AFLAC INC
Form 10-K
February 25, 2019

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generally entitled to one vote per share until they have been held by the same beneficial owner for a continuous period of 48 months, at which time they become entitled to 10 votes per
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an interest rate per annum equal to the Tokyo interbank market rate (TIBOR), or alternate TIBOR, if applicable, plus the applicable TIBOR margin and has a five-year maturity. The applicable margin ranges between .20% and .60%, depending on the Parent Company's debt ratings as of the date of determination. bears an interest rate per annum equal to TIBOR, or alternate TIBOR, if applicable, plus the applicable TIBOR margin and has a seven-year maturity. The applicable margin ranges between .35% and .75%, depending on the Parent Company's debt ratings as of the date of determination. The debentures bear interest at an initial rate of 2.108% per annum through October 22, 2027, or earlier redemption. Thereafter, the rate of the interest of the debentures will be reset every five years at a rate of interest equal to the then-current JPY 5-year Swap Offered Rate plus 205 basis points.The debentures are redeemable (i) at any time, in whole but not in part, upon the occurrence of certain tax events or certain rating agency events, as specified in the indenture governing the terms of the debentures or (ii) on or after October?23, 2027, in whole or in part, at a redemption price equal to their principal amount plus accrued and unpaid interest to, but excluding, the date of
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 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
(Exact name of registrant as specified in its charter)

Georgia	**58-1167100**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1932 Wynnton Road, Columbus, Georgia	**31999**
(Address of principal executive offices)	(ZIP Code)

Registrant's telephone number, including area code: 706.323.3431
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 Par Value	New York Stock Exchange
	Tokyo Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). þ Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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	þ	Accelerated filer	¨
Non-accelerated filer	¨	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 þ No
The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2018, was $33,002,565,252.
The number of shares of the registrant's common stock outstanding at February 12, 2019, with $.10 par value, was 750,332,375.

Documents Incorporated By Reference

Certain information contained in the Notice and Proxy Statement for the Company’s 2019 Annual Meeting of Shareholders is incorporated by reference into Part III hereof.

Aflac Incorporated
Annual Report on Form 10-K
For the Year Ended December 31, 2018
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PART I

ITEM 1. BUSINESS

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). This report includes certain forward-looking information that is based on current expectations and is subject to a number of risks and uncertainties. For details on forward-looking information, see Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Part II, Item 7, of this report.
Aflac Incorporated qualifies as a large accelerated filer within the meaning of Rule 12b-2 under the U.S. Securities Exchange Act of 1934 as amended (the Exchange Act). The Company's Internet address is aflac.com. The information on the Company's website is not incorporated by reference in this annual report on Form 10-K. The Company makes available, free of charge on the Investors portion of its website, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto as soon as reasonably practicable after those forms have been electronically filed with or furnished to the Securities and Exchange Commission (SEC).

General Description

Aflac Incorporated was incorporated in 1973 under the laws of the state of Georgia. Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is voluntary supplemental and life insurance, which is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and, effective April 1, 2018, through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan). Prior to April 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. 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.
Effective April 1, 2018, the Company converted Aflac Japan from a branch to a subsidiary incorporated as a Japanese stock corporation. The transaction was accounted for as tax-neutral and did not have a material impact on the daily operations of either Aflac Japan or Aflac U.S. In addition, the Company obtained and expects to continue to obtain enhanced flexibility in capital management and business development as a result of the conversion.

The Company offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. The Company continues to diversify its product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including products designed to protect individuals from depletion of assets (accident, cancer, critical illness/care, hospital indemnity, fixed-benefit dental, and vision care plans) and loss-of-income products (life and short-term disability plans).

The Company is authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan.

Reporting Segments

The Company's insurance business consists of two reporting segments: Aflac Japan and Aflac U.S. Aflac Japan is the principal contributor to the Parent Company’s consolidated earnings. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 70% of the Company's total revenues in 2018, compared with 70% in 2017 and 71% in 2016. The percentage of the Company's total assets attributable to Aflac Japan was 84% and 83% at December 31, 2018 and 2017, respectively. The conversion of Aflac Japan to a subsidiary structure did not affect the Company's segment reporting structure.

For information on the Company's results of operations and financial information by segment, see MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

Item 1. Business

Certain Performance Measures

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

- Annualized premiums in force is defined as the amount of gross premium that a policyholder must pay over a full year in order to keep coverage. The growth of net premiums (defined below) is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates.
- New annualized premium sales (sometimes referred to as new sales or sales) is an operating measure that is not reflected on the Company's financial statements. New annualized premium sales generally represents annual premiums on policies the Company sold and incremental increases from policy conversions, collected over a 12-month period, assuming the policies remain in force. For Aflac Japan, new annualized premium sales are determined by applications submitted during the reporting period. For Aflac U.S., new annualized premium sales are determined by applications that are issued during the reporting period. Conversions are defined as the positive difference in the annualized premium when a policy upgrades in the current reporting period.
- Net premiums (sometimes referred to as net premium income or net earned premiums) is a financial measure that appears on the Company's Consolidated Statements of Earnings and in its segment reporting. This measure reflects collected or due premiums that have been earned ratably on policies in force during the reporting period, reduced by premiums that have been ceded to third parties and increased by premiums assumed through reinsurance.

Foreign Currency Translation

Aflac Japan’s premiums and approximately half of its investment income are received in yen. Claims and most expenses are paid in yen, and the Company purchases yen-denominated assets and U.S. dollar-denominated assets, which may be hedged to yen, to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into U.S. dollars for financial reporting purposes. For information regarding the effect of currency fluctuations on the Company's business, see the Hedging Activities subsection within the Analysis of Financial Condition section of MD&A, the Currency Risk subsection within Quantitative and Qualitative Disclosures about Market Risk, and Notes 1 and 2 of the Notes to the Consolidated Financial Statements in this report. For information regarding how the Company’s investment strategy supports management of foreign currency risk, refer to the Investments subsection below.

Insurance Products(1)

Aflac Japan	**Aflac U.S.**
Third Sector Insurance	Accident
Cancer	Short-Term Disability
Medical	Critical Care (2)
Income Support	Hospital Indemnity
First Sector Insurance	Dental
Life	Vision
Protection	Life (Term and Whole)
Term	
Whole	
Savings	
WAYS	

Child Endowment

[1] Actively marketed as of December 31, 2018

[2] Includes cancer, critical illness, and hospital intensive care products

Japan

Aflac Japan's insurance products are designed to help consumers pay for medical and nonmedical costs that are not reimbursed under Japan's national health insurance system. Changes in Japan's economy and an aging population have put increasing pressure on Japan's national health care system. As a result, more costs have been shifted to Japanese

consumers, who in turn have become increasingly interested in insurance products that help them manage those costs. Aflac Japan has responded to this consumer need by enhancing existing products and developing new products.
The foundation of Aflac Japan's product portfolio has been, and continues to be, its third sector products, which include cancer, medical and income support insurance products. Aflac pioneered the cancer insurance market in Japan in 1974, and remains the number one provider of cancer insurance in Japan today. Over the years, Aflac Japan has customized its cancer insurance product to respond to, and anticipate, the needs of its consumers and the advances in medical treatments. The cancer insurance plans the Company offers in Japan provide a lump-sum benefit upon initial diagnosis of internal cancer and benefits for treatment received due to internal cancer such as fixed daily benefits for hospitalization, outpatient services and convalescent care, surgical benefits, and outpatient treatments. Aflac Japan has a unique Aflac-branded cancer insurance product for Japan's postal system, Japan Post (see the Distribution - Japan section for background information). In April 2018, Aflac Japan introduced a new cancer insurance product, DAYS 1, with enhanced cancer benefits. In addition to providing benefits for hospitalization, outpatient treatment, surgery, radiation therapy and anti-cancer drug treatment, this product was designed to provide benefits to improve quality of life and to cover out-of-pocket expenses not directly related to medical treatment. At the same time, Aflac Japan introduced DAYS 1 Plus to provide existing holders with up-to-date coverage. As the number one provider of cancer insurance in Japan, the Company believes these products further strengthen its brand, and most importantly, provide valuable benefits to consumers who are looking for solutions to manage cancer-related costs.

Aflac Japan's EVER product is a stand-alone, whole-life medical insurance product which offers a basic level of hospitalization coverage with an affordable premium. The current version of this product includes riders to be associated with three critical illnesses (cancer, heart attack, and stroke) to better respond to consumers' needs for coverage of serious illnesses. These riders provide policyholders with a benefit upon the diagnosis for those three critical illnesses, waiver of premium payment thereafter and unlimited hospital days for such critical illnesses. Since its initial introduction, Aflac Japan has expanded its suite of EVER product offerings to appeal to specific types of Japanese consumers and achieve greater market penetration. In 2017, Aflac Japan revised the EVER product by introducing riders for lump-sum hospitalization benefits and surgeries for female-specific diseases as well as strengthening outpatient benefits and reducing premiums centered on the young- to middle-aged market segments. This product also offers a short-pay premium period to policyholders. Gentle EVER, Aflac Japan's non-standard medical insurance product, was designed to meet the needs of certain consumers who cannot qualify for the base EVER plan.

In October 2018, Aflac Japan launched a new type of medical product referred to as Health Promotion Medical Insurance where a policyholder is entitled to a partial refund of the premium if the policyholders' “health age” measured by certain health check items is lower than his or her actual age. This product is marketed exclusively online and targeted at younger generations.

The Company believes that the affordable cancer and medical insurance products Aflac Japan provides will continue to be an important part of its product portfolio. Nevertheless, as the Company continues its long history of product innovation, Aflac Japan's product portfolio has expanded beyond traditional health-related products.

Aflac Japan's Income Support Insurance provides fixed-benefit amounts in the event that a policyholder is unable to work due to significant illness or injury and was developed to supplement the disability coverage within Japan’s social security system. This product targets young to middle-aged consumers, and by focusing efforts on this demographic, Aflac Japan believes it is building relationships that lay the groundwork for the sale of its cancer and medical insurance later in life to the Income Support policyholders.

Beginning in 2013, Aflac Japan began to curtail sales of first sector savings-type products, such as WAYS, child endowment and fixed annuities, due to persistent low interest rates in Japan and, in particular, the relatively large capital commitment required by such products and their lower profitability, in such an environment. Aflac Japan continues to sell first sector protection-type products, which include term and whole life, to provide Aflac Japan’s traditional sales channels with a more comprehensive product portfolio to continue to cross-sell with third sector products. In July 2018, Aflac Japan introduced a first sector protection whole life product with low cash surrender value, which offers non-smoking policyholders further discounted premiums.

For additional information on Aflac Japan's products and composition of sales, see the Aflac Japan Segment subsection of MD&A in this report.

Item 1. Business

U.S.

The Company designs its U.S. insurance products to provide supplemental coverage for people who already have major medical or primary insurance coverage. Most of Aflac's U.S. policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. started to market and administer group insurance products in 2009.

Aflac U.S. insurance policies pay benefits regardless of other insurance. Most of the Aflac U.S. insurance benefits are paid in cash directly to policyholders; therefore, customers have the opportunity to use this cash to help with expenses of their choosing.

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

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

Aflac U.S. offers coverage for critical care on both an individual and group basis. These policies are designed to pay cash benefits in the event of critical illnesses such as heart attack, stroke, or cancer. On an individually underwritten basis, Aflac U.S. offers cancer plans, critical illness plans, and critical care and recovery plans (formerly called specified health event). On a group basis Aflac U.S. offers critical illness plans.

Aflac U.S. offers hospital indemnity coverage on both an individual and group basis. Hospital indemnity products provide policyholders fixed dollar benefits triggered by hospitalization due to accident or sickness, or just sickness alone. Indemnity benefits for inpatient and outpatient surgeries, as well as various other diagnostic events, are also available. Aflac U.S. also offers a lump sum rider that can be added to its individual accident, short-term disability and hospital indemnity products. This rider, where available, provides a lump sum payment for a range of critical illness events including traumatic brain injury, Type 1 diabetes, advanced Alzheimer’s disease and many more. In January 2016, a new group hospital indemnity plan was introduced that includes 11 new benefits, including telemedicine and health screening. This plan provides flexibility, allowing the Company's clients to personalize their plan designs to complement the underlying medical coverage that is offered to employees.

Aflac U.S. offers additional coverages to those listed above, including dental, vision and life policies. Aflac U.S. offers fixed-benefit dental coverage on both an individual and group basis. Aflac U.S. offers Vision Now^{SM}, an individually issued policy which provides benefits for serious eye health conditions and loss of sight as well as coverage for corrective eye materials and exam benefits. Aflac U.S. also offers term- and whole-life policies on both an individual and group basis.

For additional information on Aflac's U.S. products and composition of sales, see the Aflac U.S. Segment subsection of MD&A in this report.

Distribution Channels

Aflac Japan	**Aflac U.S.**
Individual/ Independent Corporate Agencies	Independent Associates
Affiliated Corporate Agencies Banks	Brokers

Japan

The traditional channels through which Aflac Japan has sold its products consist of individual agents/agencies, independent corporate agencies, and affiliated corporate agencies. The individual agencies and independent corporate agencies that sell Aflac Japan's products give better access to workers at a vast number of small businesses in Japan. Agents' activities are primarily focused on insurance sales, with customer service support provided by the Aflac Contact Center. Affiliated corporate agencies are initially formed when companies establish subsidiary businesses to sell Aflac Japan's insurance products to employees as part of a benefit package, and in some cases expand to sell Aflac Japan products to other parties such as suppliers and customers.These agencies help Aflac Japan reach employees at large

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Item 1. Business

worksites, and some of them are also successful in approaching customers outside their business groups. The Company believes that new agencies will continue to be attracted to Aflac Japan's competitive commissions, attractive products, superior customer service and strong brand image.

The Company has sold products to employees of banks since its entry into Japan in 1974. However, December 2007 marked the first time it was permissible for banks to sell Aflac Japan's type of insurance products to their customers. By the end of 2018, Aflac Japan had agreements with approximately 90% of the total number of banks in Japan, to sell its products. The Company believes Aflac Japan has more banks selling its supplemental health insurance products than any of its competitors. Japanese consumers rely on banks to provide traditional bank services, and also to provide insurance solutions and other services. The Company believes Aflac Japan's long-standing and strong relationships within the Japanese banking sector, along with its strategic preparations, have proven to be an advantage, particularly starting when this channel opened up for its products. Aflac Japan's partnerships throughout the banking sector provide Aflac Japan with a wider demographic of potential customers than it would otherwise have been able to reach, and it also allows banks to expand their product and service offerings to consumers.

In 2005, legislation aimed at privatizing Japan's postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four operating entities that began operating in October 2007. In 2007, one of these entities selected Aflac Japan as its provider of cancer insurance to be sold through its post offices, and, in 2008, Aflac Japan began selling cancer insurance through these post offices. Japan Post has historically been a popular place for consumers to purchase insurance products. Legislation to reform the postal system passed Japan’s legislature, the Diet, in April 2012 and resulted in the merger of two of the postal operating entities (the one that delivers the mail and the one that runs the post offices) in October 2012. In July 2013, Aflac Japan entered into a new agreement with Japan Post Holdings to further expand the partnership that was established in 2008. In June 2014, Japan Post Insurance (Kampo) received approval from Japan’s primary insurance regulator, the Financial Services Agency (FSA), to enter into an agency contract with Aflac Japan. Under this contract, Aflac Japan currently distributes its cancer insurance products through 76 of Kampo's directly managed sales offices. Aflac Japan has developed a unique Aflac-branded cancer insurance product for Japan Post and Kampo that was introduced in October 2014. In 2015, Japan Post expanded the number of post offices that offer Aflac's cancer insurance products to more than 20,000 postal outlets.

The Company believes this alliance with Japan Post, which is included in Aflac Japan's affiliated corporate agencies distribution channel, has benefited and will continue to benefit Aflac Japan's cancer insurance sales. For example, sales of cancer insurance policies by Japan Post constituted approximately 25% of Aflac Japan's third sector sales during the 2018 calendar year. In December 2018, the Company announced that in a further strengthening of this alliance. Japan Post Holdings Co., Ltd, a Japanese corporation, (Japan Post Holdings) plans to purchase approximately 7% of the Parent Company's outstanding common shares through a trust using open market and private block purchases. Like all common shares in the Parent Company, the shares purchased by the trust will be eligible for 10-for-1 voting rights after being held for 48 consecutive months. In connection with this announcement, on December 19, 2018, the Parent Company and Aflac Japan entered into a Basic Agreement regarding the "Strategic Alliance Based on Capital Relationship" with Japan Post Holdings (Basic Agreement), and the Parent Company entered into a letter agreement with Japan Post Holdings (Letter Agreement). Under the Letter Agreement, Japan Post Holdings agreed (i) to establish and fund a voting trust in accordance with a trust agreement (Trust Agreement) by no later than February 28, 2019, (ii) upon establishment of the trust, to instruct the trustee and the sole shareholder of the trust to enter into, and to itself enter into, a shareholders agreement with the Parent Company (Shareholders Agreement) providing for, among other things, a cap on share ownership, a minimum holding period and a standstill provision and voting restrictions that effectively limit the trustee's voting rights to no more than 20% of the voting rights of the Parent Company and further restrict the trustee's voting rights with respect to certain change in control transactions. The terms of the investment do not provide Japan Post Holdings with a right to a board seat on the Parent Company's board of directors or with any other rights to control, manage or intervene in the management of the Parent Company. This strategic investment is subject to certain regulatory approvals in Japan, and the U.S. The Company anticipates that regulatory approvals will be received in the second half of 2019. The foregoing summary is subject to and qualified in its entirety by reference to the full text of the Basic Agreement and Letter Agreement, including the forms of Trust Agreement and Shareholders Agreement attached to the Letter Agreement, copies of which are included as Exhibits 10.47 and 10.48 attached hereto and the terms of which are incorporated herein by reference.

For additional information on Aflac Japan's distribution, see the Aflac Japan Segment subsection of MD&A in this report.

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U.S.

As of December 31, 2018, the U.S. sales force was composed of sales associates and brokers who are licensed to sell accident and health insurance. Many are also licensed to sell life insurance. Aflac U.S. utilizes dual-channel distribution to market its insurance products to businesses of all sizes. The career agent channel focuses on marketing Aflac to the small business market, which consists of employers with less than 100 employees. As such, Aflac U.S. has aligned its recruiting, training, compensation, marketing and incentives for its career agents to encourage specific activity and sales of individual policies in this market. The broker channel focuses on selling to the mid- and large-case market, which is comprised of employers with more than 100 employees and typically an average size of 1,000 employees or more. Since regional and national brokers have traditionally served the mid- and large-case market, the sales professionals in the broker channel are assigned a geographic market to strengthen relationships with the top brokers and sell Aflac products to their clients. As a result, Aflac U.S. is represented on 160 benefit administration platforms, sometimes referred to as exchanges, of various brokers.

Sales associates and brokers are independent contractors and are paid commissions based on first-year and renewal premiums from their sales of insurance products. In addition to receiving commissions on personal production, district and regional sales coordinators may also receive override commissions and incentive bonuses.

Aflac U.S. has continued to evolve its career and broker management infrastructure to drive growth in sales. In 2017, Aflac hired a Chief Distribution Officer to align the strategies of career and broker channels and to further expand U.S. distribution. All Aflac U.S. sales channels are now within the organizational structure of the Chief Distribution Officer. Prior to this change, the broker and career channels were part of separate organizational structures. Aflac U.S. believes the addition of this role will enhance performance management and augment its long-term sales strategy.

Aflac U.S. concentrates on marketing its insurance products at the worksite. This method offers policies to individuals through employment, trade and other associations. Historically, Aflac U.S. policies have been individually underwritten, however over the past several years, guaranteed issue options have become available. Premiums are generally paid by the employee. Additionally, Aflac's individual policies are portable, meaning that individuals may retain their full insurance coverage upon separation from employment or such affiliation, generally at the same premium. Individual policies are typically guaranteed-renewable for the lifetime of the policyholder (to age 75 for short-term disability policies). Aflac U.S. collects a major portion of premiums on such sales through payroll deduction or other forms of centralized billing. With Aflac U.S. brokerage sales expansion and CAIC, branded as Aflac Group Insurance, Aflac U.S. offers group voluntary insurance products desired by many large employers. These products are sold on a group basis and often have some element of guaranteed issue. Worksite marketing enables sales associates and brokers to reach a greater number of prospective policyholders and lowers distribution costs, compared with individually marketed business.

For additional information on Aflac's U.S. distribution, see the Aflac U.S. Segment subsection of MD&A in this report.

Competition

Japan

In 1974, Aflac was granted an operating license to sell life insurance in Japan, making Aflac the second non-Japanese life insurance company to gain direct access to the Japanese insurance market. Through 1981, Aflac Japan faced limited competition for cancer insurance policy sales. However, Japan has experienced two periods of deregulation since Aflac Japan entered the market. The first came in the early 1980s, when nine mid-sized insurers, including domestic and foreign companies, were allowed to sell cancer insurance products for the first time. The second period began in 2001 when all life and non-life insurers were allowed to sell stand-alone cancer and medical insurance products as well as other stand-alone health insurance products. As a result, the number of insurance companies offering stand-alone cancer and medical insurance has more than doubled since the market was deregulated in 2001. However, based on Aflac Japan's growth of annualized premiums in force and diversified distribution network, the Company does not believe that Aflac Japan's market-leading position has been significantly impacted by increased competition. Furthermore, the Company believes the continued development and maintenance of operating efficiencies will allow Aflac Japan to offer affordable products that appeal to consumers. Aflac Japan is the largest life insurer in Japan in terms of cancer and medical policies in force. As of December 31, 2018, Aflac Japan exceeded 24 million individual policies in force in Japan.

Aflac Japan has experienced substantial success selling cancer policies in Japan, with more than 15 million cancer policies in force as of December 31, 2018. Aflac Japan continued to be the number one seller of cancer insurance policies in Japan throughout 2018. The Company believes Aflac Japan will remain a leading provider of cancer insurance coverage in Japan, principally due to its experience in the market, well-known brand, low-cost operations, expansive marketing system and product expertise. Further, the Company believes that its alliance with Japan Post will continue to benefit Aflac Japan's sales of cancer insurance in Japan. (See Distribution-Japan above for more information on Aflac Japan's marketing system and its alliance with Japan Post.)

Aflac Japan has also experienced substantial success selling medical insurance in Japan. While other companies have recognized the opportunities that Aflac Japan has seen in the medical insurance market and are frequently offering new products, Aflac Japan endeavors to keep its products attractive to consumers by revising benefits of medical insurance products more frequently than cancer insurance.

U.S.

Aflac U.S. competes against several voluntary supplemental insurance carriers on a national and regional basis. Aflac U.S. believes its policies, premium rates, platforms, value-added services and sales commissions are competitive by product type. Moreover, Aflac U.S. believes that its products are distinct from competitive offerings given its product focus (including features, benefits, and its claims service model), distribution capabilities, and brand awareness. For many companies with which Aflac U.S. competes, voluntary supplemental insurance products are sold as a secondary business. A growing number of major medical and life insurance carriers are also entering into the voluntary supplemental insurance market. For Aflac U.S., supplemental insurance products are its primary business and are sold via a distribution network of independent sales associates and brokers (see U.S. Distribution above). In addition, the Company believes that advertising campaigns for Aflac U.S. have increased name awareness and understanding among consumers and businesses of the value its products provide.

Both private and publicly-traded insurers offer major medical insurance for hospitalization and medical expenses. Much of this insurance is sold on a group basis to accounts that are both fully and self-insured. The federal and state governments also pay substantial costs of medical treatment through various programs. Major medical insurance generally covers a substantial portion of the medical expenses incurred by an insured. Aflac policies are designed to provide coverage that supplements major medical insurance by paying cash directly to the policyholder to use for expenses their major medical insurance is not designed to cover, or for any other uses that the policyholder chooses. Thus, Aflac U.S. does not compete directly with major medical insurers except those who sell supplemental insurance products as a secondary business. Any reduction of coverage, increase in employee participation costs, or increased deductibles and copayments by major medical commercial or government insurance carriers could favorably affect Aflac U.S. business opportunities. Since the implementation of the Affordable Care Act (ACA) beginning in 2010, some employers have shifted a larger burden of the cost of care to their employees, primarily through increases in premiums, copays, and/or deductibles, such as through the use of high-deductible health plans. In addition, the Company believes that some employers have made increasing use of supplemental insurance product offerings in order to improve their competitiveness in employee recruitment and retention.

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

One Day Pay[SM] is a claims initiative that Aflac U.S. introduced in 2015 to process, approve and pay eligible claims in just one day. The Company believes that along with its brand and relevant products, this claims practice has helped Aflac stand out from competitors.

Investments

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 "Corporate and other segment" category; however, the assets that they manage will be reported in the respective Aflac Japan and Aflac U.S. business segments.

Japan

The Company’s investment strategy with respect to Aflac Japan utilizes disciplined asset and liability management while seeking diversification, long-term risk-adjusted investment returns and the delivery of stable income within regulatory and capital objectives, as well as preserving shareholder value in the Aflac Japan business.

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. Each of these portfolios presents unique benefits and risks to the Company.

Yen-denominated investments included in Aflac Japan’s portfolio primarily consist of Japan Government Bonds (JGB), other public bonds and private placement fixed income instruments. The Company attempts to match both the duration and currency of these assets with Aflac Japan’s liabilities. This poses a difficulty in Aflac Japan due to the lack of suitable long-dated yen-denominated fixed income instruments. In 2012, the Company initiated a strategic approach to include U.S. dollar-denominated investments in Aflac Japan’s portfolio with the initial intent that they would be coupled with foreign exchange hedges. Today, this hedged U.S. dollar-denominated investment portfolio is mainly invested in long-term fixed and floating-rate loans and long-term investment-grade fixed income securities. The primary goals of the yen-denominated and hedged U.S. dollar portfolios are to provide sufficient yen cash flows to support the insurance liabilities and other yen-denominated obligations of Aflac Japan, and to seek appropriate long-term risk-adjusted investment returns supportive of solvency margin ratio (SMR) levels that provide sufficient dividend flows to the Parent Company. The hedges supporting this portion of the U.S. dollar portfolio pose derivative rollover risk that could amplify hedge costs in unfavorable market conditions, risk of counterparty default, and may require the Company to post collateral. In a declining yen environment, these hedges could result in negative cash settlements that may significantly increase liquidity requirements, thereby shifting funds away from other capital management opportunities including loss of investment income. If the combined yen-denominated and hedged U.S. dollar-denominated portfolios are larger than Aflac Japan's yen obligations, the economic value of these portfolios may be eroded under a long-term scenario of weakening yen due to foreign currency translation risk, one result of which may be to reduce the Company's dividend capacity.

The Company also maintains an unhedged U.S. dollar-denominated investment portfolio with the objectives of generating enhanced investment returns and mitigating certain of the risks posed by the yen and hedged U.S. dollar-denominated portfolios as outlined above. Further, the Company has determined that the unhedged portfolio acts as a natural economic currency hedge of a portion of the Company’s investment in Aflac Japan against erosion of economic value. However, the unhedged U.S. dollar-denominated investment portfolio creates an unmatched foreign currency exposure and subjects Aflac Japan to volatility in regulatory capital and earnings, which may adversely impact Aflac Japan’s ability to pay dividends to the Parent Company. The Company’s approach to sizing the unhedged U.S. dollar-denominated investment portfolio seeks to balance the unique risks presented by each of the three portfolios outlined above, but the overall investment strategy in Aflac Japan is guided primarily by the objective of securing the long-term financial strength of Aflac Japan and funding of yen liabilities. As a result, the Company has historically maintained and currently maintains the size of the unhedged portfolio at levels below the stressed economic surplus in Aflac Japan.

The determination of stressed economic surplus in Aflac Japan involves multiple models using multiple statistical approaches and assuming various economic and operating scenarios that are stressed to arrive at a range of potential outcomes. This range does not account for all economic scenarios, some of which may result in values outside of the range. The Company periodically assesses the stressed economic surplus in Aflac Japan, which fluctuates over time, and adjusts the size of the unhedged portfolio accordingly. The portfolio may include medium-term and long-term fixed-rate government and corporate (investment-grade and high-yield) bonds, floating-rate loans, public equities, and alternative asset classes. In determining the composition of the portfolio, the Company also considers diversification, hedge cost, investment returns relative to yen-denominated investment yields, and Aflac Japan capital requirements. At December 31, 2018, this unhedged U.S. dollar-denominated portfolio was approximately $14.4 billion, compared with approximately $13.0 billion at December 31, 2017. For additional discussion of business and market risks associated with the Company’s investment strategy in Japan, refer to the Risk Factors and Quantitative and Qualitative Disclosures about Market Risk sections.

U.S.

The Company’s investment strategy with respect to Aflac U.S. 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. 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 equities and alternative investments in limited partnerships.

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Item 1. Business

Aflac U.S. has been investing in both publicly traded and privately originated investment-grade and below-investment-grade fixed maturity securities and loans.

For further information on the Company's investments and investment results, see the Insurance Operations and Analysis of Financial Condition sections of MD&A and Notes 3, 4 and 5 of the Notes to the Consolidated Financial Statements in this report.

Regulation

Japan

The financial and business affairs of Aflac Japan are subject to examination by Japan's FSA. Aflac Japan files annual reports and financial statements for the Japanese insurance operations based on a March 31 fiscal year end, prepared in accordance with Japanese regulatory accounting practices prescribed or permitted by the FSA. Japanese regulatory basis earnings are determined using accounting principles that differ materially from U.S. GAAP. For example, under Japanese regulatory accounting practices, policy acquisition costs are expensed immediately; policy benefit and claim reserving methods and assumptions are different; premium income is recognized on a cash basis; different consolidation criteria apply to variable interest entities (VIEs); different accounting applies to reinsurance; and investments can have a separate accounting classification and treatment referred to as policy reserve matching bonds (PRM), which are recorded at amortized cost. Capital and surplus of Aflac Japan, based on Japanese regulatory accounting practices, was $6.4 billion at December 31, 2018, compared with $6.7 billion at December 31, 2017.

The FSA maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. As of December 31, 2018, Aflac Japan's SMR was 965%, compared with 1,064% at December 31, 2017. Aflac Japan's SMR is sensitive to interest rate, credit spread and foreign exchange rate changes. See the Capital Resources and Liquidity Section of MD&A for a discussion of measures the Company has taken to mitigate the sensitivity of Aflac Japan's SMR.

Prior to April 1, 2018, Aflac Japan repatriated a portion of its accumulated earnings, as determined on a Japanese regulatory accounting basis, to Aflac U.S. provided that Aflac Japan has determined that it adequately protected policyholders' interests as measured by its SMR. Starting in the fourth quarter of 2018, Aflac Japan distributes dividends to the Parent Company. Such dividends are subject to permitted dividend capacity under the Japan Company Law.

The Japanese insurance industry has a policyholder protection corporation that provides funds for the policyholders of insolvent insurers. For additional information regarding the policyholder protection fund, see the Policyholder Protection subsection of MD&A in this report.
In June 2013, a revision to the Financial Instruments and Exchange Act established a post-funded Orderly Resolution Regime for financial institutions to prevent a financial crisis in the event of a financial institution’s failure. This regime came into effect in March 2014 and has not had, and is not expected to have, a material impact on the Company's operations in Japan.

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

U.S.

General

The Parent Company and its U.S. insurance subsidiaries, Aflac (a Nebraska-domiciled insurance company), American Family Life Assurance Company of New York (Aflac New York, a New York-domiciled insurance company), CAIC (redomiciled from South Carolina to Nebraska effective December 2016) and Tier One Insurance Company (TOIC, an Oklahoma-domiciled shell insurance company acquired by the Parent Company in 2017 with no operations) are subject to state regulations in the United States as an insurance holding company system. Such regulations generally provide that transactions between companies within the holding company system must be fair and equitable. In addition, transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries, and material transactions between companies within the system, including management fees, loans and advances are subject to prior notice to, or approval by, state regulatory authorities. These laws generally require, among other things, the insurance holding company and each insurance company directly owned by the holding company to register with the insurance departments of their respective domiciliary states and to furnish annually financial and other information about the

Item 1. Business

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

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

The insurance laws of Nebraska that govern Aflac's activities provide that the acquisition or change of “control” of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the Nebraska Department of Insurance. A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company (in the case of Aflac, the Parent Company) must generally file with the Nebraska Department of Insurance (NDOI) an application for change of control containing certain information required by statute and published regulations and provide a copy to Aflac. In Nebraska, control is generally presumed to exist if any person, directly or indirectly, acquires 10% or more of an insurance company or of any other person or entity controlling the insurance company. The 10% presumption is not conclusive and control may be found to exist at less than 10%. Similar laws apply in New York, the domiciliary jurisdiction of Aflac's New York insurance subsidiary.
State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners (NAIC). In 2016, full-scope, risk-focused financial examinations were conducted by the NDOI, New York Department of Financial Services (NYDFS), and the South Carolina Department of Insurance (SCDOI) on their state domiciled insurance entities American Family Life Assurance Company of Columbus, American Family Life Assurance Company of New York, and Continental American Insurance Company, respectively. The NDOI and NYDFS exams covered a four-year period ending December 31, 2015, whereas the SCDOI exam covered a five-year period ending December 31, 2015. There were no material findings contained in the NDOI, NYDFS and SCDOI final exam reports.

The NAIC continually reviews regulatory matters, such as risk-based capital (RBC) modernization, group capital calculations, liquidity risk assessment and principle-based reserving. The NAIC has adopted a valuation manual containing a principle-based approach to calculation of life insurance reserves. The valuation manual became effective January 1, 2017. There is a three-year transition period, beginning January 1, 2017, during which companies can choose on a product by product basis to implement principle-based reserving for new business. The Company anticipates that the adoption of this manual will not cause a material impact on the statutory reserves of Aflac, Aflac New York or CAIC. The NAIC uses an RBC formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon the types and mix of risk inherent in the insurer's operations. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital to its authorized control level RBC as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The levels are company action, regulatory action, authorized control, and mandatory control. As of December 31, 2018, based on year-end statutory accounting results, Aflac's company action level RBC ratio was 560%. The 2018 RBC as filed is lower than Aflac U.S. stand-alone RBC due to the inclusion of Aflac Japan for the first quarter of 2018. The RBC charge reflects the business risk without any total adjusted capital (TAC). Aflac's NAIC RBC ratio remains high and reflects a very strong capital and surplus position.

Item 1. Business

Under state insurance guaranty association laws and similar laws in international jurisdictions, the Company is subject to assessments, based on the share of business the Company writes in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. In the 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. For additional information regarding state insurance guaranty assessments, see the U.S. Regulatory Environment subsection of MD&A in this report.

Healthcare Reform Legislation

Federal legislation and administrative policies in several areas, including health care reform legislation, financial services reform legislation, securities regulation, pension regulation, privacy, tort reform legislation and taxation, can significantly and adversely affect insurance companies. For example, the ACA, federal health care reform legislation, gave the U.S. federal government direct regulatory authority over the business of health insurance. The reform included major changes to the U.S. health care insurance marketplace. Among other changes, the reform legislation included an individual medical insurance coverage mandate (which has since been repealed effective 2019 by the Tax Act, discussed below), 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 2022. The legislation 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. Further, certain provisions of the ACA have been and may continue to be subject to challenge through litigation, the ultimate effects of which on the ACA are uncertain.

Tax Reform Legislation

A budget reconciliation act commonly referred to as the Tax Cuts and Job Act (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 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.

These changes were effective on January 1, 2018. 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 the Company’s reasonable estimate, a net deferred tax liability reduction of $1.9 billion as of that date. As of the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional amount of deferred tax liabilities (DTLs) related to the Japan tax computation and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability. See Note 10 of the Notes to the Consolidated Financial Statements presented in this report. For information on the conversion of Aflac Japan from a branch to a subsidiary, see General Business under this Business section, above.

Dodd-Frank Act

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) and regulations issued thereunder, in particular rules to require central clearing for certain types of derivatives, may have an impact on 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 business lines other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The FIO does not directly regulate the insurance industry, but under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements reached by the federal government, subject to certain requirements and restrictions. The FIO and certain federal agencies must achieve consensus positions with the state insurance regulators when taking positions on insurance proposals by certain international forums. 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 current U.S. presidential administration and Congress have made recent attempts to reform or repeal certain provisions of the Dodd-Frank Act, some of which have been implemented. For example, in 2018, President Trump signed into law the “Economic Growth, Regulatory Relief, and Consumer Protection Act.” Members of Congress have also introduced multiple bills that would impact or eliminate the FIO. The Federal Reserve is developing a rulemaking regarding the Financial Stability Oversight Council’s (the Council) ability to designate nonbank financial companies as Systemically Important Financial Institutions, and, pursuant to an Executive Order, the Treasury Department released a report on the Council’s designation authority. 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.

Further Information

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

Privacy and Cybersecurity

The collection, maintenance, use, protection, disclosure and disposal of individually identifiable data by the Company's businesses are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the unauthorized access and acquisition of personal information and the use and disclosure of individually identifiable health data to the extent they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act of 1999 (GLBA) and in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). For example, in June 2018, California passed a data privacy law, scheduled to become effective January 2020, that requires businesses to provide California consumers rights to access, delete, and restrict certain uses of their personal information. 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 FSA updated its guidelines regarding cybersecurity in October 2018.

Cybersecurity also continues to be an area of evolving focus for U.S. legislation and regulatory activity. In March 2017, new cybersecurity regulation issued by the New York Department of Financial Services (NYDFS) went into effect that requires covered entities, including Aflac New York, to maintain an information security program meeting certain security, data disposal, audit, activity monitoring, and data encryption requirements. In October 2017, the NAIC adopted an Insurance Data Security Model Law that may be adopted in whole or in part by U.S. states in which the Company's subsidiaries are licensed. Other states have adopted and, the Company expects, will continue to pass legislation and issue regulations related to cybersecurity. The Company anticipates, assesses, and if necessary modifies its information security program to accommodate such changes.

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

Other Operations

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

Employees

As of December 31, 2018, Aflac Japan had 6,121 employees, Aflac U.S. had 4,712 employees, and the Company's other operations had 557 employees.

Executive Officers of the Registrant

NAME	PRINCIPAL OCCUPATION[1]	AGE
Daniel P. Amos	Chairman, Aflac Incorporated and Aflac, since 2001; Chief Executive Officer, Aflac Incorporated and Aflac, since 1990	67
Koji Ariyoshi	Executive Vice President, Director of Sales and Marketing, Aflac Japan, since 2012	65
Max K. Broden	Senior Vice President and Treasurer, Aflac Incorporated, since 2017; Senior Portfolio Manager, Norges Bank, from 2007 until 2017	40
Frederick J. Crawford	Executive Vice President, Chief Financial Officer, Aflac Incorporated, since 2015; Executive Vice President, Chief Financial Officer, CNO Financial Group from 2012 until 2015; Executive Vice President, Head of Investment and Corporate Development, Lincoln Financial Group from 2010 until 2012	55
J. Todd Daniels	Executive Vice President and Principal Financial Officer, Aflac Japan, since 2018; Executive Vice President, Global Chief Risk Officer and Chief Actuary, Aflac, from 2016 until 2018; Senior Vice President, Global Chief Risk Officer and Chief Actuary, Aflac, from 2015 until 2016; Senior Vice President, Deputy Corporate Actuary and Global Chief Risk Officer, Aflac, from 2014 until 2015; Senior Vice President, Deputy Corporate Actuary, Aflac, from 2012 until 2014; Vice President, Financial Planning and Analysis, Aflac, from 2011 until 2012	48
June Howard	Chief Accounting Officer, Aflac Incorporated and Aflac, since 2010; Senior Vice President, Financial Services, Aflac Incorporated and Aflac, since 2010; Treasurer, Aflac, from 2011 until 2015	52
Eric M. Kirsch	Executive Vice President, Global Chief Investment Officer, Aflac, since 2012; President, Aflac Asset Management LLC, since 2017; First Senior Vice President, Global Chief Investment Officer, Aflac, from 2011 until 2012	58
Masatoshi Koide	President and Chief Operating Officer, Aflac Japan since 2017; Deputy President, Aflac Japan from 2016 until 2017; Executive Vice President, Aflac Japan from 2015 until 2016; First Senior Vice President, Aflac Japan from 2013 until 2015; Senior Vice President, Aflac Japan from 2012 until 2013	58
Charles D. Lake, II	President, Aflac International, since 2014; Chairman, Aflac Japan, since 2008	57
Albert A. Riggieri	Senior Vice President, Global Chief Risk Officer and Chief Actuary, Aflac, since 2018; Senior Vice President, Corporate Actuary, Aflac, from 2016 until 2018; Group Chief Actuary, Unum Group, until 2016	63
Audrey B. Tillman	Executive Vice President, General Counsel, Aflac Incorporated and Aflac, since 2014; Executive Vice President, Corporate Services, Aflac Incorporated, from 2008 until 2014	54

Teresa L. White	President, Aflac U.S., since 2014; Executive Vice President, Chief Operating Officer, Aflac, from 2013 until 2014; Executive Vice President, Chief Service Officer, Aflac, from 2012 until 2013; Executive Vice President, Chief Administrative Officer, Aflac, from 2008 until 2013	52
Richard L. Williams Jr.	Executive Vice President and Chief Distribution Officer, Aflac since 2017; Senior Vice President and General Manager, Stop Loss, Unum, U.S. in 2017; Senior Vice President, Growth Markets, Colonial Life and Accident Insurance Company from 2013 until 2017	47

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

Item 1A. Risk Factors

ITEM 1A. RISK FACTORS

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

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

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

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

A recent shift in the global trading policies by the U.S. and subsequent trade conflict with China has raised concerns about a slowdown of the Chinese economy. In addition, the U.S. and Japan are engaged in discussions regarding changes to tariffs and trade agreements. While it is not expected that the Company's products would be directly impacted by tariff, any resulting economic downturn could adversely affect the Company.

Activity by the government of North Korea in 2018 was the subject of increasing focus for a number of other governments, including those of the United States and Japan. Although hostile rhetoric has decreased, such North Korean activity and related geopolitical risk could have a significant impact on financial market conditions across the world. Under certain circumstances, government actions taken in response to the North Korean situation could have a material impact on the Company's Japan and U.S. operations and financial performance, including the indirect impact of potentially severe and prolonged capital market volatility and disruption.

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

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

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

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

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

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

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

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

Company is unable to predict the course of the global financial markets or the recurrence, duration or severity of disruptions in such markets.

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

The Company has substantial investment portfolios that support its policy liabilities. Low levels of interest rates on investments experienced in Japan and the United States over the last decade have reduced the level of investment income earned by the Company. The Company's overall level of investment income will be negatively impacted in a persistent low-interest-rate environment. While the Company generally seeks to maintain a diversified portfolio of fixed-income investments that reflects the cash flow and duration characteristics of the liabilities it supports, the Company may not be able to fully mitigate the interest rate risk of its assets relative to its liabilities. The Company's exposure to interest rate risk relates primarily to the ability to invest future cash flows to support the interest rate assumption made at the time the Company's products were priced and the related reserving assumptions were established. A sustained decline in interest rates could hinder the Company's ability to earn the returns assumed in the pricing and the reserving for its products at the time they were sold and issued. Due to low interest rates, the Company's ability to earn the returns it expects may also influence the Company's ability to develop and price attractive new products and could impact its overall

Item 1A. Risk Factors

sales levels. The Company's first sector products are more interest rate sensitive than third sector products. As discussed in Item 1. Business, beginning in 2013, Aflac Japan began to curtail sales of first sector savings-type products due to persistent low interest rates in Japan. The continuing negative interest rate imposed by the BoJ on excess bank reserves could continue to have a negative impact on the distribution and pricing of these products.
A rise in interest rates could improve the Company's ability to earn higher rates of return on future investments, as well as floating rate investments held in its investment portfolio. However, an increase in the differential of short-term U.S. and Japan interest rates would increase the cost of hedging a portion of the U.S. dollar-denominated assets in the Aflac Japan segment into yen, which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company's floating rate investments typically bear interest based on the London Interbank Offered Rate (LIBOR). Regulatory and industry initiatives to eliminate LIBOR as an interest rate benchmark may create uncertainty in the valuation of LIBOR-based loans, as well as for other LIBOR-based derivatives and assets. This may adversely impact both pricing and liquidity in such instruments. The Company is unable to predict with certainty how LIBOR elimination may impact markets, pricing, liquidity and other factors or the Company's activities.
Changes in interest rates impact unrealized gains and losses of fixed income securities in the Company's investment portfolio; however, they do not have a direct impact on the related valuation of the corresponding liabilities. Prolonged periods of low interest rates, as have been experienced in recent years, heighten the risk of future increases in interest rates because an increasing proportion of the Company's investment portfolio includes investments that bear lower rates of return than the embedded book yield of the investment portfolio. A rise in interest rates could decrease the fair value of the Company's debt securities. Some of the insurance products that Aflac sells in the United States and Japan provide cash surrender values. A rise in interest rates could trigger significant policy surrenders, which might require the Company to sell investment assets and recognize unrealized losses. This situation is commonly referred to as disintermediation risk. The Company generally invests its assets to match the duration and cash flow characteristics of its policy liabilities, and therefore would not expect to realize most of these gains or losses, however, the Company's risk is that unforeseen events or economic conditions, such as changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond the Company's control will reduce the effectiveness of this strategy. These events or economic conditions could either cause the Company to dispose of some or all of these investments prior to their maturity, or increase the risk that the issuers of these securities may default or may require impairment, which could result in the Company having to recognize such gains or losses. Rising interest rates also negatively impact the SMR since unrealized losses on the available-for-sale investment portfolio factor into the ratio. For regulatory accounting purposes for Aflac Japan, there are certain requirements for realizing impairments that could be triggered by rising interest rates, negatively impacting Aflac Japan's earnings and corresponding dividends and capital deployment.
Further, interest rate risk is still an inherent portfolio, business and capital risk for the Company, and significant changes in interest rates could have a material adverse effect on the Company's consolidated results of operations, financial condition or cash flows through realized losses, impairments, changes in unrealized positions, and liquidity.

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

The Company's concentration of business in Japan poses risks to its operations.
The Company's operations in Japan, including realized gains and losses on Aflac Japan's investment portfolio, accounted for 70% of the Company's total revenues for both 2018 and 2017, compared with 71% in 2016. The Japanese operations accounted for 84% of the Company's total assets at December 31, 2018,

compared with 83% at December 31, 2017.

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

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

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

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

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

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

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

As indicated in the Item 1, Business, the Company has determined that the unhedged U.S. dollar-denominated investment portfolio acts as a natural economic currency hedge of a portion of the Company’s investment in Aflac Japan against erosion of economic value. However, the unhedged U.S. dollar-denominated investment portfolio at the same time creates an unmatched foreign currency exposure and subjects Aflac Japan to volatility in regulatory capital and earnings, which may adversely impact Aflac

Japan’s ability to pay dividends to the Parent Company. The overall investment strategy in Aflac Japan is guided primarily by the objective of securing the long-term financial strength of Aflac Japan and funding of yen liabilities. As a result, the Company has historically maintained and currently maintains the size of the unhedged portfolio at levels below the stressed economic surplus in Aflac Japan. However, there can be no assurance that this strategy will be successful.

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

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

For more information regarding unhedged U.S. dollar-denominated securities, see the risk factor below entitled, “Lack of availability of acceptable yen-denominated investments could adversely affect the Company’s results of operations, financial position or liquidity”. For more information regarding foreign currency risk, see the Currency Risk subsection within the Market Risks of Financial Instruments section of MD&A.

Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity.
The Company attempts to match both the duration and currency of its assets with its liabilities. This is very difficult for Aflac Japan due to the lack of available long-dated yen-denominated fixed income instruments beyond JGBs.

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

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

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

Foreign exchange derivatives used for hedging are periodically settled, which results in cash receipt or payment at maturity or early termination. The Company’s foreign exchange derivatives are typically shorter-dated than the underlying U.S. dollar-denominated investments being hedged, which creates roll-over risks within the hedging program that could increase the cost of such derivatives. If the Company reduces the notional amount of foreign exchange derivatives prior to the maturity of the hedged U.S. dollar-denominated investments, the foreign exchange gains or losses on the U.S. dollar-denominated investments remain economically unrealized. These gains or losses are only economically realized, or monetized, through sale, maturity or redemption of the investments and concurrent conversion to yen. However, the Company may not realize the benefit of offsetting adverse cash settlements on hedging derivatives with cash receipts on the U.S. dollar-denominated investments if the currency exchange rates move in an adverse direction before the investments are converted to yen, or if the investments are never converted to yen. As an example of the latter, if the Company’s actual insurance risk experience in Japan is as expected or more favorable than expected, the need for yen to pay expenses and claims would correspondingly remain at or below expected levels, thereby diminishing operational requirements to convert U.S. dollar-denominated investments to yen. Since 2012, the cumulative net cash settlements on derivatives hedging currency exposure of Aflac Japan’s U.S. dollar-denominated investments were an outflow of $3.9 billion as of December 31, 2018. These outflows or cumulative net negative settlements are associated with foreign exchange derivatives on existing U.S. dollar-denominated investments and hedged investments that have since been sold, matured or redeemed and may or may have not been converted to yen. Furthermore, the settlements include instances where the initial foreign exchange derivative notional amounts were reduced prior to the maturity of the hedged

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investments. The settlement of the foreign exchange derivatives is reported in the investing activities section of the Company’s consolidated statements of cash flows in the line item “Settlement of derivatives, net.”

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

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

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

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

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

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

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

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

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

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

The Company operates in a competitive environment and in an industry that is subject to ongoing changes from market pressures brought about by customer demands, legislative reform, marketing practices and changes to health care and health insurance delivery. These factors require the Company to anticipate market trends and make changes to differentiate the Company's products and services from those of its competitors. The Company also faces the potential of competition from existing or new companies in the United States and Japan that have not historically been active in the supplemental health insurance industry, but some of which have greater financial, marketing and management resources than the Company does. Failure to anticipate market trends and/or to differentiate the Company's products and services can affect the Company's ability to retain or grow profitable lines of business.

Further, as employers and brokers are increasingly requesting a full-suite of products from one insurance provider, a failure to react and adapt to these demands could result in decreased sales or market share. Similarly, a failure to meet evolving customer demands through innovative product development, effective distribution channels, and continuous investment in the Company's technology could result in lower revenues and less favorable policy terms and conditions, which could adversely affect the Company's operating results.

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

The Company has made significant investments in the Aflac brand over a long period of time. Because insurance products are intangible, the Company's ability to compete for and maintain policyholders relies to a large extent on consumer trust in the Company's business. The perception of unfavorable business practices or financial weakness could create doubt regarding the Company's ability to honor the commitments it has made to its policyholders. Maintaining the Company's stature as a trustworthy insurer and responsible corporate citizen, which helps support the strength of the Company's brand, is critical to the Company's reputation and the failure or perceived failure to do so could adversely affect the Company's brand value, financial condition and results of operations. For example, negative publicity or allegations of unfavorable business practices or poor governance can be rapidly and widely shared over social or traditional media or other means, and could reduce demand for the Company's insurance products, reduce the Company's ability to recruit and retain employees, or lead to greater regulatory scrutiny of the Company's operations.

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

The Company's sales could be adversely affected if its sales networks deteriorate or if the Company does not adequately provide support, training and education for its existing network. In the United States, competition exists for sales associates and brokers with demonstrated ability. In Japan, the Company's sales results are dependent upon its relationship with sales associates and other distribution partners, including its alliance partner, Japan Post, which in recent periods has accounted for approximately 25% of Aflac Japan's third sector sales. The Company competes with other insurers and financial institutions primarily on the basis of its products, compensation, support services and financial rating. The Company's inability to attract and retain qualified sales associates, brokers and other distribution partners, including its alliance partners in Japan, could have a material adverse effect on the Company's sales, results of operations and financial condition.

The Company's sales associates and brokers are independent contractors and may sell products of its competitors. If the Company's competitors offer products that are more attractive, or pay higher commissions than the Company does, any or all of these distribution partners may concentrate their efforts on selling the Company's competitors' products instead of the Company's. In addition to the Company's commissioned sales force in the United States, Aflac has expanded its sales leadership team to include a salaried sales force of over 200 market directors and broker sales professionals. The Company's ability to attract and retain top talent in these salaried roles has a material impact on its sales success.

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

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

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

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

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

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

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

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

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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.

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

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

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

- standards of establishing and setting premium rates and the approval thereof
- standards of minimum capital and reserve requirements and solvency margins, including RBC measures
- restrictions on, limitations on and required approval of certain transactions between the Company's insurance subsidiaries and their affiliates, including management fee arrangements
- restrictions on the nature, quality and concentration of investments

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- restrictions on the types of terms and conditions that the Company can include in the insurance policies offered by its primary insurance operations
- limitations on the amount of dividends that insurance subsidiaries can pay
- the existence and licensing status of a company under circumstances where it is not writing new or renewal business
- certain required methods of accounting
- reserves for unearned premiums, losses and other purposes
- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies
- administrative practices requirements
- imposition of fines and other sanctions

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

Various forms of federal oversight and regulation of insurance were signed into law by the prior U.S. presidential administration. For example, the ACA gave the U.S. federal government direct regulatory authority over the business of health insurance and made significant changes to the U.S. health care insurance marketplace, including the imposition of an individual medical insurance coverage mandate (which has since been repealed effective 2019 by the Tax Act), penalties on certain employers for failing to provide adequate coverage, the creation of health insurance exchanges, and proscriptions regarding coverage and exclusions as well as medical loss ratios. The legislation also includes changes in government reimbursements and tax credits for individuals and employers and alters 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 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.

In addition, Dodd-Frank intended to reduce risk of a financial crisis, contains multiple provisions that could impact the Company's business as rules are finalized and implemented. While it is difficult to isolate the impact of Dodd Frank from other government and central bank actions and general market conditions since the financial crisis, the Company believes that the Dodd-Frank Act, in particular bank capital requirements, limits on proprietary trading and derivatives regulation, has affected the value of its holdings in banks and other financial institutions, and impacted pricing, liquidity, and the Company's general ability to conduct financial and capital market transactions. Dodd Frank is expansive in scope and, among other things, requires the adoption of extensive regulations and numerous regulating decisions, many of which have been adopted. The presidential administration in the United States 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 the ultimate effects (if any) that Dodd Frank, or subsequent implementation of regulations and decisions, will have on its U.S. business, financial condition, or results of operations.

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

Tax rates applicable to the Company may change.

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

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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 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.

These changes became effective on January 1, 2018. 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 a net deferred tax liability reduction of $1.9 billion benefit in 2017. During the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional amount of deferred tax liabilities (DTLs) related to the Japan tax computation and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability. The impact of the Tax Act, including the preliminary estimate for the change in tax rate that was recorded during the fourth quarter of 2017, adjustments booked during the fourth quarter of 2018 which rendered final values related to the tax rate, and the Company's combined U.S. and Japanese effective income tax rate, may be adjusted in future periods, possibly materially, due to, among other things, 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. Without limiting the foregoing, additional forthcoming guidance from the U.S. Department of the Treasury and/or the U.S. IRS related to the Tax Act could significantly impact the level of valuation allowance respecting the amount of foreign tax credits claimed by the Company with regard to the operations of Aflac Japan.

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

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

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

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

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

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

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

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

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

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

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

Further, the Company has agreements with various financial institutions for the distribution of its insurance products. For example, at December 31, 2018, the Company had agreements with 371 banks to market Aflac's products in Japan. Sales through these banks represented 4.6% of Aflac Japan's new annualized premium sales in 2018. Any material adverse effect on these or other financial institutions could also have an adverse effect on the Company's sales.

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

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

Aflac is domiciled in Nebraska and is subject to insurance regulations that impose certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. After the Japan branch conversion, the Nebraska insurance department and the FSA approved their respective domiciled insurance company service arrangements and transactions. The FSA does not allow dividends or other payments from Aflac Japan unless it meets certain financial criteria as governed by Japanese corporate law. Under these criteria, dividend capacity at the Japan subsidiary will be defined as retained earnings plus other capital reserve less net after-tax net unrealized losses on available-for-sale securities.

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

Item 1A. Risk Factors

dividends or make other payments to the Parent Company could have a material adverse effect on the Company's financial condition and results of operations.
For the foregoing reasons, there is no assurance that the earnings from, or other available assets of, the Parent Company's operating subsidiaries will be sufficient to make distributions to enable the Company to operate.
Any decrease in the Company's financial strength or debt ratings may have an adverse effect on its competitive position and access to liquidity and capital.

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

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

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

On September 16, 2015, S&P downgraded their credit rating of Japan's sovereign debt. Following this action, they also downgraded several other foreign insurers, including Aflac. Although Aflac is a U.S.-based insurer, Aflac's significant operations in Japan and corresponding regulation by the Japanese FSA, combined with its significant exposure to JGBs as outlined above, resulted in S&P downgrading the financial strength rating of Aflac's core insurance operations to A+ and its senior debt rating to A-, both with a stable outlook. While S&P made no further downgrades to Aflac's ratings between 2016 and 2018, they have stated in the past that a downgrade of Japan's sovereign rating could lead to a downgrade of Aflac's financial strength rating. As a matter of policy, S&P rarely rates insurance companies above the sovereign long-term rating of the country of domicile because during times of stress, the sovereign's regulatory and supervisory powers may restrict an insurer's or financial system's flexibility.

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

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

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Item 1A. Risk Factors

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

The Company has developed an enterprise-wide risk management and governance framework to mitigate risk and loss to the Company. The Company maintains policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed.
However, there are inherent limitations to risk management strategies because risk may exist, or emerge in the future, that the Company has not appropriately anticipated or identified. If the Company's risk management framework proves ineffective, the Company may suffer unexpected losses and could be materially adversely affected. As the Company's businesses change and the markets in which it operates evolve, the Company's risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience resulting from greater than expected morbidity, mortality, longevity, or persistency, the effectiveness of the Company's risk management strategies may be limited, resulting in losses to the Company. In addition, under difficult or less liquid market conditions, the Company's risk management strategies may not be effective because other market participants may be using the same or similar strategies to manage risk under the same challenging market conditions. In such circumstances, it may be difficult or more expensive for the Company to mitigate risk due to the activity of such other market participants.
Many of the Company's risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management’s subjective judgment. The Company cannot provide assurance that its risk management framework, including the underlying assumptions or strategies, will be accurate and effective.
Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective. Models are utilized by the Company's businesses and corporate areas primarily to project future cash flows associated with pricing products, calculating reserves and valuing assets, as well as in evaluating risk and determining capital requirements, among other uses. These models are utilized under a risk management policy approved by the Company's executive risk management committees, however, the models may not operate properly and rely on assumptions and projections that are inherently uncertain. As the Company's businesses continue to grow and evolve, the number and complexity of models the Company utilizes expands, increasing the Company's exposure to error in the design, implementation or use of models, including the associated input data and assumptions.
Past or future misconduct by the Company's employees or employees of the Company's third parties (suppliers which are cost-based relationships and alliance partners which are revenue-generating relationships) could result in violations of law by the Company, regulatory sanctions and/or serious reputational or financial harm and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Despite the Company's published Supplier Code of Conduct, due diligence of the Company's alliance partners, and rigorous contracting procedures (including financial, legal, IT security, and risk reviews), there can be no assurance that controls and procedures that the Company employs, which are designed to assess third party viability and prevent the Company from taking excessive or inappropriate risks, will be effective. Additionally, the use of third parties also poses operational risks that could result in financial loss, operational disruption, brand damage, or compliance issues. Inadequate oversight of Aflac’s third party suppliers due to the lack of policies, procedures, training and governance may lead to financial loss or damage to the Aflac brand.
The concentration of the Company's investment portfolios in any particular single-issuer or sector of the economy may have an adverse effect on the Company's financial position or results of

operations.

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

Item 1A. Risk Factors

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

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

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

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

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

Managing key executive succession is critical to the Company's success.
The Company would be adversely affected if it fails to adequately plan for succession of its senior management and other key executives. While the Company has succession plans and employment arrangements with certain key executives, these plans cannot guarantee that the services of these executives will be available to the Company, and its operations could be adversely affected if they are not.

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

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

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

Item 1A. Risk Factors

Changes in accounting standards issued by the Financial Accounting Standard Boards (FASB) or other standard-setting bodies may adversely affect the Company's financial statements.
The Company's financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time to time the Company is required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. The impact of accounting pronouncements that have been issued but not yet implemented and are applicable to the Company is disclosed in Note 1 of the Notes to the Consolidated Financial Statements. The pronouncements expected to have the most significant impact on the Company's financial position or results of operations are outlined below.
In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The amendments in this update require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for credit losses in order to reflect the amount expected to be collected on the financial asset(s). 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 amendments are effective for fiscal years beginning after December 15, 2019.
Additionally, in August 2018 the FASB issued ASU 2018-12, *Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts*. The amendments in this update will significantly change how insurers account for long-duration contracts. Among the issues addressed in the amendments is the requirement to review and, if there is a change, update assumptions for liability for future policy benefits at least annually, and to update the discount rate assumption quarterly. The frequency of the reviews and updates varies according to the assumptions but will be at least annually in all cases. The Company anticipates that the requirement to review and update assumptions for liability for future policy benefits will have a significant impact on its results of operations, systems, processes, and controls, while the requirement to update the discount rate will have a significant impact on the other comprehensive income component of its equity. The amendments are effective for fiscal years beginning after December 15, 2020.

The accounting treatment that the Company applies to its consolidated financial statements will change due to new standards and could have a material adverse effect on the Company's results of operations and financial condition. For information on new accounting pronouncements and the impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in this report.
Changes in the Company's discount rate, expected rate of return, life expectancy, health care cost and expected compensation increase assumptions for its pension and other postretirement benefit plans may result in increased expenses and reduce the Company's profitability.

The Company determines its pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, life expectancy of plan participants and expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce the Company's profitability**.**

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

In the United States, Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as the Company's worldwide headquarters and house administrative support and information technology functions for U.S. operations. Aflac leases office space in Columbia, South Carolina, which houses the Company's CAIC subsidiary (branded as Aflac Group Insurance). Aflac leases office space in New York that houses the Company's Global Investment division. Aflac leases administrative office space in Georgia, South Carolina, New York, Nebraska, and in 39 additional states throughout the United States, as well as Washington, D.C. and Puerto Rico.

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

ITEM 3. LEGAL PROCEEDINGS

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 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. On August 31, 2018, the District Court granted the Company's motion and the amended complaint was dismissed. The plaintiffs have appealed the dismissal to the United States Court of Appeals for the Eleventh Circuit. 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.

Item 3. Legal Proceedings

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER
PURCHASES OF EQUITY SECURITIES
Market Information

Aflac Incorporated's common stock is principally traded on the New York Stock Exchange under the symbol AFL. Aflac Incorporated's stock is also listed on the Tokyo Stock Exchange under designator 8686.

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 a100% 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 Annual Report on Form 10-K.

Holders

As of February 12, 2019, there were 86,621 holders of record of the Company's common stock.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Performance Graphic Index
December 31,

	2013	2014	2015	2016	2017	2018
Aflac Incorporated	100.00	93.72	94.20	112.20	144.74	153.73
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P Life & Health Insurance	100.00	101.95	95.51	119.26	138.85	110.01

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

During the year ended December 31, 2018, we repurchased shares of Aflac 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
April 1 - April 30	2,082,500	44.62	2,082,500	89,273,988
May 1 - May 31	2,558,472	45.17	2,542,900	86,731,088
June 1 - June 30	2,175,100	44.99	2,175,100	84,555,988
July 1 - July 31	2,008,123	43.52	1,994,900	82,561,088
August 1 - August 31	2,358,317	46.64	2,352,500	80,208,588
September 1 - September 30	2,668,990	47.20	2,654,401	77,554,187
October 1 - October 31	2,817,600	44.78	2,817,600	74,736,587
November 1 - November 30	2,337,607	44.44	2,336,400	72,400,187
December 1 - December 31	3,382,043	44.03	3,352,300	69,047,887
Total	29,045,797 *(1)*	$ 44.93	28,948,885	69,047,887

(1) During the year ended December 31, 2018, 96,912 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

As of December 31, 2018, a remaining balance of 69.0 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its Board of Directors.

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Item 6. Selected Financial Data

ITEM 6. SELECTED FINANCIAL DATA

Aflac Incorporated and Subsidiaries
Years Ended December 31,

(In millions, except for share and per-share amounts)	**2018**	2017	2016	2015	2014
Revenues:					
Net premiums, principally supplemental health insurance	**$18,677**	$18,531	$19,225	$17,570	$19,072
Net investment income	**3,442**	3,220	3,278	3,135	3,319
Realized investment gains (losses)	**(430)**	(151)	(14)	106	282
Other income	**69**	67	70	61	55
Total revenues	**21,758**	21,667	22,559	20,872	22,728
Benefits and expenses:					
Benefits and claims, net	**12,000**	12,181	12,919	11,746	12,937
Expenses	**5,775**	5,468	5,573	5,264	5,300
Total benefits and expenses	**17,775**	17,649	18,492	17,010	18,237
Pretax earnings	**3,983**	4,018	4,067	3,862	4,491
Income taxes	**1,063**	(586)	1,408	1,329	1,540
Net earnings	**$2,920**	$4,604	$2,659	$2,533	$2,951
Share and Per-Share Amounts					
Net earnings (basic)	**$3.79**	$5.81	$3.23	$2.94	$3.27
Net earnings (diluted)	**3.77**	5.77	3.21	2.92	3.25
Cash dividends paid	**1.04**	.87	.83	.79	.75
Cash dividends declared	**1.04**	.87	.83	.79	.75
Weighted-average common shares used for basic EPS (In thousands)	**769,588**	792,042	822,942	861,307	902,408
Weighted-average common shares used for diluted EPS (In thousands)	**774,650**	797,861	827,841	866,344	907,999
Supplemental Data					
Yen/dollar exchange rate at year-end (yen)	**111.00**	113.00	116.49	120.61	120.55
Weighted-average yen/dollar exchange rate (yen)	**110.39**	112.16	108.70	120.99	105.46

Prior-year amounts have been adjusted for the two-for-one stock split of the Company’s common stock in March 2018.

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Item 6. Selected Financial Data

Aflac Incorporated and Subsidiaries
December 31,

(In millions)	**2018**	2017	2016	2015	2014
Assets:					
Investments and cash	**$126,243**	$123,659	$116,361	$105,897	$107,341
Other	**14,163**	13,558	13,458	12,359	12,386
Total assets	**$140,406**	$137,217	$129,819	$118,256	$119,727
Liabilities and shareholders' equity:					
Policy liabilities	**$103,188**	$99,147	$93,726	$87,631	$83,933
Income taxes	**4,020**	4,745	5,387	4,340	5,293
Notes payable	**5,778**	5,289	5,360	4,971	5,242
Other liabilities	**3,958**	3,438	4,864	3,606	6,912
Shareholders' equity	**23,462**	24,598	20,482	17,708	18,347
Total liabilities and shareholders' equity	**$140,406**	$137,217	$129,819	$118,256	$119,727

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. The Company desires to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as the following or similar words as well as specific projections of future results, generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements.

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

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

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

- inherent limitations to risk management policies and procedures
- concentration of the Company's investments in any particular single-issuer or sector
- differing judgments applied to investment valuations
- ability to effectively manage key executive succession
- catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, war or other military action, terrorism or other acts of violence, and damage incidental to such events
- changes in accounting standards
- increased expenses and reduced profitability resulting from changes in assumptions for pension and other postretirement benefit plans
- level and outcome of litigation
- allegations or determinations of worker misclassification in the United States

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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-year period ended December 31, 2018. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes. This MD&A is divided into the following sections:

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, effective April 1, 2018, through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan). Prior to April 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. (For more information about the conversion of Aflac Japan to a legal subsidiary, see the Insurance Operations subsection of this MD&A). 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.

For more information on the Company's business, see Business, Part I, Item 1 of this report.

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[(1)]. The spot yen/dollar exchange rate at December 31, 2018 was 111.00, or 1.8% stronger than the spot yen/dollar exchange rate of 113.00 at December 31, 2017. The weighted-average yen/dollar exchange rate for the year ended December 31, 2018 was 110.39, or 1.6% stronger than the weighted-average yen/dollar exchange rate of 112.16 for the same period in 2017.

Total revenues increased .4% to $21.8 billion in 2018, compared with $21.7 billion in 2017. Net earnings in 2018 were $2.9 billion, or $3.77 per diluted share, compared with $4.6 billion, or $5.77 per diluted share, in 2017. In 2017, net earnings and net earnings per diluted share included the impact of the estimated $1.9 billion, or $2.42 per diluted share, benefit as a result of the U.S. Tax Act. In the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional Japan deferred tax balances and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability.

Results for 2018 included pretax net realized investment losses of $430 million, compared with net realized investment losses of $151 million in 2017. Net investment losses in 2018 included $81 million of other-than-temporary impairment losses and changes in loan loss reserves and $234 million in net losses from derivatives and foreign currency gains or losses. 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 $131 million in 2018.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In October 2018, the Parent Company issued $550 million of senior notes and 53.4 billion yen of senior notes through public debt offerings under its U.S. shelf registration statement. In November 2018, the Parent Company used the net proceeds of the $550 million senior notes to redeem the Parent Company's 2.40% senior notes due in 2020. For further information regarding these transactions, see Note 9 of the Notes to the Consolidated Financial Statements and the Capital Resources and Liquidity section of this MD&A.

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 Annual Report on Form 10-K.

The Company repurchased 28.9 million shares of its common stock in the open market for $1.3 billion under its share repurchase program in 2018, compared with the repurchase of 35.5 million shares for $1.35 billion in 2017.

Strategic Alliance with Japan Post Holdings

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

Pursuant to the terms of the Shareholders Agreement a voting trust established and funded by Japan Post Holdings (Trust) will use commercially reasonable efforts to acquire, through open market or private block purchases, ownership of approximately 7% of the outstanding shares of the Parent Company’s outstanding common stock within a year after the Trust begins acquiring such stock. The Trust has agreed not to own more than 10% of the Parent Company’s outstanding shares for a period expiring on the earlier of four years after the Trust acquires 7% of such shares, five years after it acquires 5% of such shares, or ten years after the Trust begins acquiring the Parent Company’s stock. After expiration of such period, the Trust has agreed not to own more than the greater of 10% of the Parent Company’s outstanding shares or such shares representing 22.5% of the voting rights in the Parent Company.

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

This strategic investment is subject to certain regulatory approvals in Japan and the U.S. The Company anticipates that regulatory approvals will be received in the second half of 2019.

The foregoing summary is subject to and qualified in its entirety by reference to the full text of the Basic Agreement and Letter Agreement, including the forms of Trust Agreement and Shareholders Agreement attached to the Letter Agreement, copies of which are included as Exhibits 10.47 and 10.48 hereto and the terms of which are incorporated herein by reference.

As of December 31, 2018, the Trust owned no shares of the Parent Company’s outstanding stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES

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

Investments and Derivatives

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

The Company estimates the fair values of its securities on a monthly basis. The Company monitors the estimated fair values obtained from its pricing vendors and brokers for consistency from month to month, while considering current market conditions. The Company also periodically discusses with its pricing brokers and vendors the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. If a fair value appears unreasonable, the Company will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, the Company may compare the inputs to relevant market indices and other performance measurements. Based on management's analysis, the valuation is confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. The Company has performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

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

The Company's derivative activities include foreign currency forwards and options used in hedging foreign exchange risk and interest rate swaps and options on interest rate swaps (or interest rate swaptions) used in hedging interest rate risk on U.S. dollar-denominated securities in Aflac Japan's portfolio; foreign currency forwards and options used to economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long term exposure to a weakening yen; foreign currency swaps associated with certain senior notes and subordinated debentures; and foreign currency and credit default swaps in variable interest entities (VIEs) that are consolidated. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility.

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

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

Policy Liabilities

The following table provides details of policy liabilities by segment and in total as of December 31.

Policy Liabilities

(In millions)	**2018**	2017
Japan segment:		
Future policy benefits	**$77,812**	$73,661
Unpaid policy claims	**2,857**	2,692
Other policy liabilities	**12,122**	12,779
Total Japan policy liabilities	**$92,791**	$89,132
U.S. segment:		
Future policy benefits	**$9,137**	$8,806
Unpaid policy claims	**1,727**	1,700
Other policy liabilities	**117**	119
Total U.S. policy liabilities	**$10,981**	$10,625
Consolidated:		
Future policy benefits	**$86,368**	$81,857
Unpaid policy claims	**4,584**	4,392
Other policy liabilities	**12,236**	12,898
Total consolidated policy liabilities(1)	**$103,188**	$99,147

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

The Company's policy liabilities, which are determined in accordance with applicable guidelines as defined under U.S. GAAP and Actuarial Standards of Practice, include two components that involve analysis and judgment: future policy benefits and unpaid policy claims, which accounted for 84% and 4% of total policy liabilities as of December 31, 2018, respectively.

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. The Company calculates future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy is issued. The assumptions used in the calculations are closely

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

related to those used in developing the gross premiums for a policy. As required by U.S. GAAP, the Company also includes a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

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

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

As a part of its established financial reporting and accounting practices and controls, the Company performs detailed annual actuarial reviews of its policyholder liabilities (gross premium valuation, GPV, analysis) and reflects the results of those reviews in its results of operations and financial condition as required by U.S. GAAP. For Aflac Japan, the Company's annual review in 2016 indicated that it needed to strengthen the liability associated with a block of care policies, primarily due to low investment yields. The Company strengthened its future policy benefits liability by $52 million in 2016 as a result of this review. Results of the Company’s annual review in 2018 and 2017 concluded that no further strengthening was required for these liabilities. For Aflac U.S., the Company's annual reviews in 2018, 2017 and 2016 indicated no need to strengthen liabilities associated with policies in the United States. In the U.S. and Japan, investment assumptions were reviewed in 2017 and the Company adopted expected forward rates in its GPV yield projections. In addition, in Japan, assets were allocated to blocks of business to align with yield and duration requirements of the businesses.

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

Future Policy Benefits

(In millions of dollars and billions of yen)	**2018**		2017		2016	
Aflac U.S.	**$9,137**		$8,806		$8,442	
Growth rate	**3.8**	**%**	4.3	%	4.4	%
Aflac Japan	**$77,812**		$73,661		$68,291	
Growth rate	**5.6**	**%**	7.9	%	9.7	%
Consolidated	**$86,368**		$81,857		$76,106	
Growth rate	**5.5**	**%**	7.6	%	9.2	%
Yen/dollar exchange rate (end of period)	**111.00**		113.00		116.49	
Aflac Japan (in yen)	**8,637**		8,324		7,955	
Growth rate	**3.8**	**%**	4.6	%	6.0	%

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

In computing the estimate of unpaid policy claims, the Company considers many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. The Company monitors these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, the Company does not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2018, to changes in severity and frequency of claims.

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Sensitivity of Unpaid Policy Claims Liability

(In millions)

	Total Severity				
Total Frequency	Decrease by 2%	Decrease by 1%	Unchanged	Increase by 1%	Increase by 2%
Increase by 2%	$ 0	$ 25	$ 50	$ 75	$ 101
Increase by 1%	(24)	0	25	50	75
Unchanged	(49)	(25)	0	25	50
Decrease by 1%	(73)	(49)	(25)	0	25
Decrease by 2%	(97)	(73)	(49)	(24)	0

Other policy liabilities, which accounted for 12% of total policy liabilities as of December 31, 2018, consisted primarily of annuity and unearned premium reserves, and discounted advance premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan insurance products. These advanced premiums are deferred upon collection and recognized as premium revenue over the contractual premium payment period. Advanced premiums represented 29% and 34% of the December 31, 2018 and 2017 other policy liabilities balances, respectively. See the Aflac Japan segment subsection of this MD&A for further information.

Income Taxes

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

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

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 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.

These changes became effective on January 1, 2018. 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 reasonable estimate, a net deferred tax liability reduction of $1.9 billion as of that date. While the Company believes that this estimate was reasonable, it is relying upon guidance provided by SEC Staff Accounting Bulletin No. 118 (SAB 118) that provided a measurement period of up to one year from the enactment date of December 22, 2017, in order to complete the accounting for the effects of the Tax Act. This estimate was subject to new and changing regulations, interpretations and tax guidance in the future, as well as further refinement of the Company’s calculations and changes in the interpretations and assumptions that the Company had made. In the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional Japan deferred tax balances and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability.

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

Future Adoption of Accounting Standard for Long-Duration Insurance Contracts

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-12, “Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts.” The update, which is expected to significantly change how insurers account for long-duration contracts, amends existing recognition, measurement, presentation, and disclosure requirements applicable to the Company. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted, however, the Company does not expect to early adopt the updated standard.

The Company is thoroughly evaluating the impact of adoption of ASU 2018-12 and expects that the adoption will have a significant impact on the Company’s reported financial position, results of operations, and disclosures under U.S. GAAP accounting. The Company anticipates that the requirement to update assumptions for liability for future policy benefits will have a significant impact on its results of operations, while the requirement to update the discount rate will have a significant impact on its accumulated other comprehensive income (AOCI) and equity. There are two permitted transition methods upon adoption, full retrospective and modified retrospective. Under the full retrospective method, the Company would restate all historical periods based upon actual historical experience as of contract inception and its updated view of the contractual cash flow projections at transition. A cumulative catch-up adjustment to opening retained earnings would be recognized to reflect the actual experience and updated projections. The update of the discount rate would be recognized in AOCI. The Company will be permitted to apply a full retrospective transition approach if actual historical information is available for all contracts that will be affected by the new guidance. Under the modified retrospective method, the opening reserve balance at the transition date, January 1, 2019, would generally be the same as the closing balance before transition, updated for changes in the discount rate.

The Company expects that under either transition method, the impact to its reported financial statements under U.S. GAAP will be greatly influenced by the nature of the Company’s business model. Adoption of the new guidance under either method will reflect the Company’s concentration in Japan third-sector business, in particular cancer insurance, with respect to which the duration of liabilities is materially longer than asset durations. Depending on the transition method chosen upon adoption, the impact of a low discount rate applied to long-duration third sector liabilities is recognized at adoption, while associated favorable morbidity margins are recognized over time thus driving a pronounced timing impact to U.S. GAAP equity. In addition, with respect to the Japan segment, the Company maintains a large portfolio of assets designated as held-to-maturity (HTM) as a strategy to reduce capital (solvency margin ratio or SMR) volatility. In a low interest rate environment, such as presently exists in Japan, assets designated as HTM that were purchased in a higher interest rate environment have significant embedded gains not reflected in AOCI, which serves as an economic offset to a low discount rate applied to policy liabilities. At December 31, 2018, the Company's HTM portfolio was$30.3 billion at amortized cost and had $6.5 billion in net unrealized gains. After adoption of the new guidance, the Company also expects net earnings and net earnings per share (which were $2.9 billion and $3.77 per diluted share, respectively, in 2018) to reflect larger quarterly fluctuations due to the new requirement to update assumptions for liability for future policy benefits.

As an example of the potential impact of the new guidance, and for illustrative purposes only, under the modified retrospective method and in a low interest rate environment, the Company would expect AOCI (which was $2.2 billion at December 31, 2018) to significantly decline upon adoption and to thereafter reflect larger quarterly fluctuations due to the new requirement to quarterly adjust discount rates. Conversely, in a higher interest rate environment, and again assuming adoption of the modified retrospective method for illustrative purposes, the Company would expect AOCI to decline less or even increase (depending on the specifics of the interest rate environment), as well as to reflect quarterly fluctuations. Under the full retrospective method, the Company would expect lesser declines or increases in total equity upon adoption compared to the modified retrospective method due to the potential offsetting effect from updating experience and cash flow projections

The ultimate impact on these items from the Company’s implementation of the updated standard is subject to assessments that are dependent on many variables, including but not limited to (i) the transition method selected by the Company, which the Company continues to evaluate, (ii) how certain aspects of the new standard will be interpreted and implemented by the Company and other similar companies, such as (but not limited to) amortization of deferred acquisition costs, as well as establishment of policies, processes and controls for setting, monitoring and periodically updating reserve assumptions, and (iii) changes in the interest rate environment in the US and Japan.

The Company is in the early stages of reviewing transition methods and has only begun to assess the full impact of adoption; as such, the Company expects to provide periodic updates on its continuing assessment. However, the Company expects that while the adoption of this new accounting guidance will affect the Company’s financial statements under U.S. GAAP, it will not impact financial statements for Aflac Japan under FSA requirements or for Aflac U.S. under applicable statutory requirements. Therefore, the Company does not expect adoption of the updated standard to impact its subsidiaries’ dividend capacity or their ability to meet applicable regulatory capital standards, nor does the Company anticipate adoption to affect its strategies for capital deployment.

New Accounting Pronouncements

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

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.

In 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 exposure management strategies and net interest cash flows from derivatives associated with certain investment strategies. Adjusted expenses are U.S. GAAP total acquisition and operating expenses including the impact of interest cash flows from derivatives associated with notes payable but excluding any nonrecurring or other items not associated with the normal course of the Company’s insurance operations and that do not reflect Aflac’s underlying business performance.

The Company defines adjusted earnings per share (basic or diluted) to be adjusted earnings for the period divided by the weighted average outstanding shares (basic or diluted) for the period presented. The most comparable U.S. GAAP measure is net earnings per share.

Amortized hedge costs 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 fluctuations driven solely by yen-to-dollar currency rate changes.

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

Reconciliation of Net Earnings to Adjusted Earnings[1]

	In Millions			**Per Diluted Share**		
	2018	2017	2016	**2018**	2017	2016
Net earnings	**$2,920**	$4,604	$2,659	**$3.77**	$5.77	$3.21
Items impacting net earnings:						
Realized investment (gains) losses [2],[3],[4],[5]	**297**	0	(87)	**.38**	.00	(.10)
Other and non-recurring (income) loss	**75**	69	137	**.10**	.08	.16
Income tax (benefit) expense on items excluded from adjusted earnings	**(83)**	(24)	(18)	**(.11)**	(.03)	(.02)
Tax reform adjustment [6]	**18**	(1,933)	0	**.02**	(2.42)	.00
Adjusted earnings	**3,226**	2,716	2,691	**4.16**	3.40	3.25
Current period foreign currency impact [7]	**(28)**	N/A	N/A	**(.04)**	N/A	N/A
Adjusted earnings excluding current period foreign currency impact [8]	**$3,198**	$2,716	$2,691	**$4.13**	$3.40	$3.25

[1] *"Adjusted earnings" was formerly referred to as "operating earnings." Amounts may not foot due to rounding.*

[2] *Excludes amortized hedge costs of $236 in 2018, $228 in 2017 and $186 in 2016, 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 partially offset by derivatives entered into as part of corporate activities and resulted in a benefit of $36 in 2018, which has been reclassified from realized investment gains (losses) and reported as an increase in net investment income when analyzing operations.*

[4] *An immaterial amount of net interest cash flows from derivatives associated with certain investment strategies in 2018 have been reclassified from realized investment gains (losses) into net investment income when analyzing operations.*

[5] *Excludes a gain of $67 in 2018, $77 in 2017 and $85 in 2016, 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*

[6] *The impact of Tax Reform was estimated in 2017, and adjustments were recorded in 2018 for return-to-provision adjustments, various amended returns filed by the Company, and final true-ups of deferred tax liabilities.*

[7] *Prior period foreign currency impact reflected as "N/A" to isolate change for current period only.*

[8] *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.

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

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

Certain Derivative and Foreign Currency Gains (Losses)

The Company's derivative activities include foreign currency forwards and options on certain fixed maturity securities; foreign currency forwards and options that economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long-term exposure to a weakening yen; foreign currency swaps associated with certain senior notes and subordinated debentures; foreign currency swaps and credit defaults swaps held in consolidated VIEs; interest rate swaps used to economically hedge interest rate fluctuations in certain variable-rate investments; and interest rate swaptions to hedge changes in the fair value associated with interest rate changes for certain dollar-denominated available-for-sale securities. Gains and losses are recognized as a result of valuing these derivatives, net of the effects of hedge accounting. The Company also excludes the accounting impacts of remeasurement associated with changes in the yen/dollar exchange rate from adjusted earnings. Certain derivative and foreign currency gains (losses) exclude amortized hedge costs related to foreign currency exposure management strategies (see Hedge Cost section below), and net interest cash flows from derivatives associated with certain investment strategies and notes payable, all of which are 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. Amortized hedge costs are offset by a hedge cost amortization benefit recognized for foreign currency forwards that economically hedge the Company's long-term exposure to a weakening yen. 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 in the United States, 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 15 of the Notes to the Consolidated Financial Statements.

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In Japan, the government also requires the insurance industry to contribute to a policyholder protection corporation that provides funds for the policyholders of insolvent insurers; however, these costs are calculated and administered differently than in the United States. In Japan, these costs are not directly related to specific insolvencies or bankruptcies, but are rather a regular operational cost for an insurance company. Based on this structure, the Company does not remove the Japan policyholder protection expenses from adjusted earnings.
Effective January 1, 2017, nonrecurring items also include conversion costs related to legally converting the Company's Japan branch 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 $75 million in 2018 and $42 million in 2017.

The Company considers the costs associated with the early redemption of its debt to be unrelated to the underlying fundamentals and trends in its insurance operations. Additionally, these costs are driven by changes in interest rates subsequent to the issuance of the debt, and the Company considers these interest rate changes to represent economic conditions not directly associated with its insurance operations. In November 2017, the Parent Company extinguished $500 million of its 5.50% subordinated debentures. The pretax non-operating expense due to the early redemption of these notes was $13 million. In 2016, the Parent Company completed a tender offer in which it extinguished $176 million principal of its 6.90% senior notes due 2039 and $193 million principal of its 6.45% senior notes due 2040. The pretax non-operating loss due to the early redemption of these notes was $137 million.

Tax Reform Adjustment

Among other changes, the 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, during the year ended December 31, 2017, the Company revalued its deferred tax assets and liabilities and recognized a non-recurring estimated $1.9 billion benefit for the reduction of the net deferred tax liability. In the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional Japan deferred tax balances and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability.

For further information, see Critical Accounting Estimates - Income Taxes above in this MD&A, and Note 10 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 26.7% in 2018, (14.6)% in 2017 and 34.6% in 2016. The reduction in the tax rate for 2017 was primarily due to the $1.9 billion benefit as a result of the Tax Act. The decrease in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 drove the reduction in the effective tax rate for 2018 compared with years prior to 2017. Total income taxes were $1.1 billion in 2018, compared with $(586) million in 2017 and $1.4 billion in 2016. Japanese income taxes on Aflac Japan's results account for most of the Company's consolidated income tax expense. For further information, see Critical Accounting Estimates - Income Taxes above in this MD&A, and Note 10 of the Notes to the Consolidated Financial Statements for additional information.

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2019 Outlook

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

The Company's objectives in 2019 are to maintain strong pre-tax margins in its Aflac Japan and Aflac U.S. segments through disciplined product pricing, stable investment returns and leveraging a period of favorable benefit ratios to invest in its platform for future growth and efficiency. The Company believes that its market-leading position, powerful brand recognition and diverse distribution in Japan and the United States will provide support toward these objectives.

The Company believes that its efforts will support its prudent strategies for capital deployment in the form of dividends, share repurchases, and opportunistic investments that enhance the Company’s business with a focus on digital distribution and leveraging the Company’s brand, distribution and scale. The Company has stated that the dividend payout ratio from its Aflac Japan segment is likely to be in the range of 80% - 100% of FSA earnings. In its Aflac U.S. segment, the Company plans to continue its RBC drawdown plan to an RBC in the 500% range by the end of 2019.

Aflac Japan Segment
In Japan, the Company anticipates that the shift in earned premium from first sector savings products to third sector cancer and medical products and first sector protection products, will continue to result in moderately lower benefit ratios in the Aflac Japan segment. The Company also expects this shift in business mix, plus continued investment in IT and digital advancements, to result in moderately higher expense ratios for Aflac Japan. The Company believes that the Japan segment will face revenue challenges in 2019 due to the run-off and paid-up status of first sector savings products. In addition, net investment income is expected to decline modestly as compared to 2018, due in part to the low rate environment in Japan, de-risking of the portfolio and rolling U.S. dollar hedge positions into higher cost contracts.

Aflac U.S. Segment
The Company expects the profit margins for the Aflac U.S. segment to remain strong, providing a prudent opportunity to reinvest profits back into the U.S. business. The Company believes that in 2019, benefit ratios in the U.S. will continue to trend favorably and that expense ratios will continue to be elevated in light of investments into U.S. platforms in both the individual and group channels. Net investment income is expected to decline modestly, primarily as the result of the Company’s U.S. capital and RBC draw-down plan.

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

For important disclosures applicable to statements made in this 2019 Outlook, please see the Risk Factors section and the statement on “Forward-Looking Information” at the beginning of the Management’s Discussion and Analysis of Financial Condition and Results of Operations.

INSURANCE OPERATIONS

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

AFLAC JAPAN SEGMENT
Aflac Japan Pretax Adjusted Earnings

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

Aflac Japan Summary of Operating Results

(In millions)	**2018**	2017	2016
Net premium income	**$12,762**	$12,752	$13,537
Net investment income:			
Yen-denominated investment income	**1,283**	1,294	1,346
U.S. dollar-denominated investment income	**1,356**	1,169	1,208
Net investment income	**2,639**	2,463	2,554
Amortized hedge costs related to foreign currency denominated investments	**236**	228	186
Net investment income, less amortized hedge costs	**2,403**	2,235	2,368
Other income (loss)	**41**	41	40
Total adjusted revenues	**15,206**	15,028	15,945
Benefits and claims, net	**8,913**	9,087	9,828
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**710**	630	644
Insurance commissions	**735**	736	787
Insurance and other expenses	**1,640**	1,521	1,538
Total adjusted expenses	**3,085**	2,887	2,969
Total benefits and expenses	**11,998**	11,974	12,797
Pretax adjusted earnings[(1)]	**$3,208**	$3,054	$3,148
Weighted-average yen/dollar exchange rate	**110.39**	112.16	108.70

	In Dollars			**In Yen**		
Percentage change over previous period:	**2018**	2017	2016	**2018**	2017	2016
Net premium income	**.1 %**	(5.8)%	12.4%	**(1.5)%**	(2.7)%	.8 %
Net investment income, less amortized hedge costs	**7.5**	(5.6)	.2	**5.5**	(2.0)	(10.3)
Total adjusted revenues	**1.2**	(5.8)	10.4	**(.5)**	(2.5)	(1.0)
Pretax adjusted earnings[(1)]	**5.0**	(3.0)	1.5	**3.1**	.6	(9.0)

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

In yen terms, Aflac Japan's net premium income decreased in 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. Net investment income, net of amortized hedge costs, increased in 2018 largely due to higher income from U.S. dollar-denominated floating rate assets. Pretax adjusted earnings in yen increased, driven by higher net investment income and a favorable third sector benefit ratio.

Annualized premiums in force at December 31, 2018, were 1.53 trillion yen, compared with 1.55 trillion yen in 2017 and 1.61 trillion yen in 2016. The decrease in annualized premiums in force in yen of 1.6% in and 3.4% in 2017 was driven primarily by limited-pay policies becoming paid-up during the year. The decrease in annualized premiums in force in yen of .7% in 2016 reflects the net effect of sales of new policies combined with limited-pay policies becoming paid-up and the persistency of Aflac Japan's business. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $13.8 billion in 2018, $13.7 billion in 2017, and $13.8 billion in 2016.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

Aflac Japan Percentage Changes Over Prior Year
(Yen Operating Results)

	Including Foreign Currency Changes			**Excluding Foreign Currency Changes**[2]		
	2018	2017	2016	**2018**	2017	2016
Net investment income, less amortized hedge costs	**5.5 %**	(2.0)%	(10.3)%	**6.4 %**	(3.6)%	(5.1)%
Total adjusted revenues	**(.5)**	(2.5)	(1.0)	**(.3)**	(2.8)	(.1)
Pretax adjusted earnings[1]	**3.1**	.6	(9.0)	**3.7**	(.5)	(5.3)

[1] Aflac defines pretax adjusted earnings (a non-U.S. GAAP financial measure) as adjusted earnings before the application of income taxes. See the Results of Operations section of this MD&A for the Company's definition of adjusted earnings and a reconciliation of adjusted earnings to the most directly comparable U.S. GAAP measure of net earnings.
[2]Amounts excluding foreign currency impact on U.S. dollar-denominated investment income (a non-U.S. GAAP financial measure) were determined using the average dollar/yen exchange rate for the comparable prior year period.

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

Ratios to total adjusted revenues:	**2018**	2017	2016
Benefits and claims, net	**58.6%**	60.4%	61.6%
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**4.7**	4.2	4.0
Insurance commissions	**4.8**	4.9	4.9
Insurance and other expenses	**10.8**	10.1	9.8
Total adjusted expenses	**20.3**	19.2	18.7
Pretax adjusted earnings[1]	**21.1**	20.4	19.7
Ratios to total premiums:			
Benefits and claims, net	**69.9%**	71.3%	72.6%
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**5.6**	4.9	4.8

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

In 2018, the benefit ratio decreased, compared to the prior year, primarily due to the continued change in mix of first and third sector business as first sector products become paid-up, as well as continued favorable third sector claims trends, and higher surrender rates for the cancer products. In 2018, the adjusted expense ratio increased due to lower premium income impacted by first sector products becoming paid-up, higher expenses primarily related to increased system development, outsourcing costs for new products, and DAC amortization due to the increase of surrender for cancer products. In total for 2018, the pretax adjusted profit margin increased, reflecting the decrease in the benefit ratio partially offset by a smaller increase in the expense ratio. For 2019, the Company anticipates the Aflac Japan pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) to remain stable.

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Aflac Japan Sales

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

	In Dollars			In Yen		
(In millions of dollars and billions of yen)	**2018**	2017	2016	**2018**	2017	2016
New annualized premium sales	**$869**	$846	$1,045	**95.9**	94.9	113.7
Increase (decrease) over prior period	**2.7 %**	(19.0)%	4.8 %	**1.1 %**	(16.6)%	(5.9)%

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

	2018	2017	2016
Cancer	**65.8 %**	55.8 %	46.6 %
Medical	**25.0**	34.1	26.0
Income support	**1.8**	2.3	0.0
Ordinary life:			
WAYS	**.5**	.6	11.9
Child endowment	**.3**	.5	6.4
Other ordinary life [(1)]	**6.1**	6.0	6.2
Other	**.5**	.7	2.9
Total	**100.0%**	100.0%	100.0%

[(1)] *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. New annualized premium sales of third sector products on a yen basis increased 1.6% during 2018, compared with 2017. Third sector sales included growth in the new cancer insurance product that was launched in April 2018, however medical sales have declined compared with 2017 as a result of strong sales in 2017 driven by the introduction of the new medical insurance product in the second quarter of 2017. 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 40.1% of total new annualized premium sales for Aflac Japan in 2018, compared with 42.8% in 2017 and 46.7% in 2016. Affiliated corporate agencies, which include Japan Post, contributed 55.3% of total new annualized premium sales in 2018, compared with 52.0% in 2017 and 44.4% in 2016. Japan Post offers Aflac's cancer insurance products in more than 20,000 post offices. In 2018, Japan Post's sales of cancer insurance constituted approximately 25% of Aflac Japan's third sector sales. The Company believes this alliance with Japan Post has and will further benefit its cancer insurance sales. In 2018, Aflac Japan recruited 85 new sales agencies. At December 31, 2018, Aflac Japan was represented by more than 9,800 sales agencies, with more than 109,000 licensed sales associates employed by those agencies.
At December 31, 2018, Aflac Japan had agreements to sell its products at 371 banks, approximately 90% of the total number of banks in Japan. Bank channel sales accounted for 4.6% of new annualized premium sales in 2018 for Aflac Japan, compared with 5.2% in 2017 and 8.9% in 2016.

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

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assets, including public equity securities and alternative investments in limited partnerships or similar investment vehicles. Aflac Japan has been investing in both publicly-traded and privately originated U.S. dollar-denominated investment-grade and below-investment-grade fixed maturity securities and loan receivables, Aflac Japan 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, interest rate swaptions to hedge interest rate fluctuations on some U.S. dollar investments, and interest rate swaps to economically hedge interest rate fluctuations in certain variable-rate investments.

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

(In millions)	**2018**	2017
Yen-denominated:		
Fixed maturity securities:		
Japan government and agencies	**$3,895**	$5,367
Other fixed maturity securities	**1,981**	1,579
Equity securities	**221**	189
Total yen-denominated	**$6,097**	$7,135
U.S. dollar-denominated:		
Fixed maturity securities:		
Other fixed maturity securities	**$1,299**	$466
Infrastructure debt	**0**	134
Bank loans	**346**	0
Equity securities	**120**	158
Other investments:		
Transitional real estate loans	**3,168**	1,063
Commercial mortgage loans	**13**	48
Middle market loans	**839**	548
Limited partnerships	**314**	96
Total dollar-denominated	**$6,099**	$2,513
Total Aflac Japan purchases	**$12,196**	$9,648

Aflac Japan purchased $1.2 billion of yen-denominated private placements in 2018, compared with $1.1 billion in 2017.

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

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

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

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	2018	2017	2016
Total purchases for the period (in millions) [(1)]	**$11,882**	$9,552	$10,903
New money yield [(1),(2)]	**3.06 %**	1.98 %	1.40 %
Return on average invested assets [(3)]	**2.33**	2.31	2.47
Portfolio book yield, including U.S. dollar-denominated investments, end of period [(1)]	**2.61 %**	2.56 %	2.62 %

[(1)] Includes fixed maturity securities, loan receivables, equity securities, and excludes alternative investments in limited partnerships
[(2)] Reported on a gross yield basis; excludes investment expenses, external management fees, and amortized hedge costs
[(3)] 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 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. for the years ended December 31.

Aflac U.S. Summary of Operating Results

(In millions)	**2018**	2017	2016
Net premium income	**$5,708**	$5,563	$5,454
Net investment income	**727**	721	703
Other income	**8**	5	10
Total adjusted revenues	**6,443**	6,289	6,167
Benefits and claims	**2,887**	2,885	2,869
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**534**	502	497
Insurance commissions	**585**	580	580
Insurance and other expenses	**1,152**	1,077	1,013
Total adjusted expenses	**2,271**	2,159	2,090
Total benefits and expenses	**5,158**	5,044	4,959
Pretax adjusted earnings[(1)]	**$1,285**	$1,245	$1,208
Percentage change over previous period:			
Net premium income	**2.6 %**	2.0 %	2.0 %
Net investment income	**.8**	2.6	3.8
Total adjusted revenues	**2.4**	2.0	2.2
Pretax adjusted earnings[(1)]	**3.2**	3.1	9.7

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

Net investment income increased in 2018, driven by higher income from floating rate assets partially offset from the drawdown of excess capital in the U.S. segment. Annualized premiums in force increased 3.0% in 2018, 2.6% in 2017 and 2.4% in 2016. Annualized premiums in force at December 31 were $6.2 billion in 2018, compared with $6.1 billion in 2017 and $5.9 billion in 2016.

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

Ratios to total adjusted revenues:	**2018**	2017	2016
Benefits and claims	**44.8%**	45.9%	46.5%
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**8.3**	8.0	8.1
Insurance commissions	**9.1**	9.2	9.4
Insurance and other expenses	**17.9**	17.1	16.4
Total adjusted expenses	**35.2**	34.3	33.9
Pretax adjusted earnings[(1)]	**19.9**	19.8	19.6
Ratios to total premiums:			
Benefits and claims	**50.6**	51.9	52.6
Adjusted expenses:			
Amortization of deferred policy acquisition costs	**9.4**	9.0	9.1

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

The benefit ratio decreased in 2018, compared with 2017, due in large part to benefit reserve releases related to slightly elevated lapses of older individual cancer policies in the first and fourth quarters of 2018. The adjusted expense ratio increased slightly in 2018 compared with 2017, primarily due to planned spending increases reflecting elevated investments in the platform. The pretax adjusted profit margin increased slightly in 2018 when compared with 2017, primarily due to lower benefit ratios. In 2019, the Company expects benefit ratios to be slightly lower than 2018 levels, reflecting ongoing changes in business mix, and expects somewhat higher expense ratios reflecting further investments in its U.S. platform. Net investment income is expected to decline modestly, primarily the result of the Company’s U.S. capital and RBC drawdown plan. (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 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 years ended December 31.

(In millions)	**2018**	2017	2016
New annualized premium sales	**$1,601**	$1,552	$1,482
Increase (decrease) over prior period	**3.2 %**	4.7 %	(.3)%

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

	2018	2017	2016
Accident	**29.2 %**	29.4 %	29.5 %
Short-term disability	**22.7**	22.9	23.5
Critical care [(1)]	**22.1**	22.8	22.1
Hospital indemnity	**15.8**	14.8	14.8
Dental/vision	**4.7**	5.1	5.0
Life	**5.5**	5.0	5.1
Total	**100.0%**	100.0%	100.0%

[(1)] Includes cancer, critical illness and hospital intensive care products

New annualized premium sales for accident insurance, the Aflac U.S. leading product category, increased 2.4%, short-term disability sales increased 1.8%, critical care insurance sales (including cancer insurance) decreased .1%, and hospital indemnity insurance sales increased 10.4% in 2018, compared with 2017.

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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 brokers 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 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 2018, the Aflac U.S. sales forces included an average of more than 8,500 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℠ 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 2022. 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. Further, certain provisions of the ACA have been and may continue to be subject to challenge through litigation, the ultimate effects of which on the ACA are uncertain.

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 a net deferred tax liability reduction of $1.9 billion as of that date. In the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional Japan deferred tax balances and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability. For information on the effects of the Tax Act during the period ended December 31, 2018, see Note 10 of the Notes to the Consolidated Financial Statements presented in this report. For information on the conversion of Aflac Japan from a branch to a subsidiary, see General Business under Item 1, Business, in this report.

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. The FIO and certain federal agencies must achieve consensus positions with the state insurance regulators when taking positions on insurance proposals by certain international forums. 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. as of December 31.

(In millions)	**2018**	2017
Fixed maturity securities:		
Other fixed maturity securities	**$1,068**	$836
Infrastructure debt	**97**	60
Equity securities	**76**	56
Other investments:		
Transitional real estate loans	**610**	249
Commercial mortgage loans	**163**	34
Middle market loans	**141**	199
Limited partnerships	**44**	16
Total Aflac U.S. Purchases	**$2,199**	$1,450

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

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

	2018	2017	2016
Total purchases for period (in millions) [(1)]	**$2,155**	$1,434	$1,144

New money yield (1), (2)	**4.55 %**	4.49 %	3.89 %
Return on average invested assets (3)	**5.16**	5.07	5.04
Portfolio book yield, end of period (1)	**5.55 %**	5.52 %	5.60 %

(1) *Includes fixed maturity securities, loan receivables, equity securities, and excludes alternative investments in limited partnerships*

(2) *Reported on a gross yield basis; excludes investment expenses and external management fees*

(3) *Net of investment expenses, year-to-date number reflected on a quarterly average basis*

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The increase in the Aflac U.S. new money yield in 2018 was primarily due to increased allocations to higher yielding floating rate assets.

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

CORPORATE AND OTHER

Total revenue for corporate and other increased to $339 million in 2018, compared with $272 million in 2017 and $277 million in 2016. This increase in 2018 was primarily driven by an increase in net investment income. The increase in net investment income to $113 million in 2018, compared with $35 million in 2017, was driven by a $36 million pretax contribution from the Company’s corporate yen hedging program and increased income from over $600 million of invested assets transferred as part of the drawdown of excess capital in the U.S. segment beginning in the fourth quarter of 2017.

Corporate adjusted expenses consist primarily of personnel compensation, benefits, reinsurance retrocession benefits expense, and facilities expenses. Corporate expenses were $478 million in 2018, compared with $486 million in 2017, and $516 million in 2016. The decline in adjusted expenses in 2018 was considered insignificant. The decline in adjusted expenses from 2016 to 2017 was driven in large part by fluctuations in retrocession activity, which results in corresponding declines in total premiums.

Pretax adjusted earnings for corporate and other were a loss of $139 million in 2018, compared with a loss of $214 million in 2017 and a loss of $239 million in 2016. The improvement in pretax adjusted earnings in 2018 was driven primarily by the increase in net investment income as previously described.

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. invests in both publicly traded and privately originated investment-grade and below-investment-grade fixed maturity securities and loans.

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The following table details investments by segment as of December 31.

Investment Securities by Segment

	Aflac Japan		Aflac U.S.	
(In millions)	**2018**	2017	**2018**	2017
Available for sale, fixed maturity securities, at fair value (1)	**$69,409**	$69,338	**$12,132**	$13,606
Held to maturity, fixed maturity securities, at amortized cost	**30,318**	31,430	**0**	0
Equity securities (1)	**806**	868	**137**	92
Other investments:				
Transitional real estate loans	**3,621**	986	**756**	249
Commercial mortgage loans	**763**	767	**301**	141
Middle market loans	**1,144**	527	**334**	332
Policy loans	**219**	198	**13**	12
Short-term investments	**0**	57	**141**	0
Other	**333**	98	**63**	31
Total other investments	**6,080**	2,633	**1,608**	765
Total investments	**106,613**	104,269	**13,877**	14,463
Cash and cash equivalents	**1,779**	636	**641**	1,011
Total investments and cash (2)	**$108,392**	$104,905	**$14,518**	$15,474

(1) *Includes perpetual securities*

(2) *Excludes investments and cash held by the Parent Company and other business segments of $3,333 in 2018 and $3,280 in 2017.*

Cash and cash equivalents totaled $4.3 billion, or 3.4% of total investments and cash, as of December 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 access low-cost funding and also receive dividends on FHLB membership stock. Additional FHLB stock purchases are required based on funding activity with the FHLB. Aflac U.S. will be required to post acceptable forms of collateral for any funding 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.

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The distributions of debt securities the Company owns, by credit rating, as of December 31 were as follows:
Composition of Securities Portfolio by Credit Rating

	2018		2017	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**1.0 %**	**.9 %**	1.0 %	.9 %
AA	**3.9**	**4.0**	3.9	4.0
A	**67.9**	**69.9**	65.8	66.9
BBB	**23.2**	**21.6**	24.0	23.3
BB or lower	**4.0**	**3.6**	5.3	4.9
Total	**100.0 %**	**100.0 %**	100.0 %	100.0 %

As of December 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 December 31, 2018.

(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	**Unrealized Loss**
Diamond Offshore Drilling Inc.	B	$ 143	$ 75	$ (68)
AXA	BBB	293	242	(51)
Autostrade Per Litalia Spa	BBB	180	150	(30)
Baker Hughes Inc.	A	122	94	(28)
Kommunal Landspensjonskasse (KLP)	BBB	135	113	(22)
Abbvie Inc.	BBB	177	156	(21)
Transocean Inc.	CCC	72	52	(20)
Commonwealth Bank of Australia	BBB	185	166	(19)
Time Warner Cable Inc.	AA	118	99	(19)
United Technologies Corporation	BBB	209	192	(17)

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 issues 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

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.

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Below-Investment-Grade Investments

(In millions)	December 31, 2018 Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Investcorp Capital Limited	$383	$ 383	$372	$ (11)
Republic of South Africa	360	360	372	12
KLM Royal Dutch Airlines	270	199	224	25
Navient Corp.	210	114	119	5
Republic of Tunisia	189	111	127	16
Telecom Italia SpA	180	180	208	28
Barclays Bank PLC	180	111	147	36
Transnet	135	135	135	0
Diamond Offshore Drilling Inc.	124	143	75	(68)
IKB Deutsche Industriebank AG	117	50	94	44
Arconic Inc.	100	84	92	8
Noble Holdings International Ltd.	92	57	57	0
EMC Corp.	80	80	68	(12)
Generalitat de Catalunya	72	26	64	38
Teck Resources Ltd.	70	76	67	(9)
Teva Pharmaceuticals	68	66	58	(8)
Transocean Inc.	68	72	52	(20)
Petrobras International Finance Company	65	65	63	(2)
National Gas Co. Trinidad and Tobago	52	50	50	0
CF Industries Inc.	50	49	47	(2)
Other Issuers (below $50 million in par value)	232	222	214	(8)
Subtotal [(1)]	3,097	2,633	2,705	72
Senior secured bank loans	1,093	1,108	1,061	(47)
High yield corporate bonds	519	513	487	(26)
Middle market loans, net of reserves [(2)]	1,497	1,478	1,475	(3)
Grand Total	$6,206	$ 5,732	$5,728	$ (4)

[(1)] *Securities initially purchased as investment grade, but have subsequently been downgraded to below investment grade*
[(2)] *Middle market loans are carried at amortized cost*

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

The Company maintains an allocation to higher yielding corporate bonds within the Aflac Japan and Aflac U.S. portfolios. Most of these securities were rated below-investment-grade at the time of purchase, but the Company also purchased several that were rated investment grade which, because of market pricing, offer yields commensurate with below-investment-grade risk profiles. The objective of this allocation was to enhance the Company's yield on invested assets and further diversify credit risk. All investments 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.

In January 2019, PG&E Corporation (PG&E) and its operating subsidiary, Pacific Gas & Electric Company (PG&E Utility) filed for Chapter 11 bankruptcy in the Northern District of California. At December 31, 2018, debt of the PG&E utility was rated investment grade and the Company's net exposure was $126 million (amortized cost), all of which was issued by PG&E utility. Subsequently, the rating on this exposure migrated to below investment grade.

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Oil and Gas Exposure

The following tables show the breakout of our exposure to the oil and gas industry as of December 31.

(In millions)	2018 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Independent exploration and production	**$813**	**$ 72**	**$ 36**	**$849**
Integrated energy	**426**	**19**	**30**	**415**
Midstream	**1,059**	**91**	**38**	**1,112**
Oil field services	**725**	**9**	**154**	**580**
Refiners	**346**	**4**	**20**	**330**
Government owned - energy related	**855**	**167**	**6**	**1,016**
Natural gas utilities	**472**	**49**	**6**	**515**
Total securities available for sale	**4,696**	**411**	**290**	**4,817**
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Integrated energy	**234**	**5**	**0**	**239**
Government owned - energy related	**270**	**0**	**8**	**262**
Natural gas utilities	**360**	**34**	**0**	**394**
Total securities held to maturity	**864**	**39**	**8**	**895**
Equity Securities:				
Independent exploration and production	**2**	**0**	**0**	**2**
Integrated energy	**8**	**0**	**0**	**8**
Oil field services	**1**	**0**	**0**	**1**
Refiners	**4**	**0**	**0**	**4**
Total equity securities	**15**	**0**	**0**	**15**
Total securities	**$5,575**	**$ 450**	**$ 298**	**$5,727**

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

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

Investment Securities by Type of Issuance

(In millions)	**2018 Amortized Cost**	**2018 Fair Value**	2017 Amortized Cost	2017 Fair Value
Publicly issued securities:				
Fixed maturity securities *(1)*	**$83,482**	**$93,255**	$81,454	$93,025
Equity securities *(1)*	**936**	**936**	831	1,006
Total publicly issued	**84,418**	**94,191**	82,285	94,031
Privately issued securities: *(2)*				
Fixed maturity securities *(1)*	**23,692**	**26,362**	25,108	29,360
Equity securities *(1)*	**51**	**51**	15	17
Total privately issued	**23,743**	**26,413**	25,123	29,377
Total investment securities	**$108,161**	**$120,604**	$107,408	$123,408

(1) *Includes perpetual securities*

(2) *Includes Rule 144A securities*

The Company held $1,202 million and $1,789 million of perpetual securities at fair value ($1,201 million and $1,462 million at amortized cost) as of December 31, 2018 and 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 as of December 31.

Privately Issued Securities

(Amortized cost, in millions)	**2018**	2017
Privately issued securities as a percentage of total investment securities	**22.0 %**	23.4 %
Privately issued securities held by Aflac Japan	**$20,966**	$22,354
Privately issued securities held by Aflac Japan as a percentage of total investment securities	**19.4 %**	20.8 %

Reverse-Dual Currency Securities*(1)*

(Amortized cost, in millions)	**2018**	2017
Privately issued reverse-dual currency securities	**$5,120**	$5,669
Publicly issued collateral structured as reverse-dual currency securities	**1,657**	1,390
Total reverse-dual currency securities	**$6,777**	$7,059
Reverse-dual currency securities as a percentage of total investment securities	**6.3 %**	6.6 %

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

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

Hedging Activities

The Company uses derivative contracts to hedge foreign currency exchange rate risk and interest rate risk. Derivative hedges are designed to reduce risk on an economic basis while minimizing the impact on financial results. The Company's derivative hedge programs vary depending on the type of risk being hedged.

Foreign Currency Exchange Rate Risk Hedge Program

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

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

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

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

(In millions)	**2018** Amortized Cost	**2018** Fair Value	2017 Amortized Cost	2017 Fair Value
Available-for-sale securities:				
Fixed maturity securities (excluding bank loans) *[1]*	**$17,101**	**$17,003**	$17,972	$19,314
Fixed maturity securities - bank loans (floating rate)	**1,296**	**1,238**	1,936	1,865
Fixed maturity securities - economically converted to yen	**1,679**	**2,269**	1,650	2,549
Equity securities *[1], [2]*	**177**	**177**	147	173
Other investments:				
Transitional real estate loans (floating rate)	**3,621**	**3,625**	986	984
Commercial mortgage loans	**763**	**736**	767	753
Middle market loans (floating rate)	**1,144**	**1,146**	527	530
Alternative investments	**333**	**333**	97	97
Total U.S. dollar-denominated investments in Aflac Japan	**$26,114**	**$26,527**	$24,082	$26,265

[1] *Includes perpetual securities*

(2) *See Note 1 of the Notes to the Consolidated Financial Statements in Item 8. for the adoption of accounting guidance related to financial instruments effective January 1, 2018.*

As of December 31, 2018, Aflac Japan had $9.9 billion outstanding notional amounts of foreign currency forwards and $9.5 billion outstanding notional amounts of foreign currency options, of which none were in-the-money, hedging the U.S. dollar-denominated investments. The fair value of Aflac Japan's unhedged dollar-denominated portfolio was $14.4 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 $272 million, $(747) million and $1.3 billion for the years ended December 31, 2018, 2017 and 2016, respectively, associated with the currency derivatives used for hedging Aflac Japan's U.S. dollar-denominated investments.

The following table presents metrics related to Aflac Japan hedge costs as of December 31.

Aflac Japan Hedge Cost Metrics*(1)*

	2018	2017	2016
FX forward notional at end of period (in billions of dollars)*(2)*	**9.9**	9.3	11.8
Weighted average original tenor (in months)*(3)*	**30.4**	33.1	20.6
Weighted average remaining tenor (in months)*(4)*	**21.4**	27.7	18.5
Annualized amortized hedge costs (in basis points)*(5)*	**241**	211	149
Amortized hedge costs for period (in millions of dollars)	**(236)**	(228)	(186)

(1) See the Results of Operations section of this MD&A for the Company's definition of amortized hedge costs.
(2) Notional is reported net of any offsetting positions
(3) Tenor based on derivative's original execution date to settlement date
(4) Tenor based on period reporting date to settlement date
(5) Based on annualized amortized hedge costs divided by average FX forward notional for the period

Parent Company's Foreign Currency Hedge Program

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

The Company makes its accounting designation of net investment hedge at the beginning of each quarter. If the total of the designated Parent Company non-derivative and derivative notional is equal to or less than the Company's net investment in Aflac Japan, the hedge is deemed to be effective, and the currency exchange effect on the yen-denominated liabilities and the change in estimated fair value of the derivatives are reported in the unrealized foreign currency component of other comprehensive income. The Company's net investment hedge was effective during the years ended December 31, 2018, 2017 and 2016, respectively.

In order to economically mitigate risks associated with the enterprise-wide exposure to the yen and the level and volatility of hedge costs, the Parent Company enters into foreign exchange forward contracts. By buying U.S. dollars and selling yen, the Parent Company is effectively lowering its overall economic exposure to the yen, while Aflac Japan's U.S dollar exposure remains reduced as a result of Aflac Japan's U.S. dollar-denominated hedge program that synthetically creates yen assets. Among other objectives, this strategy is intended to reduce the enterprise-wide hedge costs. In 2018, the portion of the enterprise-wide hedge costs reduction contributed by this strategy was $36 million. This activity is reported in the Corporate and other segment. As this program evolves, the Company will continue to evaluate the program's efficacy, including third-party review.

Interest Rate Risk Hedge Program

To mitigate the risk of investment income volatility, the Company economically hedges interest rate fluctuations for certain variable-rate investments. To manage interest rate risk associated with its U.S. dollar-denominated investments held by Aflac Japan, the Company also utilizes interest rate swaptions.

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

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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 for the years ended December 31.

(In millions)	**2018**	2017	% Change
Aflac Japan	**$6,384**	$6,150	3.8 % [(1)]
Aflac U.S.	**3,491**	3,355	4.1
Total	**$9,875**	$9,505	3.9 %

[(1)] Aflac Japan's deferred policy acquisition costs increased 2.0% in yen during the year ended December 31, 2018.

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

Policy Liabilities

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

(In millions)	**2018**	2017	% Change
Aflac Japan	**$92,791**	$89,132	4.1 % [(1)]
Aflac U.S.	**10,981**	10,625	3.4
Other	**183**	138	32.6
Intercompany eliminations [(2)]	**(767)**	(748)	2.5
Total	**$103,188**	$99,147	4.1 %

[(1)] Aflac Japan's policy liabilities increased 2.3% in yen during the year ended December 31, 2018.

[(2)] Elimination entry necessary due to recapture of a portion of policy liabilities ceded externally, as a result of the reinsurance retrocession transaction as described in Note 8 of the Notes to the Consolidated Financial Statements.

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

Notes Payable

Notes payable totaled $5.8 billion at December 31, 2018, compared with $5.3 billion at December 31, 2017.

In October 2018, the Parent Company issued $550 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 4.750% per annum, payable semi-annually, and have a 30-year maturity. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the yield to maturity for a United States Treasury security with a maturity comparable to the remaining term of the notes, plus 25 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date. In November 2018, the Parent Company used the net proceeds from the October 2018 issuance of senior notes to redeem $550 million of the Parent Company's 2.40% senior notes due in 2020.

In October 2018, the Parent Company issued three series of senior notes totaling 53.4 billion yen through a public debt offering under its U.S. shelf registration statement. The first series, which totaled 29.3 billion yen, bears interest at a fixed rate of 1.159% per annum, payable semi-annually, and has a 12-year maturity. The second series, which totaled 15.2 billion yen, bears interest at a fixed rate of 1.488% per annum, payable semiannually, and has a 15-year maturity. The third series, which totaled 8.9 billion yen, bears interest at a fixed rate of 1.750% per annum, payable semi-annually, and has a 20-year maturity. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

See Note 9 of the accompanying Notes to the Consolidated Financial Statements for additional information on the Company's notes payable.

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

Policyholder Protection
Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection Corporation (LIPPC) included government fiscal measures supporting the LIPPC. 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 U.S. state guaranty association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business. The amount of the guaranty fund assessment that an insurer is assessed is based on its proportionate share of premiums in that state.

As of December 31, 2018, 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 December 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 for information on material unconditional purchase obligations that are not recorded on the Company's balance sheet.

CAPITAL RESOURCES AND LIQUIDITY
Aflac Japan and Aflac U.S. provide the primary sources of liquidity to the Parent Company through dividends and management fees. The following table presents the amounts provided for the years ended December 31.

Liquidity Provided by Aflac Japan and Aflac U.S. to Parent Company

(In millions)	**2018**	2017	2016
Dividends declared or paid by Aflac Japan and Aflac U.S.	**$1,817**	$2,590 [1]	$2,000
Management fees paid by Aflac Japan and Aflac U.S.	**204**	291	260

[1] *Includes securities of $622 at fair value which had a value of $656 at amortized cost*

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

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.

At the end of September 2018, the Company announced a change in its internal dividend policy which allows the
Company to increase the proportion of regulatory earnings transferred from Aflac U.S. and Aflac Japan to the Parent
Company. The Company intends to maintain higher than historical levels of capital and liquidity at the Parent Company with the goals of addressing the Company’s hedge costs and related potential need for collateral and mitigating against long-term weakening of the Japanese yen. Further, the Company plans to continue to maintain a portfolio of unhedged U.S. dollar based investments at Aflac Japan and consider whether the amount of such investments should be increased

or decreased relative to the Company's view of economic equity surplus in Aflac Japan in light of potentially rising hedge costs and other factors. See Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations under "Forward-Looking Information," for a description of factors that could cause actual results to differ materially from those contemplated by the Company in regards to its capital management intentions.

The Parent Company accesses debt security markets to provide additional sources of capital. In September 2018, the Parent Company filed a shelf registration statement with the SEC that allows the Company to issue an indefinite amount of debt securities, in one or more series, from time to time until September 2021. In August 2018, the Parent Company filed a shelf registration with Japanese regulatory authorities that allows the Parent Company to conduct public offerings of bonds in Japan, including yen-denominated Samurai notes, up to 200 billion yen or its equivalent through August 2020. The shelf registration statement is for possible public offerings in Japan, but the bonds issued under the shelf may be transferred by the bondholders to U.S. persons in compliance with U.S. law. The Company believes outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 9 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 expects its future cash flows from premiums and its investment portfolio to be sufficient to meet its cash needs for benefits and expenses.

As of December 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 9 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 $86 million during 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 December 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 1, 3, and 4 of the Notes to the Consolidated Financial Statements for more information on the Company's securities lending and derivative activities. With the exception of disclosed activities in those referenced footnotes and the Risk Factors entitled, "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate" and "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity," the Company 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. As of December 31, 2018, the Parent Company had $1.0 billion as a capital reserve and an additional $1.0 billion of contingent liquidity in order to mitigate liquidity risk of derivative positions that are reducing enterprise-wide foreign currency exposure. The Company's cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

The following table presents the estimated payments by period of the Company's major contractual obligations as of December 31, 2018. The Company translated its yen-denominated obligations using the December 31, 2018, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

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Distribution of Payments by Period

(In millions)	Total Liability[(1)]		Total Payments	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Future policy benefits liability *(Note 7)*[(2)]	$ 86,368		$ 251,577	$ 8,980	$ 17,817	$ 17,807	$ 206,973
Unpaid policy claims liability *(Note 7)*[(3)]	4,584		4,584	2,950	951	387	296
Other policyholders' funds *(Note 7)*[(3)]	7,146		9,920	321	360	581	8,658
Long-term debt – principal *(Note 9)*	5,765		5,813	0	45	1,275	4,493
Long-term debt – interest *(Note 9)*	37		2,086	175	327	284	1,300
Cash collateral on loaned securities *(Note 3)*	1,052		1,052	1,052	0	0	0
Operating service agreements *(Note 15)*	N/A	*(4)*	553	165	289	99	0
Operating lease obligations *(Note 15)*	N/A	*(4)*	202	63	82	39	18
Capitalized lease obligations *(Note 9)*	13		13	5	5	2	1
Total contractual obligations	$ 104,965		$ 275,800	$ 13,711	$ 19,876	$ 20,474	$ 221,739

Liabilities for unrecognized tax benefits in the amount of $15 have been excluded from the tabular disclosure above because the timing of cash payment is not reasonably estimable.

(1) Liability amounts are those reported on the consolidated balance sheet as of December 31, 2018.

(2) The estimated payments due by period reflect future estimated cash payments to be made to policyholders and others for future policy benefits. These projected cash outflows are based on assumptions for future policy persistency, mortality, morbidity, and other assumptions comparable with the Company's experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs. These cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of $251,577 exceeds the corresponding liability amount of $86,368. The Company has made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflow amounts and timing will differ, possibly materially, from these estimates.

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

(4) Not applicable

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

Consolidated Cash Flows

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

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

(In millions)	**2018**	2017	2016
Operating activities	**$6,014**	$6,128	$5,987
Investing activities	**(3,582)**	(5,431)	(3,855)
Financing activities	**(1,616)**	(2,065)	(1,619)
Exchange effect on cash and cash equivalents	**30**	0	(4)
Net change in cash and cash equivalents	**$846**	$(1,368)	$509

Operating Activities

Consolidated cash flow from operations decreased 1.9% in 2018, compared with 2017. The following table summarizes operating cash flows by source for the years ended December 31.

(In millions)	**2018**	2017	2016
Aflac Japan	**$4,916**	$4,959	$4,605
Aflac U.S. and other operations	**1,098**	1,169	1,382
Total	**$6,014**	$6,128	$5,987

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 years ended December 31.

(In millions)	**2018**	2017	2016
Aflac Japan	**$(2,938)**	$(4,504)	$(3,075)
Aflac U.S. and other operations	**(644)**	(927)	(780)
Total	**$(3,582)**	$(5,431)	$(3,855)

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

As part of its overall corporate strategy, the Company announced in September 2018 that it intends to increase its original investment in the Aflac Ventures Fund from $100 million over three years to $250 million over three to four years, as opportunities emerge. These investments are included in equity securities or the other investments line in the consolidated balance sheets. The Aflac Ventures Fund is a subsidiary of Aflac Corporate Ventures which is reported in the "Corporate and other" business segment. The central mission of Aflac Corporate Ventures is to support the organic growth and business development needs of Aflac Japan and Aflac U.S. with emphasis on digital applications designed to improve the customer experience, gain efficiencies, and develop new markets in an effort to enhance and defend long-term shareholder value.

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

Financing Activities

Consolidated cash used by financing activities was $1.6 billion in 2018, $2.1 billion in 2017 and $1.6 billion in 2016.

In October 2018, the Parent Company issued $550 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 4.750% per annum, payable semi-annually, and have a 30-year maturity. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the yield to maturity for a United States Treasury security with a maturity comparable to the remaining term of the notes, plus 25 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date.

In October 2018, the Parent Company issued three series of senior notes totaling 53.4 billion yen through a public debt offering under its U.S. shelf registration statement. The first series, which totaled 29.3 billion yen, bears interest at a fixed rate of 1.159% per annum, payable semi-annually, and has a 12-year maturity. The second series, which totaled 15.2 billion yen, bears interest at a fixed rate of 1.488% per annum, payable semi-annually, and has a 15-year maturity. The third series, which totaled 8.9 billion yen, bears interest at a fixed rate of 1.750% per annum, payable semi-annually, and has a 20-year maturity. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

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

In January 2017, the Parent Company issued 60.0 billion yen of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of .932% per annum, payable semi-annually, and have a 10-year maturity. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In February 2017, the Parent Company extinguished $650 million of 2.65% senior notes upon their maturity.

In October 2017, the Parent Company issued 60.0 billion yen of subordinated debentures through a U.S. public debt offering. The debentures bear interest at an initial rate of 2.108% per annum through October 22, 2027, or earlier redemption. Thereafter, the rate of the interest of the debentures will be reset every five years at a rate of interest equal to the then-current JPY 5-year Swap Offered Rate plus 205 basis points. The debentures are payable semi-annually in arrears and have a 30-year maturity. The debentures are redeemable (i) at any time, in whole but not in part, upon the occurrence of certain tax events or certain rating agency events, as specified in the indenture governing the terms of the debentures or (ii) in 10 years, in whole or in part, at a redemption price equal to their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. In November 2017, the Parent Company used a portion of net proceeds from the debenture offering to redeem $500 million of the Parent Company's 5.50% subordinated debentures due 2052. The pretax non-operating expense due to the early redemption of these notes was $13 million.

In September 2016, the Parent Company issued two series of senior notes totaling $700 million through a U.S. public debt offering. The first series, which totaled $300 million, bears interest at a fixed rate of 2.875% per annum, payable semi-annually, and has a 10-year maturity. The second series, which totaled $400 million, bears interest at a fixed rate of 4.00% per annum, payable semi-annually, and has a 30-year maturity.

In September 2016, the Parent Company entered into two series of senior unsecured term loan facilities totaling 30.0 billion yen. The first series, which totaled 5.0 billion yen, bears an interest rate per annum equal to the TIBOR, or alternate TIBOR, if applicable, plus the applicable TIBOR margin. The applicable margin ranges between .20% and .60%, depending on the Parent Company's debt ratings as of the date of determination. The second series, which totaled 25.0 billion yen, bears an interest rate per annum equal to TIBOR, or alternate TIBOR, if applicable, plus the applicable TIBOR margin. The applicable margin ranges between .35% and .75%, depending on the Parent Company's debt ratings as of the date of determination.

In December 2016, the Parent Company completed a tender offer in which it extinguished $176 million principal of its 6.90% senior notes due 2039 and $193 million principal of its 6.45% senior notes due 2040. The pretax non-operating loss due to the early redemption of these notes was $137 million ($89 million after-tax, or $.21 per diluted share).

In September 2016, the Parent Company extinguished 8.0 billion yen of 2.26% fixed rate Uridashi notes upon their maturity and in July 2016, the Parent Company extinguished 15.8 billion yen of 1.84% fixed rate Samurai notes upon their maturity.

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

See the preceding discussion in this Capital Resources and Liquidity section of MD&A for details and any outstanding balances as of December 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 December 31, 2018.

Cash returned to shareholders through dividends and treasury stock purchases was $2.1 billion in 2018, compared with $2.0 billion in 2017 and $2.1 billion in 2016.

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

Treasury Stock Purchased

(In millions of dollars and thousands of shares)	**2018**	2017	2016
Treasury stock purchases	**$1,301**	$1,351	$1,422
Number of shares purchased:			
Open market	**28,949**	35,510	43,236
Other	**392**	1,018	660
Total shares purchased	**29,341**	36,528	43,896

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Treasury Stock Issued

(In millions of dollars and thousands of shares)	**2018**	2017	2016
Stock issued from treasury:			
Cash financing	**$ 58**	$ 33	$ 46
Noncash financing	**17**	59	61
Total stock issued from treasury	**$ 75**	$ 92	$ 107
Number of shares issued	**1,939**	2,554	3,704

Under share repurchase authorizations from the Company's board of directors, the Company purchased 28.9 million shares of its common stock in the open market in 2018, compared with 35.5 million shares in 2017 and 43.2 million shares in 2016. As of December 31, 2018, a remaining balance of 69.0 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors. The Company currently plans to repurchase $1.3 billion to $1.7 billion of its common stock in 2019, assuming stable capital conditions and absent compelling alternatives. See Note 11 of the Notes to the Consolidated Financial Statements for additional information.

Cash dividends paid to shareholders in 2018 of $1.04 per share increased 19.5% over 2017. The 2017 dividend paid of $.87 per share increased 4.8% over 2016. The following table presents the dividend activity for the years ended December 31.

(In millions)	**2018**	2017	2016
Dividends paid in cash	**$793**	$661	$658
Dividends through issuance of treasury shares	**8**	29	27
Total dividends to shareholders	**$801**	$690	$685

In January 2019, the board of directors announced a 3.8% increase in the quarterly cash dividend, effective with the first quarter of 2019. The first quarter 2019 cash dividend of $.27 per share is payable on March 1, 2019, to shareholders of record at the close of business on February 20, 2019.

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. The Nebraska Department of Insurance imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances to the Parent Company. Under Nebraska insurance law, prior approval of the Nebraska Department of Insurance is required for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. These regulatory limitations are not expected to affect the level of management fees or dividends paid to the Parent Company. (See below for discussion of restrictions imposed by Japanese insurance regulators.) A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from U.S. GAAP and are intended to emphasize policyholder protection and company solvency. Similar laws apply in New York, the domiciliary jurisdiction of Aflac's New York insurance subsidiary. As of December 2016, CAIC was redomiciled from South Carolina to Nebraska.

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

As of December 31, 2018, Aflac's company action level RBC ratio was 560%. The 2018 RBC as filed is lower than Aflac U.S. standalone RBC due to the inclusion of Aflac Japan for the first quarter of 2018. The RBC charge reflects the business risk without any total adjusted capital (TAC). At December 31, 2017, Aflac's company action level RBC ratio was 831%, which included Aflac Japan. Aflac's RBC ratio remains high and reflects a strong capital and surplus position, even reflecting the full negative impact of the U.S. Tax Act, which was fully adopted in 2018. 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. As of December 31, 2018, Aflac's total adjusted capital of $2.7 billion exceeded the company action level required capital and surplus of $.5 billion by $2.2 billion.

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 2019 in excess of $1.3 billion would be considered extraordinary and require such approval. Following the Japan branch conversion to a subsidiary, the Company used extraordinary dividends as needed to actively manage to appropriate RBC levels that are lower yet sufficient to maintain ratings and support prudent capital management. See Note 13 of the Notes to the Consolidated Financial Statements for information regarding the impact of permitted practices by the Nebraska Department of Insurance on the Company's statutory capital and surplus.

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

Aflac is subject to the NAIC’s Own Risk and Solvency Assessment (ORSA), effective January 1, 2015. Through the ORSA requirements, Aflac is expected to regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework, and its current and estimated projected future solvency position; internally document the process and results of the assessment; and provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group. In November 2018, Aflac filed its ORSA report with the Nebraska Department of Insurance.

In addition to limitations and restrictions imposed by U.S. insurance regulators, after the Japan branch conversion on April 1, 2018, the new Japan subsidiary is required to meet certain financial criteria as governed by Japanese corporate law in order to provide dividends to the Parent Company. Under these criteria, dividend capacity at the Japan subsidiary is basically defined as retained earnings excluding capital reserves, which represent equity generated by capital profits that are statutorily required in Japan, less net after-tax unrealized losses on available-for-sale securities based on the previous fiscal year-end. 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. Additionally, the Company could take action to enter into derivatives on unhedged U.S. dollar-denominated investments with foreign currency options or forwards. (See Notes 8 and 9 of the Notes to the Consolidated Financial

Statements for additional information.)

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

Aflac's SMR ratio remains high and reflects a strong capital and surplus position. As of December 31, 2018, Aflac Japan's SMR was 965%, compared with 1,064% at December 31, 2017. As part of the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018, the Company experienced an accounting-driven decline in the SMR of approximately 130 points, compared with the SMR as of December 31, 2017. The Company expects to be able to pay dividends out of certain accounts, thus restoring this accounting impact over an estimated three-year period.

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

Payments are made from Aflac Japan to the Parent Company for management fees, allocated expenses and remittances of earnings. Prior to the Aflac Japan branch conversion on April 1, 2018, Aflac Japan paid allocated expenses and profit remittances to Aflac U.S. The following table details Aflac Japan remittances for the years ended December 31.

Aflac Japan Remittances

(In millions of dollars and billions of yen)	**2018**	2017	2016
Aflac Japan management fees paid to Parent Company	**$136**	$ 93	$ 79
Expenses allocated to Aflac Japan (in dollars)	**24**	109	106
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in dollars)	**808**	1,150	1,286
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in yen)	**89.7**	129.3	138.5

The decline in dividends during 2018 was driven by a change in the dividend regulatory approval process subsequent to the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018. The Company resumed dividend payments from Aflac Japan in the fourth quarter of 2018. Management fees decreased during 2018 compared to prior years due to changes in the administration of intercompany expenses between legal entities subsequent to the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018. See the preceding Hedging Activities subsection of this MD&A for discussion of Parent Company hedging of yen profit remittances. For additional information on regulatory restrictions on dividends, profit remittances and other transfers, see Note 13 of the Notes to the Consolidated Financial Statements.

Other

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

Additional Information

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Currency Risk

Aflac Japan

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As discussed above in the Investment subsection of Item 1, Business, the Company engages in hedging activities to mitigate certain currency risks from holding U.S. dollar-denominated investments in Aflac Japan. However, this hedging program in turn poses a countervailing long-term risk of loss on hedging currency derivatives under the long-term scenario of weakening yen, and related derivative rollover risk that could amplify hedge cost in unfavorable market conditions and significantly increase liquidity requirements to support negative derivative settlements. Additionally, as discussed in detail in the Risk Factors section titled “Lack of availability of acceptable yen-denominated investments could adversely affect the Company’s results of operations, financial position or liquidity,” there is a risk that losses realized on derivative settlements during periods of weakening yen may not be recouped through realization of the corresponding holding currency gains on the hedged U.S. dollar-denominated investments if these investments are not ultimately converted to yen. The following table details Aflac Japan's portfolio allocation by currency as of December 31.

Japan Segment Portfolio Allocation by Currency

(In millions)	**2018**		2017	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
USD program	**$24,435**	**$24,258**	$22,432	$23,716
Fixed maturity securities - economically converted to yen	**1,679**	**2,269**	1,650	2,549
Total dollar-denominated investments	**26,114**	**26,527**	24,082	26,265
Total yen-denominated investments	**74,974**	**86,251**		