |

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

New annualized premium sales for accident insurance, the Aflac U.S. leading product category, increased .6%; short-term disability sales decreased 7.9%; critical care insurance sales (including cancer insurance) increased 6.2%; and hospital indemnity insurance sales increased 9.8% in the first quarter of 2018, compared with the same period in 2017.

The addition of group products has expanded Aflac U.S.'s reach and enabled Aflac U.S. to generate more sales opportunities with larger employers and through broker and sales agent channels. The Company anticipates that the appeal of Aflac U.S. group products will continue to enhance opportunities to connect with larger businesses and their

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employees. The Aflac U.S. portfolio of group and individual products offers businesses the opportunity to give their employees a more valuable and comprehensive selection of benefit options.

In the first quarter of 2018, the Aflac U.S. sales force included approximately 8,300 U.S. agents, including brokers, who were actively producing business on a weekly basis. The Company believes that this average weekly producer equivalent metric allows sales management to monitor progress and needs.

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

Aflac U.S. products provide cash benefits that can be used to help with increasing out-of-pocket medical expenses, help cover household costs, or protect against income and asset loss. Group products and relationships with insurance brokers that handle the larger-case market are helping Aflac U.S. expand its reach by selling to larger businesses. Aflac U.S. is regularly evaluating the marketplace to identify opportunities to bring the most relevant, cost-effective products to customers. The Company believes the need for its products remains very strong, and Aflac U.S. continues to work on enhancing its distribution capabilities to access employers of all sizes, including initiatives that benefit the field force and the broker community. At the same time, the Company is seeking opportunities to leverage its brand strength and attractive product portfolio in the evolving health care environment.

## U.S. Regulatory Environment

### Healthcare Reform Legislation

The Affordable Care Act (ACA), federal health care legislation, was intended to give Americans of all ages and income levels access to comprehensive major medical health insurance and gave the U.S. federal government direct regulatory authority over the business of health insurance. While the ACA was enacted in 2010, the major elements of the law became effective on January 1, 2014. The ACA included major changes to the U.S. health care insurance marketplace. Among other changes, the ACA included an individual medical insurance coverage mandate (which has since been repealed effective 2019 by the Tax Act), provided for penalties on certain employers for failing to provide adequate coverage, created health insurance exchanges, and addressed coverage and exclusions as well as medical loss ratios. It also imposed an excise tax on certain high cost plans, known as the “Cadillac tax,” that is currently scheduled to begin in 2020. The ACA also included changes in government reimbursements and tax credits for individuals and employers and altered federal and state regulation of health insurers. The ACA, as enacted, does not require material changes in the design of the Company's insurance products. However, indirect consequences of the legislation and regulations could present challenges that could potentially have an impact on the Company's sales model, financial condition and results of operations. The United States Congress has considered and may continue to consider legislation that would repeal and replace key provisions of the ACA. There can be no assurance that any legislation affecting the ACA will be passed by Congress, nor as to the ultimate timing or provisions of any such legislation, nor as to the effect of any such legislation on the design or marketability of the Company's insurance products.

President Trump signed an Executive Order in October 2017 directing federal regulatory agencies to review and modify certain regulations issued under the ACA. The stated objectives of the Executive Order are to increase competition and consumer choices in health care markets, and to lower costs for health care, by making association health plans available to more employers, allowing employers to make better use of health reimbursement arrangements, and expanding coverage through short-term insurance. The Executive Order tasks three federal agencies, the Departments of Labor (DOL), Treasury, and Health and Human Services (HHS) with reviewing current rules and developing guidance to implement the order. While the details of any proposed modifications will not be known until further action by the agencies, the Company anticipates that the Executive Order will not have a significant impact on the availability or marketability of its products.



## Tax Reform Legislation

The Tax Act was signed into law on December 22, 2017. Among other things, effective January 1, 2018, the Tax Act reduced the U.S. federal statutory corporate income tax rate from 35% to 21%, eliminated or reduced certain deductions and credits and limited the deductibility of interest expense and executive compensation.

The Tax Act also transitions international corporate taxation from a worldwide system to a modified territorial system, which in light of the current tax treatment of Aflac Japan as a branch has the effect of subjecting the earnings of Aflac Japan to Japan taxation and subjecting the Company's other earnings, including the consolidated earnings of the Parent

Company, to U.S. taxation. The treatment of Aflac Japan as a branch for U.S. tax purposes did not change following the completion of its conversion from a branch structure to a subsidiary structure for legal purposes on April 1, 2018.

Aflac U.S. prices its business on an internal rate of return basis. The Aflac U.S. business has a financial structure that the Company expects to be neutral on a pricing basis from these tax changes. The Aflac U.S. products have high initial costs for marketing, underwriting and administration, which will have less tax relief under the changes and will increase the amount required to invest in new business. In addition, the Company expects that RBC requirements will increase on an after-tax basis, being another source of initial funding required for these products. The tax basis for reserves and DAC may also change the timing of tax payments in an accelerated or unfavorable direction. All of these effects will offset a favorable lower tax rate on income in later years. The overall impact is expected to be neutral on a pricing basis from these various effects.

The Tax Act changes became effective on January 1, 2018. However, because changes to tax rates are accounted for in the period of enactment, during the period ended December 31, 2017, the Company revalued its deferred tax assets and liabilities and recorded, as its current reasonable estimate, a net deferred tax liability reduction of \$1.9 billion as of that date. For information on the effects of the Tax Act during the period ended December 31, 2017, see Note 10 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report. For information on the conversion of Aflac Japan from a branch to a subsidiary, see General Business under Item 1, Business, in the 2017 Annual Report and the Insurance Operations subsection of this MD&A.

#### Dodd-Frank Act

Title VII of the Dodd-Frank Act and regulations issued thereunder, in particular rules to require central clearing for certain types of derivatives, may have an impact on Aflac's derivative activity, including activity on behalf of Aflac Japan. In addition, in 2015 and 2016, six U.S. financial regulators, including the U.S. Commodity Futures Trading Commission (CFTC), issued final rules regarding the exchange of initial margin (IM) and variation margin (VM) for uncleared swaps that impose greater obligations on swap dealers regarding uncleared swaps with certain counterparties, such as Aflac. The requirements of such rules with respect to VM, as well as similar regulations in Europe, became effective on March 1, 2017. Full compliance with respect to all counterparties was required by September 1, 2017. The requirements of such rules with respect to IM are currently being phased in and will be fully implemented by September 1, 2020. In October of 2017, the CFTC and the European Commission each finalized comparability determinations that permit certain swap dealers who are subject to both regulatory margin regimes to take advantage of substituted compliance by complying with one set of margin requirements. The margin requirements are expected to result in more stringent collateral requirements and to affect other aspects of Aflac's derivatives activity.

The Dodd-Frank Act also established a Federal Insurance Office (FIO) under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The FIO does not directly regulate the insurance industry, but under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements reached by the federal government, subject to certain requirements and restrictions. In December 2013, the FIO released a report entitled "How To Modernize And Improve The System Of Insurance Regulation In The United States." The report was required by the Dodd-Frank Act, and included 18 recommended areas of near-term reform for the states, including addressing capital adequacy and safety/soundness issues, reform of insurer resolution practices, and reform of marketplace regulation. The report also listed nine recommended areas for direct federal involvement in insurance regulation. Some of the recommendations outlined in the FIO report released in December 2013 have been implemented. The National Association of Registered Agents and Brokers Reform Act, signed into law in January 2015, simplifies the agent and broker licensing process across state lines. The FIO has also engaged with the supervisory colleges to monitor financial stability and identify regulatory gaps for large national and internationally

active insurers. The President and Congress have stated proposals to reform or repeal certain provisions of the Dodd-Frank Act, some of which have been implemented. The Company cannot predict with any degree of certainty what impact, if any, such proposals will have on Aflac's business, financial condition, or results of operations.

#### Insurance Guaranty Laws

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

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

#### Aflac U.S. Investments

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

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

The following table details the investment purchases for Aflac U.S.

| (In millions)                   | Three<br>Months<br>Ended<br>March 31, |        |
|---------------------------------|---------------------------------------|--------|
|                                 | 2018                                  | 2017   |
| Fixed maturity securities:      |                                       |        |
| Other fixed maturity securities | \$ 119                                | \$ 260 |
| Infrastructure debt             | 16                                    | 5      |
| Equity securities               | 23                                    | 2      |
| Other investments:              |                                       |        |
| Transitional real estate loans  | 73                                    | 0      |
| Middle market loans             | 31                                    | 51     |
| Limited partnerships            | 23                                    | 0      |
| Total Aflac U.S. Purchases      | \$ 285                                | \$ 318 |

See Note 3 of the Notes to the Consolidated Financial Statements and Notes 1 and 3 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for more information regarding loans and loans receivables.

The following table presents the results of Aflac's U.S. investment yields for the periods ended March 31.

|   | Three<br>Months |        |
|---|-----------------|--------|
|   | 2018            | 2017   |
| Total purchases for period (in millions) <sup>(1)</sup> | \$ 262          | \$ 318 |
| New money yield <sup>(1), (2)</sup>                     | 4.69 %          | 4.33 % |
| Return on average invested assets <sup>(3)</sup>        | 5.04            | 4.99   |
| Portfolio book yield, end of period <sup>(1)</sup>      | 5.52 %          | 5.56 % |

<sup>(1)</sup> Includes fixed maturity securities, loan receivables, equity securities, and excludes alternative investments in limited partnerships

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

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

The increase in the Aflac U.S. new money yield for the three-month period ended March 31, 2018 was primarily due to increases in U.S. interest rates as well as increased allocations to higher yielding asset classes. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on the Company's investments.

CORPORATE AND OTHER

In the first quarter of 2018, total revenue increased 17.9% to \$79 million, reflecting an increase in net investment income of \$14 million primarily generated by assets transferred as part of the drawdown of excess capital in the U.S. Pretax adjusted earnings were a loss of \$46 million, compared with a loss of \$52 million a year ago.

## ANALYSIS OF FINANCIAL CONDITION

The Company's financial condition has remained strong in the functional currencies of its operations. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes.

## Investments

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

The following table details investments by segment.

## Investments by Segment

| (In millions)   | Aflac Japan       |                      | Aflac U.S.        |                      |
|---|-------------------|----------------------|-------------------|----------------------|
|   | March 31,<br>2018 | December 31,<br>2017 | March 31,<br>2018 | December 31,<br>2017 |
| Available for sale, fixed maturity securities, at fair value <sup>(1)</sup> | \$74,587          | \$ 69,338            | \$ 13,081         | \$ 13,606            |
| Held to maturity, fixed maturity securities, at amortized cost              | 33,377            | 31,430               | 0                 | 0                    |
| Equity securities <sup>(1)</sup>  | 895               | 868                  | 149               | 92                   |
| Other investments:  |                   |                      |                   |                      |
| Transitional real estate loans  | 2,461             | 986                  | 258               | 249                  |
| Commercial mortgage loans   | 776               | 767                  | 141               | 141                  |
| Middle market loans   | 622               | 527                  | 335               | 332                  |
| Policy loans  | 215               | 198                  | 12                | 12                   |
| Short-term investments  | 0                 | 57                   | 0                 | 0                    |
| Other   | 199               | 98                   | 46                | 31                   |
| Total other investments   | 4,273             | 2,633                | 792               | 765                  |
| Total investments   | 113,132           | 104,269              | 14,022            | 14,463               |
| Cash and cash equivalents   | 1,399             | 636                  | 1,254             | 1,011                |
| Total investments and cash <sup>(2)</sup>                                   | \$ 114,531        | \$ 104,905           | \$ 15,276         | \$ 15,474            |

<sup>(1)</sup> Includes perpetual securities

<sup>(2)</sup> Excludes investments and cash held by the Parent Company and other business segments of \$2,864 in 2018 and \$3,280 in 2017

Cash and cash equivalents totaled \$4.1 billion, or 3.1% of total investments and cash, as of March 31, 2018, compared with \$3.5 billion, or 2.8%, at December 31, 2017. For a discussion of the factors affecting the Company's cash balance, see the Operating Activities, Investing Activities and Financing Activities subsections of this MD&A.

In 2017, Aflac U.S. became a member of the Federal Home Loan Bank of Atlanta (FHLB). As a member, Aflac U.S. can obtain access to low-cost funding and also receive dividends on FHLB stock. Additional FHLB stock purchases are required based upon the amount of funds borrowed from the FHLB. Aflac U.S. will be required to post acceptable

forms of collateral for any borrowings it makes from the FHLB. The FHLB stock purchased by the Company is classified as a restricted investment and is included in other investments in the consolidated balance sheets.

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

The ratings of the Company's securities referenced in the table below are based on the ratings designations provided by major Nationally Recognized Statistical Rating Organizations (NRSROs) (Moody's, S&P and Fitch) or, if not rated, are determined based on the Company's internal analysis of such securities. When the ratings issued by the rating agencies differ, the Company utilizes the second lowest rating when three or more rating agency ratings are available or the lowest rating when only two rating agency ratings are available.

The distributions of debt securities the Company owns, by credit rating, were as follows:

| Composition of Securities Portfolio by Credit Rating |                |            |                   |            |  |
|--|----------------|------------|-------------------|------------|--|
|  | March 31, 2018 |            | December 31, 2017 |            |  |
|  | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |  |
| AAA  | 1.1 %          | 1.0 %      | 1.0 %             | .9 %       |  |
| AA   | 3.8            | 3.8        | 3.9               | 4.0        |  |
| A  | 67.5           | 68.9       | 65.8              | 66.9       |  |
| BBB  | 22.9           | 21.9       | 24.0              | 23.3       |  |
| BB or lower  | 4.7            | 4.4        | 5.3               | 4.9        |  |
| Total  | 100.0 %        | 100.0 %    | 100.0 %           | 100.0 %    |  |

As of March 31, 2018, the Company's direct and indirect exposure to securities in its investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

The following table presents the 10 largest unrealized loss positions in the Company's portfolio as of March 31, 2018.

| (In millions)                     | Credit Rating | Amortized Cost | Fair Value | Unrealized Loss |
|-----------------------------------|---------------|----------------|------------|-----------------|
| Diamond Offshore Drilling Inc.    | B             | \$ 144         | \$97       | \$ (47 )        |
| Noble Holdings International Ltd. | CCC           | 100            | 62         | (38 )           |
| AXA                               | BBB           | 304            | 274        | (30 )           |
| The Sultanate of Oman             | BBB           | 329            | 302        | (27 )           |
| Time Warner Cable Inc.            | BBB           | 123            | 105        | (18 )           |
| Microsoft Corp.                   | AAA           | 234            | 217        | (17 )           |
| Baker Hughes Inc.                 | A             | 124            | 108        | (16 )           |
| Chevron Corp.                     | AA            | 181            | 166        | (15 )           |
| Weatherford Bermuda               | CCC           | 49             | 35         | (14 )           |
| Kraft Heinz Co.                   | BBB           | 139            | 125        | (14 )           |

Generally, declines in fair values can be a result of changes in interest rates, yen/dollar exchange rate, and changes in net spreads driven by a broad market move or a change in the issuer's underlying credit quality. As the Company believes these issuers have the ability to continue making timely payments of principal and interest, the Company views these changes in fair value to be temporary and does not believe it is necessary to impair the carrying value of these securities. See the Unrealized Investment Gains and Losses section in Note 3 of the Notes to the Consolidated Financial Statements for further discussions of unrealized losses related to financial institutions and other corporate investments.

#### Below-Investment-Grade Securities

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





## Below-Investment-Grade Investments

| (In millions)                                       | March 31, 2018 |                |            |                        |
|---|----------------|----------------|------------|------------------------|
|   | Par Value      | Amortized Cost | Fair Value | Unrealized Gain (Loss) |
| Republic of South Africa                            | \$471          | \$ 471         | \$500      | \$ 29                  |
| Investcorp Capital Limited                          | 398            | 398            | 413        | 15                     |
| Navient Corp.                                       | 312            | 165            | 241        | 76                     |
| KLM Royal Dutch Airlines                            | 282            | 207            | 246        | 39                     |
| Republic of Tunisia                                 | 254            | 149            | 182        | 33                     |
| Barclays Bank PLC                                   | 188            | 116            | 171        | 55                     |
| Telecom Italia SpA                                  | 188            | 188            | 252        | 64                     |
| Generalitat de Catalunya                            | 151            | 56             | 146        | 90                     |
| Transnet  | 141            | 141            | 143        | 2                      |
| Diamond Offshore Drilling Inc.                      | 123            | 144            | 97         | (47)                   |
| IKB Deutsche Industriebank AG                       | 122            | 52             | 111        | 59                     |
| Alcoa, Inc.   | 100            | 89             | 104        | 15                     |
| Noble Holdings International Ltd.                   | 94             | 100            | 62         | (38)                   |
| Petrobras International Finance Company             | 84             | 87             | 85         | (2)                    |
| EMC Corp.   | 80             | 82             | 74         | (8)                    |
| Teva Pharmaceuticals                                | 76             | 76             | 67         | (9)                    |
| Teck Resources Ltd.                                 | 70             | 79             | 67         | (12)                   |
| Transocean Inc.                                     | 68             | 73             | 60         | (13)                   |
| CF Industries Inc.                                  | 60             | 60             | 58         | (2)                    |
| Nabors Industries Inc.                              | 59             | 57             | 60         | 3                      |
| National Gas Co. Trinidad and Tobago                | 52             | 50             | 54         | 4                      |
| Votorantim Overseas Trading IV Ltd.                 | 50             | 49             | 54         | 5                      |
| Other Issuers (below \$50 million in par value)     | 280            | 274            | 258        | (16)                   |
| Subtotal <sup>(1)</sup>                             | 3,703          | 3,163          | 3,505      | 342                    |
| Senior secured bank loans                           | 1,652          | 1,712          | 1,654      | (58)                   |
| High yield corporate bonds                          | 528            | 544            | 527        | (17)                   |
| Middle market loans, net of reserves <sup>(2)</sup> | 970            | 957            | 956        | (1)                    |
| Grand Total   | \$6,853        | \$ 6,376       | \$6,642    | \$ 266                 |

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

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

The Company invests in senior secured bank loans and middle market loans primarily to U.S. corporate borrowers, most of which have below-investment-grade ratings. The bank loan and middle market loan investment programs are managed externally by third party firms specializing in this asset class and require a minimum average portfolio rating of low BB and a minimum single investment rating of low B from one of the NRSROs. The objectives of these programs include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates and hedge costs through the acquisition of floating rate assets.

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

Securities by Type of Issuance

The Company has investments in both publicly and privately issued securities. The Company's ability to sell either type of security is a function of overall market liquidity which is impacted by, among other things, the amount of

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outstanding securities of a particular issuer or issuance, trading history of the issue or issuer, overall market conditions, and idiosyncratic events affecting the specific issue or issuer.

The following table details investment securities by type of issuance.

Investment Securities by Type of Issuance

| (In millions)                               | March 31, 2018 |            | December 31, 2017 |            |
|---|----------------|------------|-------------------|------------|
|   | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Publicly issued securities:                 |                |            |                   |            |
| Fixed maturity securities <sup>(1)</sup>    | \$88,739       | \$99,449   | \$81,454          | \$93,025   |
| Equity securities <sup>(1)</sup>            | 1,092          | 1,092      | 831               | 1,006      |
| Total publicly issued                       | 89,831         | 100,541    | 82,285            | 94,031     |
| Privately issued securities: <sup>(2)</sup> |                |            |                   |            |
| Fixed maturity securities <sup>(1)</sup>    | 26,245         | 30,052     | 25,108            | 29,360     |
| Equity securities <sup>(1)</sup>            | 16             | 16         | 15                | 17         |
| Total privately issued                      | 26,261         | 30,068     | 25,123            | 29,377     |
| Total investment securities                 | \$116,092      | \$130,609  | \$107,408         | \$123,408  |

<sup>(1)</sup> Includes perpetual securities

<sup>(2)</sup> Includes Rule 144A securities

The Company held \$1,845 million and \$1,789 million of perpetual securities at fair value (\$1,577 million and \$1,462 million at amortized cost) as of March 31, 2018 and December 31, 2017, respectively. The perpetual securities the Company holds were largely issued by banks that are systemically important to the financial markets of the sovereign country of domicile of the issuer. Generally, the Company believes regulatory changes made in the banking industry following the Global Financial Crisis and the European Sovereign Crisis, including increased capital and liquidity requirements and a reduction of business risk, have improved overall bank creditworthiness. However, bank capital securities may be subject to varying bail-in/resolution regimes in their home countries, which may include conversion or write-down provisions when bank regulators determine that the institution has reached the point of non-viability. Such actions could result in lower cash flows and ratings downgrades of the affected securities, which in turn could result in a reduction of fair value of the securities and increase the Company's regulatory capital requirements. These factors are an integral part of the Company's credit review process.

The following table details the Company's privately issued investment securities.

Privately Issued Securities

| (Amortized cost, in millions)  | March 31, 2018 |   | December 31, 2017 |   |
|--|----------------|---|-------------------|---|
| Privately issued securities as a percentage of total investment securities                     | 22.6           | % | 23.4              | % |
| Privately issued securities held by Aflac Japan  | \$23,468       |   | \$22,354          |   |
| Privately issued securities held by Aflac Japan as a percentage of total investment securities | 20.2           | % | 20.8              | % |

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

| (Amortized cost, in millions)   | March 31, 2018 |   | December 31, 2017 |   |
|---|----------------|---|-------------------|---|
| Privately issued reverse-dual currency securities                         | \$6,030        |   | \$5,669           |   |
| Publicly issued collateral structured as reverse-dual currency securities | 1,478          |   | 1,390             |   |
| Total reverse-dual currency securities                                    | \$7,508        |   | \$7,059           |   |
|   | 6.5            | % | 6.6               | % |

Reverse-dual currency securities as a percentage of total investment securities

(1) Principal payments in yen and interest payments in dollars

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

### Hedging Activities

#### Aflac Japan's U.S. Dollar-Denominated Investments

Most of Aflac Japan's cash, investments, and liabilities are yen-denominated. However, Aflac Japan also owns U.S. dollar-denominated investments, a portion of which Aflac Japan hedges with foreign currency forwards and options. The currency risk being hedged is generally based on fair value of hedged investments. The following table summarizes the U.S. dollar-denominated investments held by Aflac Japan.

| (In millions)   | March 31,<br>2018 |               | December 31,<br>2017 |               |
|---|-------------------|---------------|----------------------|---------------|
|   | Amortize<br>Cost  | Fair<br>Value | Amortize<br>Cost     | Fair<br>Value |
| Available-for-sale securities:                                  |                   |               |                      |               |
| Fixed maturity securities (excluding bank loans) <sup>(1)</sup> | \$20,329          | \$20,928      | \$19,622             | \$21,863      |
| Fixed maturity securities - bank loans (floating rate)          | 1,930             | 1,858         | 1,936                | 1,865         |
| Equity securities <sup>(1)</sup>                                | 185               | 185           | 147                  | 173           |
| Other investments:  |                   |               |                      |               |
| Transitional real estate loans (floating rate)                  | 2,461             | 2,470         | 986                  | 984           |
| Commercial mortgage loans                                       | 776               | 751           | 767                  | 753           |
| Middle market loans (floating rate)                             | 622               | 625           | 527                  | 530           |
| Alternative investments   | 199               | 199           | 97                   | 97            |
| Total U.S. dollar-denominated investments in Aflac Japan        | \$26,502          | \$27,016      | \$24,082             | \$26,265      |

<sup>(1)</sup> Includes perpetual securities

As of March 31, 2018, Aflac Japan had \$9.9 billion outstanding notional amounts of foreign currency forwards and \$9.4 billion outstanding notional amounts of foreign currency options, of which none were in-the-money, hedging the U.S. dollar-denominated investments, resulting in the unhedged fair value of the U.S. dollar Japan portfolio of \$15.0 billion, excluding certain U.S. dollar-denominated assets shown in the table above as a result of consolidation that have been economically converted to yen using derivatives.

Foreign exchange derivatives used for hedging are periodically settled, which results in cash receipt or payment at maturity or early termination. The Company had net cash settlements of \$1 million and \$163 million for the three-month periods ended March 31, 2018 and 2017, respectively, associated with the currency derivatives used for hedging Aflac Japan's U.S. dollar-denominated investments.

For additional discussion of the risks associated with the foreign currency exposure refer to the Currency Risk section in Item 7A., Quantitative and Qualitative Disclosures about Market Risk, and the Risk Factor sections titled "The

Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate" and "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity" in the 2017 Annual Report. For discussion of the Company's view on the stressed economic surplus in Aflac Japan, refer to the Investments subsection within Item 1., Business, in the 2017 Annual Report.

The following table presents metrics related to hedge costs for the periods ended March 31.

#### Hedge Cost Metrics<sup>(1)</sup>

|  | Three<br>Months |      |
|--|-----------------|------|
|  | 2018            | 2017 |
| FX forward notional at end of period (in billions of dollars) <sup>(2)</sup> | 9.9             | 10.7 |
| Weighted average original tenor (in months) <sup>(3)</sup>                   | 30.9            | 27.4 |
| Weighted average remaining tenor (in months) <sup>(4)</sup>                  | 23.6            | 23.8 |
| Annualized amortized hedge costs (in basis points) <sup>(5)</sup>            | 225             | 184  |
| Amortized hedge costs for period (in millions of dollars)                    | (55)            | (52) |

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

<sup>(2)</sup> Notional is reported net of any offsetting positions

<sup>(3)</sup> Tenor based on derivative's original execution date to settlement date

<sup>(4)</sup> Tenor based on period reporting date to settlement date

<sup>(5)</sup> Based on annualized amortized hedge costs divided by average FX forward notional for the period

#### 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 Company has taken several courses of action. First, Aflac Japan maintains certain unhedged U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of the Company's investment in Aflac Japan. Second, the Company has designated the majority of the Parent Company's yen-denominated liabilities (notes payable and loans) as non-derivative hedging instruments and certain foreign currency forwards and options as derivative hedges of the Company's net investment in Aflac Japan. The Company makes its accounting designation of net investment hedge at the beginning of each quarter. If the total of the designated Parent Company non-derivative and derivative notional is equal to or less than the Company's net investment in Aflac Japan, the hedge is deemed to be effective, and the currency exchange effect on the yen-denominated liabilities and the change in estimated fair value of the derivatives are reported in the unrealized foreign currency component of other comprehensive income. The Company's net investment hedge was effective during the three-month periods ended March 31, 2018 and 2017, respectively.

For the hedge of the Company's net investment in Aflac Japan, the Company has designated certain of the Parent Company's yen-denominated liabilities and foreign currency forwards and options as accounting hedges of its net investment in Aflac Japan. The Company's consolidated yen-denominated net asset position was partially hedged at \$1.4 billion as of March 31, 2018, with hedging instruments comprised completely of yen-denominated debt, compared with a hedge of \$1.8 billion as of December 31, 2017, with hedging instruments comprised of \$1.4 billion of yen-denominated debt and \$.4 billion of foreign currency forwards and options.

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

#### Deferred Policy Acquisition Costs

The following table presents deferred policy acquisition costs by segment.

| (In millions) | March 31, December 31, |          | % Change             |
|---------------|------------------------|----------|----------------------|
|               | 2018                   | 2017     |                      |
| Aflac Japan   | \$ 6,577               | \$ 6,150 | 6.9 % <sup>(1)</sup> |
| Aflac U.S.    | 3,356                  | 3,355    | 0.0                  |
| Total         | \$ 9,933               | \$ 9,505 | 4.5 %                |

<sup>(1)</sup>Aflac Japan's deferred policy acquisition costs increased .5% in yen during the three months ended March 31, 2018.



See Note 6 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for additional information on the Company's deferred policy acquisition costs.

## Policy Liabilities

The following table presents policy liabilities by segment.

| (In millions)                            | March 31,<br>2018 | December 31,<br>2017 | % Change             |
|--|-------------------|----------------------|----------------------|
| Aflac Japan                              | \$95,351          | \$ 89,132            | 7.0 % <sup>(1)</sup> |
| Aflac U.S.                               | 10,692            | 10,625               | .6                   |
| Other                                    | 160               | 138                  | 15.9                 |
| Intercompany eliminations <sup>(2)</sup> | (804 )            | (748 )               | 7.5                  |
| Total                                    | \$ 105,399        | \$ 99,147            | 6.3 %                |

<sup>(1)</sup> Aflac Japan's policy liabilities increased .6% in yen during the three months ended March 31, 2018.

<sup>(2)</sup> Elimination entry necessary due to recapture of a portion of policy liabilities ceded externally, as a result of the reinsurance retrocession transaction as described in Note 7 of the Notes to the Consolidated Financial Statements.

## Notes Payable

Notes payable totaled \$5.4 billion at March 31, 2018, compared with \$5.3 billion at December 31, 2017.

See Note 8 of the accompanying Notes to the Consolidated Financial Statements for additional information on the Company's notes payable.

## Benefit Plans

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on the Company's Japanese and U.S. plans, see Note 12 of the accompanying Notes to the Consolidated Financial Statements and Note 14 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

## Policyholder Protection

### Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection Corporation (LIPPC) included government fiscal measures supporting the LIPPC. On March 30, 2012, the Diet approved legislation to enhance the stability of the LIPPC by extending the government's fiscal support of the LIPPC through March 2017. On November 25, 2016, Japan's Diet passed legislation that again extends the government's fiscal support of the LIPPC through March 2022. Effective April 2014, the annual LIPPC contribution amount for the total life industry was lowered from 40 billion yen to 33 billion yen.

## Guaranty Fund Assessments

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. The amount of the guaranty fund assessment that an insurer is assessed is based on its proportionate share of premiums in that state.

As of December 31, 2017, the Company has estimated and recognized the impact of its share of guaranty fund assessments resulting from the liquidation of a long-term care insurer. See Note 15 of the Notes to the Consolidated Financial Statements for further information on the assessment.

## Off-Balance Sheet Arrangements

As of March 31, 2018, the Company had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 15 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for information on material unconditional purchase obligations that are not recorded on the Company's balance sheet.

## CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following table presents the amounts provided for the three-month periods ending March 31.

| Liquidity Provided by Aflac to Parent Company |       |       |
|---|-------|-------|
| (In millions)                                 | 2018  | 2017  |
| Dividends declared or paid by Aflac           | \$100 | \$400 |
| Management fees paid by Aflac                 | 96    | 80    |

The primary uses of cash by the Parent Company are shareholder dividends, the repurchase of its common stock and interest on its outstanding indebtedness and operating expenses. The Parent Company's sources and uses of cash are reasonably predictable and are not expected to change materially in the future. For additional information, see the Financing Activities subsection of this MD&A.

The Parent Company also accesses debt security markets to provide additional sources of capital. In August 2016, the Company filed a shelf registration statement with Japanese regulatory authorities that allows the Company to conduct public offerings of bonds in Japan, including yen-denominated Samurai notes, up to 200 billion yen or its equivalent through August 2018. The shelf registration statement is for possible public offerings in Japan, but the bonds issued under the shelf may be transferred by the bondholders to U.S. persons in compliance with U.S. law. The Company filed a shelf registration statement with the SEC in May 2015 that allows the Company to issue an indefinite amount of senior and subordinated debt, in one or more series, from time to time until May 2018. The Company believes outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 8 of the Notes to the Consolidated Financial Statements.

The principal sources of cash for the Company's insurance operations are premiums and investment income. The primary uses of cash by the Company's insurance operations are investments, policy claims, commissions, operating expenses, income taxes and payments to the Parent Company for management fees and dividends. Both the sources and uses of cash are reasonably predictable.

When making an investment decision, the Company's first consideration is based on product needs. The Company's investment objectives provide for liquidity through the purchase of investment-grade debt securities. These objectives also take into account duration matching, and because of the long-term nature of the Company's business, the Company has adequate time to react to changing cash flow needs.

As a result of policyholder aging, claims payments are expected to gradually increase over the life of a policy. Therefore, future policy benefit reserves are accumulated in the early years of a policy and are designed to help fund future claims payments. The Company expect its future cash flows from premiums and its investment portfolio to be sufficient to meet its cash needs for benefits and expenses.

As of March 31, 2018, the Parent Company and Aflac had four lines of credit with third parties as well as two intercompany lines of credit. For additional information on the Company's lines of credit, see Note 8 of the Notes to the Consolidated Financial Statements.

As part of the FHLB financing arrangement as discussed previously in the Analysis of Financial Condition section of this MD&A, Aflac U.S. borrowed and repaid \$52 million during the first quarter of 2018.

The Company's financial statements convey its financing arrangements during the periods presented. The Company has not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in its balance sheet or disclosed therein. The Company was in compliance with all of the covenants of its

notes payable and lines of credit at March 31, 2018. The Company has not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial assets that have been accounted for as a sale under applicable accounting standards, including securities lending transactions. See Notes 3 and 4 of the Notes to the Consolidated Financial Statements and Notes 1, 3, and 4 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for more information on the Company's securities lending and derivative activities. With the exception of disclosed activities in those referenced footnotes, the Company does not have a known trend, demand, commitment, event or uncertainty that would reasonably result in its liquidity increasing or decreasing by a material amount. The Company's

cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

#### Consolidated Cash Flows

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

When the yen strengthens, translating yen into dollars causes more dollars to be reported.

The following table summarizes consolidated cash flows by activity for the three-month periods ended March 31.

| (In millions)                                | 2018    | 2017     |
|--|---------|----------|
| Operating activities                         | \$1,238 | \$1,757  |
| Investing activities                         | (199 )  | (1,527 ) |
| Financing activities                         | (473 )  | (876 )   |
| Exchange effect on cash and cash equivalents | 23      | (8 )     |
| Net change in cash and cash equivalents      | \$589   | \$(654 ) |

#### Operating Activities

The following table summarizes operating cash flows by source for the three-month periods ended March 31.

| (In millions)                   | 2018    | 2017    |
|---------------------------------|---------|---------|
| Aflac Japan                     | \$1,062 | \$1,311 |
| Aflac U.S. and other operations | 176     | 446     |
| Total                           | \$1,238 | \$1,757 |

#### Investing Activities

Operating cash flow is primarily used to purchase investments to meet future policy obligations. The following table summarizes investing cash flows by source for the three-month periods ended March 31.

| (In millions)                   | 2018    | 2017      |
|---------------------------------|---------|-----------|
| Aflac Japan                     | \$181   | \$(1,191) |
| Aflac U.S. and other operations | (380 )  | (336 )    |
| Total                           | \$(199) | \$(1,527) |

The significant increase in cash inflows associated with Aflac Japan is driven by the inflows associated with cash collateral received from securities lending activities of over \$4 billion which is only partially offset by the investment purchases of bonds and other investments.

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

#### Financing Activities

Consolidated cash used by financing activities was \$473 million in the first three months of 2018, compared with consolidated cash used by financing activities of \$876 million for the same period of 2017.

See the preceding discussion in this Capital Resources and Liquidity section of MD&A for details and any outstanding balances as of March 31, 2018, for the Company's lines of credit and FHLB financing arrangement.

The Company was in compliance with all of the covenants of its notes payable and lines of credit at March 31, 2018.

Cash returned to shareholders through dividends and treasury stock purchases was \$491 million during the three-month period ended March 31, 2018, compared with \$776 million during the three-month period ended March 31, 2017.

The following tables present a summary of treasury stock activity during the three-month periods ended March 31.

| Treasury Stock Purchased                         |        |          |
|--|--------|----------|
| (In millions of dollars and thousands of shares) | 2018   | 2017     |
| Treasury stock purchases                         | \$ 296 | \$ 1,220 |
| Number of shares purchased:                      |        |          |
| Open market                                      | 6,640  | 16,986   |
| Other  | 315    | 288      |
| Total shares purchased                           | 6,955  | 17,274   |

| Treasury Stock Issued                            |       |       |
|--|-------|-------|
| (In millions of dollars and thousands of shares) | 2018  | 2017  |
| Stock issued from treasury:                      |       |       |
| Cash financing                                   | \$ 14 | \$ 22 |
| Noncash financing                                | 15    | 28    |
| Total stock issued from treasury                 | \$ 29 | \$ 50 |
| Number of shares issued                          | 788   | 790   |

During the first three months of 2018, the Company repurchased 6.6 million shares of its common stock for \$296 million as part of its share repurchase program. As of March 31, 2018, a remaining balance of 91.4 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors. The Company currently plans to repurchase a total of \$1.1 billion to \$1.4 billion of its common stock in 2018, assuming stable capital conditions and the absence of compelling alternatives.

Cash dividends paid to shareholders were \$.26 per share in the first quarter of 2018, compared with \$.22 per share in the first quarter of 2017. The following table presents the dividend activity for the three-month periods ended March 31.

| (In millions)                                 | 2018  | 2017  |
|---|-------|-------|
| Dividends paid in cash                        | \$195 | \$166 |
| Dividends through issuance of treasury shares | 8     | 7     |
| Total dividends to shareholders               | \$203 | \$173 |

In April 2018, the board of directors declared the second quarter cash dividend of \$.26 per share, an increase of 18.2% compared with the same period in 2017. The dividend is payable on June 1, 2018 to shareholders of record at the close of business on May 23, 2018.

#### Regulatory Restrictions

Aflac and CAIC are domiciled in Nebraska and are subject to its regulations. Subsequent to the Japan branch conversion to a subsidiary, Aflac Japan is domiciled in Japan and subject to local regulations. See further discussion below. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the National Association of Insurance Commissioners (NAIC), as modified by the insurance department in the insurance

company's state of domicile. Statutory accounting rules are different from U.S. GAAP and are intended to emphasize policyholder protection and company solvency. Similar laws apply in New York, the domiciliary jurisdiction of Aflac's New York insurance subsidiary.



The continued long-term growth of the Company's business may require increases in the statutory capital and surplus of its insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings, capital contributions by the Parent Company from funds generated through debt or equity offerings, or reinsurance transactions. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. As of March 31, 2018, Aflac's RBC ratio remains high and reflects a strong capital and surplus position. The U.S. Tax Act will have a negative impact on Aflac's U.S.-only RBC ratio. This reduction occurs as a result of writing down deferred tax assets and the increase in required capital due to the reduction in tax rates. However, Aflac expects to recover from this negative impact over a period of three to five years through additional statutory income, assuming that the additional income is fully retained.

The maximum amount of dividends that can be paid to the Parent Company by Aflac without prior approval of Nebraska's director of insurance is the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2018 in excess of \$2.6 billion would be considered extraordinary and require such approval. Subsequent to the Japan branch conversion to a subsidiary, the Company intends to use extraordinary dividends as needed to actively manage to appropriate RBC levels that are lower yet sufficient to maintain ratings and support prudent capital management.

In addition to limitations and restrictions imposed by U.S. insurance regulators, after the Japan branch conversion as of April 1, 2018, the new Japan subsidiary is required to meet certain financial criteria as governed by Japanese corporate law in order to provide dividends to the Parent Company. Under these criteria, dividend capacity at the Japan subsidiary is defined as retained earnings plus other capital reserve less net after-tax unrealized losses on available-for-sale securities. These dividend capacity requirements are generally aligned with the solvency margin ratio (SMR). Japan's Financial Services Agency (FSA) maintains its own solvency standard which is quantified through the SMR. Aflac Japan's SMR is sensitive to interest rate, credit spread, and foreign exchange rate changes, therefore the Company continues to evaluate alternatives for reducing this sensitivity. In the event of a rapid change in market risk conditions causing SMR to decline, the Company has two senior unsecured revolving credit facilities in the amounts of 100 billion yen and 55 billion yen, respectively, and a committed reinsurance facility in the amount of approximately 110 billion yen as a capital contingency plan. (See Notes 7 and 8 of the Notes to the Consolidated Financial Statements for additional information.)

The Company has already undertaken various measures to mitigate the sensitivity of Aflac Japan's SMR. For example, the Company employs policy reserve matching (PRM) investment strategies, which is a Japan-specific accounting treatment that reduces SMR interest rate sensitivity since PRM-designated investments are carried at amortized cost consistent with corresponding liabilities. In order for a PRM-designated asset to be held at amortized cost, there are certain criteria that must be maintained. The primary criteria relates to maintaining the duration of designated assets and liabilities within a specified tolerance range. If the duration difference is not maintained within the specified range without rebalancing, then a certain portion of the assets must be re-classified as available for sale and held at fair value with any associated unrealized gain or loss recorded in surplus. To rebalance, assets may need to be sold in order to maintain the duration with the specified range, resulting in realizing a gain or loss from the sale. For U.S. GAAP, PRM investments are categorized as available-for-sale. The Company also uses foreign currency derivatives to hedge a portion of its U.S. dollar-denominated investments. (See Notes 3, 4 and 8 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for additional information on the Company's investment strategies, hedging activities, and reinsurance, respectively.)

As of March 31, 2018, Aflac Japan's SMR remains high and reflects a strong capital and surplus position. As part of the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018, the Company expects an accounting-driven decline in the SMR of approximately 130 points, based on the SMR as of December 31, 2017.

Subject to regulatory approval, the Company expects to be able to pay dividends out of certain accounts, thus restoring this accounting impact over an estimated three-year period. The FSA has been conducting field testing with the insurance industry concerning the introduction of an economic value-based solvency regime. The field testing will assist the FSA in determining if an economic value-based solvency regime in Japan will be appropriate for the insurance industry.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following table details Aflac Japan remittances for the three-month periods ended March 31.

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## Aflac Japan Remittances

| (In millions of dollars and billions of yen)              | 2018  | 2017  |
|---|-------|-------|
| Aflac Japan management fees paid to Parent Company        | \$ 40 | \$ 28 |
| Expenses allocated to Aflac Japan (in dollars)            | 8     | 32    |
| Aflac Japan profit remittances to Aflac U.S. (in dollars) | 312   | 275   |
| Aflac Japan profit remittances to Aflac U.S. (in yen)     | 33.4  | 31.3  |

The Company had foreign exchange forwards and options as part of an economic hedge of foreign exchange risk on 30.0 billion yen of profit repatriation received from Aflac Japan in the first quarter of 2018, resulting in \$2 million more funds received when the yen were exchanged into dollars relative to what would have been received at the then-current exchange rate.

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 13 of the Notes to the Consolidated Financial Statements and the Regulatory Restrictions subsection of MD&A, both in the 2017 Annual Report.

## Other

For information regarding commitments and contingent liabilities, see Note 13 of the Notes to the Consolidated Financial Statements.

## Additional Information

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

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed primarily to the following types of market risks: currency risk, interest rate risk, credit risk and equity risk. The Company regularly monitors its market risks and uses a variety of strategies to manage its exposure to these market risks. A description of the Company's market risk exposures may be found under "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A, of the 2017 Annual Report. There have been no material changes to the Company's market risk exposures from the market risk exposures previously disclosed in the 2017 Annual Report.

## Item 4. Controls and Procedures

## Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

## Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the first fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, with the exception of the

new and revised internal controls related to the implementation of the upgrade to a newer version of the Company's financial accounting and reporting consolidation system effective January 2018. The Company's management believes that the implementation of this system has improved and enhanced its internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On December 14, 2017, three former independent sales contractors filed a shareholders derivative complaint in the U.S. District Court for the Southern District of New York naming the Parent Company as nominal defendant and the Parent Company's Chairman and Chief Executive Officer, several of its directors, and a former officer and director as defendants. The complaint alleges breaches of fiduciary duty, misstatements and omissions in the Company's public disclosures, and insider trading. The Company's Board of Directors had previously established a special litigation committee (SLC) in July 2017 to investigate certain allegations underlying the derivative action. The SLC issued a report of its investigation in September 2017 and another report in February 2018, each of which determined that it was not in the best interests of the Company to pursue the action demanded by the shareholders. An amended complaint was filed on January 31, 2018. On February 12, 2018, this litigation was transferred to the U.S. District Court for the Middle District of Georgia. The Company has filed a motion to dismiss based upon the conclusions of the special committee in its reports. The SLC issued a third report of its investigation in May 2018 regarding certain additional allegations raised in the amended complaint, in which the SLC also determined that it was not in the best interests of the Company to pursue the action demanded by the shareholders. The Company believes the outcome of this litigation will not have a material adverse effect on its financial position, results of operation or cash flows.

On February 9, 2018, a putative class action complaint was filed in the U.S. District Court for the Middle District of Georgia, purportedly on behalf of purchasers of Aflac Incorporated stock between February 27, 2013 and January 11, 2018. The complaint names the Parent Company and certain officers as defendants and alleges the Company's public disclosures were misleading in relation to purported recruiting practices, misclassification of independent contractors, manipulation of a sales metric, and failure to adhere to the Company's Code of Business Conduct and Ethics and corporate social responsibility standards. The complaint seeks class action certification, an unspecified amount for compensatory damages and interest, costs and expenses, and other unspecified equitable or injunctive relief. The Company believes that this lawsuit is without merit. The Company intends to vigorously defend against the allegations made in the complaint and to file a motion to dismiss the action. The Company believes the outcome of this litigation will not have a material adverse effect on its financial position, results of operation or cash flows.

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

### Item 1A. Risk Factors

The following should be read in conjunction with and supplements and amends the risk factors that may affect the Company's business or operations described under "Risk Factors" in Part I, Item 1A. of the Company's 2017 Annual Report on Form 10-K for the year ended December 31, 2017.

Failure to implement the planned conversion of the Japan branch to a legal subsidiary could adversely affect the Company's business, results of operations, or financial position.

The implementation of the Japan branch conversion to a legal subsidiary, which the Company executed in the second quarter of 2018, is a complex undertaking and involves a number of risks, including information technology-related delays and problems, personnel loss, regulatory law changes, legal and regulatory requirements, changes to the

Company's operations, and management distraction. The transaction may entail modifications of certain aspects of the Company's operations, which could result in additional costs or reduce net earnings. Any of these risks, if realized, could result in a material adverse effect on the Company's business, results of operations or financial condition.

The Japan branch conversion is conditioned on the continued validity of a private letter ruling that the Company received from the U.S. Internal Revenue Service (IRS). Notwithstanding the receipt of the private letter ruling, the IRS could determine that the Japan branch conversion should be treated as a taxable transaction. For example, the IRS could conclude that the representations, assumptions and covenants on which the private letter ruling is based are untrue or not accurate. If the IRS made such a conclusion, the Japan branch conversion could be treated as a taxable transaction, and

the Company could incur significant U.S. federal income tax liabilities or litigation costs to defend the tax treatment by the IRS.

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

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

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

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

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

The collection, maintenance, use, protection, disclosure and disposal of individually identifiable data by the Company's businesses are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the unauthorized access and acquisition of personal information and the use and disclosure of individually identifiable health data to the extent

they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act of 1999 (GLBA) and in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA also requires that the Company imposes privacy and security requirements on its business associates (as such term is defined in the HIPAA regulations). With regard to personal information obtained from policyholders, the insured, or others, Aflac Japan is regulated in Japan by the Act on the Protection of Personal Information (APPI) and guidelines issued by FSA and other governmental authorities.

The Company relies on third parties, and in some cases subcontractors, to provide information technology and data services. It also relies on various parties in its distribution channels including agencies, banks and Japan Post in Japan, as well as sales associates and brokers in the United States, to provide services to prospective and existing customers. Although



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

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

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

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

During the first three months of 2018, the Company repurchased shares of its common stock as follows:

| Period                   | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|----------------------------------|------------------------------|--|--|
| January 1 - January 31   | 2,370,284                        | \$ 44.31                     | 2,370,284  | 95,626,488   |
| February 1 - February 28 | 2,349,600                        | 44.70                        | 2,349,600  | 93,276,888   |
| March 1 - March 31       | 1,937,161                        | 44.49                        | 1,920,400  | 91,356,488   |
| Total                    | 6,657,045 <sup>(2)</sup>         | \$ 44.50                     | 6,640,284  | 91,356,488 <sup>(1)</sup>  |

<sup>(1)</sup>The total remaining shares available for purchase at March 31, 2018, consisted of 11,356,488 shares related to an 80,000,000 share repurchase authorization by the board of directors announced in 2015 and 80,000,000 shares related

to an 80,000,000 share repurchase authorization by the board of directors announced in 2017.

<sup>(2)</sup>During the first three months of 2018, 16,761 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

Item 6. Exhibits

(a) EXHIBIT INDEX

- 3.0 - Articles of Incorporation, as amended – incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended and restated – incorporated by reference from Form 8-K dated November 10, 2015, Exhibit 3.1 (File No. 001-07434).
- 4.0 - There are no instruments with respect to long-term debt not being registered in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 4.1 - Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee – incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.2 - Second Supplemental Indenture, dated as of December 17, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.900% Senior Note due 2039) – incorporated by reference from Form 8-K dated December 14, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.3 - Third Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.45% Senior Note due 2040) - incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.1 (File No. 001-07434).
- 4.4 - Fifth Supplemental Indenture, dated as of February 10, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.65% Senior Note due 2017) - incorporated by reference from Form 8-K dated February 8, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.5 - Sixth Supplemental Indenture, dated as of February 10, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.00% Senior Note due 2022) - incorporated by reference from Form 8-K dated February 8, 2012, Exhibit 4.2 (File No. 001-07434).
- 4.6 - Seventh Supplemental Indenture, dated as of July 31, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.65% Senior Note due 2017) - incorporated by reference from Form 8-K dated July 27, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.7 - Eighth Supplemental Indenture, dated as of June 10, 2013, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.625% Senior Note due 2023) - incorporated by reference from Form 8-K dated June 10, 2013, Exhibit 4.1 (File No. 001-07434).
- 4.8 - Ninth Supplemental Indenture, dated as of November 7, 2014, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.625% Senior Note due 2024) - incorporated by reference from Form 8-K dated November 4, 2014, Exhibit 4.1 (File No. 001-07434).
- 4.9 - Tenth Supplemental Indenture, dated as of March 12, 2015, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.40% Senior Note due 2020) - incorporated by reference from Form 8-K dated March 9, 2015, Exhibit 4.1 (File No. 001-07434).
- 4.10 - Eleventh Supplemental Indenture, dated as of March 12, 2015, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.25% Senior Note due 2025) - incorporated by reference from Form 8-K dated March 9, 2015, Exhibit 4.2 (File No. 001-07434).
- 4.11 -

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Twelfth Supplemental Indenture, dated as of September 19, 2016, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.875% Senior Note due 2026) - incorporated by reference from Form 8-K dated September 19, 2016, Exhibit 4.1 (File No. 001-07434).

4.12 - Thirteenth Supplemental Indenture, dated as of September 19, 2016, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.000% Senior Note due 2046) - incorporated by reference from Form 8-K dated September 19, 2016, Exhibit 4.2 (File No. 001-07434).

4.13 - Fourteenth Supplemental Indenture, dated as of January 25, 2017, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of .932% Senior Note due 2027) – incorporated by reference from Form 8-K dated January 25, 2017, Exhibit 4.1 (File No. 001-07434).

- 4.14 - Subordinated Indenture, dated as of September 26, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee - incorporated by reference from Form 8-K dated September 26, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.15 - First Supplemental Indenture, dated as of September 26, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 5.50% Subordinated Debenture due 2052) - incorporated by reference from Form 8-K dated September 26, 2012, Exhibit 4.2 (File No. 001-07434).
- 4.16 - Second Supplemental Indenture, dated as of October 23, 2017, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.108% Subordinated Debenture due 2047) - incorporated by reference from Form 8-K dated October 23, 2017, Exhibit 4.1 (File No. 001-07434).
- 10.1 - Notice of time based restricted stock unit and restricted stock unit agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012.
- 10.2 - 2017 Notice of performance based restricted stock and restricted stock award agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012.
- 10.3 - Notice of time based restricted stock unit and restricted stock unit agreement under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017.
- 10.4 - 2018 Notice of performance based restricted stock and restricted stock award agreement under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017.
- 10.5 - Aflac Incorporated Employment Agreement with Charles D. Lake II, dated January 1, 2018.
- 10.6 - Aflac Incorporated Employment Agreement with Audrey Boone Tillman, dated June 11, 2015.
- 15 - Letter from KPMG LLP regarding unaudited interim financial information.
- 31.1 - Certification of CEO dated May 3, 2018, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 31.2 - Certification of CFO dated May 3, 2018, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 32 - Certification of CEO and CFO dated May 3, 2018, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS - XBRL Instance Document.<sup>(1)</sup>
- 101.SCH - XBRL Taxonomy Extension Schema.
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB - XBRL Taxonomy Extension Label Linkbase.
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase.

(1) Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language):  
 (i) Consolidated Statements of

Earnings,  
(ii) Consolidated  
Statements of  
Comprehensive  
Income (Loss),  
(iii) Consolidated  
Balance Sheets,  
(iv) Consolidated  
Statements of  
Shareholders'  
Equity,  
(v) Consolidated  
Statements of  
Cash Flows,  
(vi) Notes to the  
Consolidated  
Financial  
Statements

Management  
contract or  
compensatory  
plan or  
\* arrangement  
required to be  
filed as an exhibit  
pursuant to Item 6  
of this report

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Aflac Incorporated

May 3, 2018 /s/ Frederick J. Crawford  
(Frederick J. Crawford)  
Executive Vice President,  
Chief Financial Officer

May 3, 2018 /s/ June Howard  
(June Howard)  
Senior Vice President, Financial Services; Chief Accounting Officer