AFLAC INC
Form 10-Q
November 01, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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)

706.323.3431
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 (§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 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No

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

Class	October 24, 2018
Common Stock, $.10 Par Value	761,279,345

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2018
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Items other than those listed above are omitted because they are not required or are not applicable.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The September 30, 2018, and 2017, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

1

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Aflac Incorporated:

Results of Review of Interim Financial Information
We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of September 30, 2018, the related consolidated statements of earnings, and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2018 and 2017, the related consolidated statements of shareholders' equity, and cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of earnings, comprehensive income (loss), shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results
This consolidated interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

/s/ KPMG LLP

Atlanta, Georgia
November 1, 2018

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues:				
Net premiums, principally supplemental health insurance	**$4,636**	$4,648	**$14,086**	$13,951
Net investment income	**870**	811	**2,569**	2,408
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	**(5)**	(8)	**(17)**	(27)
Other gains (losses) [(1)]	**61**	38	**(59)**	(139)
Total realized investment gains (losses)	**56**	30	**(76)**	(166)
Other income (loss)	**15**	17	**53**	50
Total revenues	**5,577**	5,506	**16,632**	16,243
Benefits and expenses:				
Benefits and claims, net	**3,002**	3,083	**9,075**	9,174
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**315**	271	**932**	848
Insurance commissions	**331**	332	**1,007**	996
Insurance and other expenses	**730**	686	**2,193**	2,025
Interest expense	**53**	59	**164**	181
Total acquisition and operating expenses	**1,429**	1,348	**4,296**	4,050
Total benefits and expenses	**4,431**	4,431	**13,371**	13,224
Earnings before income taxes	**1,146**	1,075	**3,261**	3,019
Income taxes	**301**	359	**866**	998
Net earnings	**$845**	$716	**$2,395**	$2,021
Net earnings per share:				
Basic	**$1.10**	$.91	**$3.10**	$2.54
Diluted	**1.09**	.90	**3.08**	2.52
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	**767,049**	788,958	**772,807**	794,645
Diluted	**772,070**	794,762	**777,867**	800,483
Cash dividends per share	**$.26**	$.22	**$.78**	$.65

[(1)] See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.
See the accompanying Notes to the Consolidated Financial Statements.

3

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

(In millions - Unaudited)	Three Months Ended September 30, **2018**	Three Months Ended September 30, 2017	Nine Months Ended September 30, **2018**	Nine Months Ended September 30, 2017
Net earnings	**$845**	$716	**$2,395**	$2,021
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	**(383)**	(58)	**(51)**	325
Unrealized gains (losses) on fixed maturity securities: [1]				
Unrealized holding gains (losses) on fixed maturity securities during period	**(866)**	457	**(3,099)**	1,006
Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings	**(37)**	(50)	**(11)**	(33)
Unrealized gains (losses) on derivatives during period	**(2)**	(1)	**2**	0
Pension liability adjustment during period	**1**	1	**1**	(1)
Total other comprehensive income (loss) before income taxes	**(1,287)**	349	**(3,158)**	1,297
Income tax expense (benefit) related to items of other comprehensive income (loss)	**(344)**	219	**(813)**	396
Other comprehensive income (loss), net of income taxes	**(943)**	130	**(2,345)**	901
Total comprehensive income (loss)	**$(98)**	$846	**$50**	$2,922

[1] See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.
See the accompanying Notes to the Consolidated Financial Statements.

4

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	**September 30, 2018 (Unaudited)**	December 31, 2017
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturity securities (amortized cost $72,207 in 2018 and $70,594 in 2017) *(1)*	**$ 77,443**	$ 78,804
Fixed maturity securities - consolidated variable interest entities (amortized cost $4,045 in 2018 and $4,538 in 2017) *(1)*	**4,853**	5,509
Securities held to maturity, at amortized cost:		
Fixed maturity securities (fair value $36,250 in 2018 and $38,072 in 2017)	**30,421**	31,430
Equity securities, at fair value:		
Equity securities *(1)*	**880**	270
Equity securities - consolidated variable interest entities	**179**	753
Other investments *(2)*	**7,009**	3,402
Cash and cash equivalents	**3,429**	3,491
Total investments and cash	**124,214**	123,659
Receivables	**784**	827
Accrued investment income	**735**	769
Deferred policy acquisition costs	**9,622**	9,505
Property and equipment, at cost less accumulated depreciation	**435**	434
Other *(3)*	**2,151**	2,023
Total assets	**$ 137,941**	$ 137,217

(1) Includes perpetual securities, see Notes 1 and 3 of the Notes to the Consolidated Financial Statements
(2) Includes $5,388 in 2018 and $2,341 in 2017 of loan receivables and limited partnerships from consolidated variable interest entities
(3) Includes $190 in 2018 and $151 in 2017 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	**September 30, 2018 (Unaudited)**	December 31, 2017
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$83,856**	$ 81,857
Unpaid policy claims	**4,530**	4,392
Unearned premiums	**5,224**	5,959
Other policyholders' funds	**6,974**	6,939
Total policy liabilities	**100,584**	99,147
Income taxes	**3,887**	4,745
Payables for return of cash collateral on loaned securities	**1,970**	606
Notes payable	**5,279**	5,289
Other [(4)]	**2,987**	2,832
Total liabilities	**114,707**	112,619
Commitments and contingent liabilities (Note 13)		
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2018 and 2017; issued 1,347,376 shares in 2018 and 1,345,762 shares in 2017	**135**	135
Additional paid-in capital	**2,151**	2,052
Retained earnings	**31,461**	29,895
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	**(2,113)**	(1,750)
Unrealized gains (losses) on fixed maturity securities [(5)]	**4,240**	5,964
Unrealized gains (losses) on derivatives	**(24)**	(23)
Pension liability adjustment	**(194)**	(163)
Treasury stock, at average cost	**(12,422)**	(11,512)
Total shareholders' equity	**23,234**	24,598
Total liabilities and shareholders' equity	**$137,941**	$ 137,217

[(4)] Includes $101 in 2018 and $128 in 2017 of derivatives from consolidated variable interest entities

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In millions - Unaudited)	Nine Months Ended September 30, **2018**	2017
Common stock:		
Balance, beginning of period	**$135**	$135
Balance, end of period	**135**	135
Additional paid-in capital:		
Balance, beginning of period	**2,052**	1,908
Exercise of stock options	**30**	33
Share-based compensation	**39**	38
Gain (loss) on treasury stock reissued	**30**	30
Balance, end of period	**2,151**	2,009
Retained earnings:		
Balance, beginning of period	**29,895**	25,981
Cumulative effect of change in accounting principle - financial instruments, net of income taxes [(1)]	**148**	0
Cumulative effect of change in accounting principle - tax effects from tax reform [(1)]	**(374)**	0
Net earnings	**2,395**	2,021
Dividends to shareholders	**(603)**	(513)
Balance, end of period	**31,461**	27,489
Accumulated other comprehensive income (loss):		
Balance, beginning of period	**4,028**	2,630
Cumulative effect of change in accounting principle - financial instruments, net of income taxes [(1)]	**(148)**	0
Cumulative effect of change in accounting principle - tax effects from tax reform [(1)]	**374**	0
Unrealized foreign currency translation gains (losses) during period, net of income taxes	**(38)**	268
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments [(1)]	**(2,310)**	632
Unrealized gains (losses) on derivatives during period, net of income taxes	**2**	1
Pension liability adjustment during period, net of income taxes	**1**	0
Balance, end of period	**1,909**	3,531
Treasury stock:		
Balance, beginning of period	**(11,512)**	(10,172)
Purchases of treasury stock	**(939)**	(1,053)
Cost of shares issued	**29**	38
Balance, end of period	**(12,422)**	(11,187)
Total shareholders' equity	**$23,234**	$21,977

[(1)] *See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018.*
See the accompanying Notes to the Consolidated Financial Statements.

7

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net earnings	**$2,395**	$2,021
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**(27)**	(32)
Capitalization of deferred policy acquisition costs	**(1,082)**	(1,077)
Amortization of deferred policy acquisition costs	**932**	848
Increase in policy liabilities	**1,821**	2,137
Change in income tax liabilities	**38**	323
Realized investment (gains) losses	**76**	166
Other, net	**506**	210
Net cash provided (used) by operating activities	**4,659**	4,596
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Available-for-sale fixed maturity securities	**5,991**	3,382
Equity securities	**369**	755
Held-to-maturity fixed maturity securities	**880**	1,714
Other investments - loan receivables	**597**	134
Costs of investments acquired:		
Available-for-sale fixed maturity securities	**(7,845)**	(6,827)
Equity securities	**(338)**	(391)
Other investments - loan receivables	**(4,150)**	(916)
Other investments, excluding loan receivables, net	**(136)**	(167)
Settlement of derivatives, net	**(141)**	(240)
Cash received (pledged or returned) as collateral, net	**1,413**	(273)
Other, net	**188**	(58)
Net cash provided (used) by investing activities	**(3,172)**	(2,887)
Cash flows from financing activities:		
Purchases of treasury stock	**(923)**	(1,053)
Proceeds from borrowings	**0**	524
Principal payments under debt obligations	**0**	(660)
Dividends paid to shareholders	**(595)**	(491)
Change in investment-type contracts, net	**(17)**	39
Treasury stock reissued	**36**	23
Other, net	**(14)**	5
Net cash provided (used) by financing activities	**(1,513)**	(1,613)
Effect of exchange rate changes on cash and cash equivalents	**(36)**	(28)
Net change in cash and cash equivalents	**(62)**	68
Cash and cash equivalents, beginning of period	**3,491**	4,859
Cash and cash equivalents, end of period	**$3,429**	$4,927
Supplemental disclosures of cash flow information:		
Income taxes paid	**$827**	$693
Interest paid	**124**	144
Noncash interest	**41**	38
Impairment losses included in realized investment losses	**17**	27
Noncash financing activities:		

Capital lease obligations	**10**	7
Treasury stock issued for:		
Associate stock bonus	**7**	22
Shareholder dividend reinvestment	**8**	22
Share-based compensation grants	**2**	1

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
(Interim period data – Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (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. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 69% of the Company's total revenues in both the nine-month periods ended September 30, 2018 and 2017, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 84% at September 30, 2018, compared with 83% at December 31, 2017.

Basis of Presentation

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In these Notes to the Consolidated Financial Statements, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates based on currently available information when recording transactions resulting from business operations. The most significant items on the Company's balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, mortality, morbidity, commission and other acquisition expenses, and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, the Company believes the amounts provided are adequate.

The unaudited consolidated financial statements include the accounts of the Parent Company, its subsidiaries and those entities required to be consolidated under applicable accounting standards. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of September 30, 2018, and December 31, 2017, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2018 and 2017, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2018 and 2017. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report).

Stock split: On February 13, 2018, the Board of Directors of the Parent Company declared a two-for-one stock split of the Company’s common stock in the form of 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 Quarterly Report on Form 10-Q.

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

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

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Standard	**Description**	**Date of Adoption**	**Effect on Financial Statements or Other Significant Matters**
Accounting Standards Update (ASU) 2018-03 Technical Corrections and Improvements to Financial Instruments - Overall	In February 2018, the FASB issued amendments to clarify certain aspects of the guidance issued in the original *Financial Instruments - Overall - Recognition and Measurement* pronouncement summarized below. Specifically, for entities who have chosen the measurement alternative approach for equity securities without readily determinable fair values, the amendments clarify that entities may change from a measurement alternative approach to a fair value method through an irrevocable election that would apply to a specific equity security and all identical or similar investments of the same issuer; entities should use an observable price at the date of the transaction rather than reporting date for the measurement alternative calculation; and insurance companies should use a prospective transition method when applying the measurement alternative. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted the *Financial Instruments - Overall - Recognition and Measurement* guidance discussed below.	Early adopted as of January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2018-02 Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	In February 2018, the FASB issued amendments which allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings of the effects of the change in the U.S. federal income tax rate resulting from the Tax Cuts and Jobs Act (Tax Act) on the gross deferred tax amounts and the corresponding valuation allowances related to items remaining in AOCI. The amendments eliminate the stranded tax effects resulting from the Tax Act and also require certain disclosures about the reclassified tax effects. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Public business entities may early adopt this guidance in any interim reporting period for which financial statements have not yet been issued. The amendments should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized.	Early adopted as of January 1, 2018	The amounts reclassified from AOCI to retained earnings include the income tax effects of the change in the federal corporate tax rate enacted by the Tax Act. The Company’s policy is to follow the portfolio approach for releasing income tax effects from AOCI. The adoption of this guidance resulted in an increase to beginning 2018 AOCI of $374 million with a corresponding decrease to beginning 2018 retained earnings as of January 1, 2018.
ASU 2017-09 Compensation - Stock Compensation: Scope of Modification Accounting	In May 2017, the FASB issued amendments to provide guidance clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. An entity should apply modification accounting if the fair value, vesting conditions or classification of the award (as an equity instrument or liability instrument) changes as a result of the change in terms or conditions of the award.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2017-08 Receivables - Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities	In March 2017, the FASB issued amendments to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.	Early adopted as of July 1, 2018	The adoption of this guidance did not have a significant impact on the Company’s financial position, results of operations, or disclosures.

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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2017-07 Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	In March 2017, the FASB issued amendments requiring that an employer report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2017-05 Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	In February 2017, the FASB issued amendments that clarify the scope and accounting guidance for the derecognition of a nonfinancial asset or a financial asset that meets the definition of an "in substance nonfinancial asset." The amendments define an "in substance nonfinancial asset" and provide additional accounting guidance for partial sales of nonfinancial assets.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2017-01 Business Combinations: Clarifying the Definition of a Business	In January 2017, the FASB issued amendments clarifying when a set of assets and activities is a business. The amendments provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2016-18 Statement of Cash Flows: Restricted Cash	In November 2016, the FASB issued amendments requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.
ASU 2016-16 Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory	In October 2016, the FASB issued amendments that require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments	In August 2016, the FASB issued amendments that provide guidance on eight specific statement of cash flows classification issues.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of

	operations, statements of cash flows, or disclosures.

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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-01 Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	In January 2016, the FASB issued guidance to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of this guidance require certain equity investments to be measured at fair value with changes in fair value recognized in net earnings; separate presentation in other comprehensive income for changes in fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk; and changes in disclosures associated with the fair value of financial instruments. The guidance also clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset (DTA) related to available-for-sale (AFS) securities in combination with the entity's other DTAs.	January 1, 2018	The Company recorded a cumulative effect adjustment with an increase to beginning 2018 retained earnings and a decrease to beginning 2018 AOCI of $148 million, net of taxes.
ASU 2014-09 Revenue from Contracts with Customers	In May 2014, the FASB issued updated guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

Accounting Pronouncements Pending Adoption

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-15 Intangibles - Goodwill and Other - Internal-Use Software, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	In August 2018, the FASB issued amendments to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company’s financial position, results of operations or disclosures.

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-14 Compensation - Retirement Benefits - Defined Benefit Plans - General, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	In August 2018, the FASB issued amendments to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Accordingly, six disclosures requirements were removed, two added and two clarified. The amendments are effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company’s financial position, results of operations, or disclosures.
ASU 2018-13 Fair Value Measurement, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	In August 2018, the FASB issued amendments to the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The amendments remove, modify, and add certain disclosures. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date.	The adoption of this guidance is not expected to have a significant impact on the Company’s financial position, results of operations, or disclosures.
ASU 2018-12 Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts	In August 2018, the FASB issued amendments that will significantly change how insurers account for long-duration contracts. The amendments will change existing recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) requirement to update assumptions for liability for future policy benefits, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted.	The Company is thoroughly evaluating the impact of adoption and it is expected that the adoption will have a significant impact on the Company’s financial position, results of operations, and disclosures. The Company expects that the requirement to update assumptions for liability for future policy benefits will have the most significant impact on its results of operations, systems, processes, and controls.
ASU 2018-11 Leases, Targeted Improvements	In July 2018, the FASB issued targeted improvements to Topic 842 Leases. The amendments in the update provide entities with an additional (and optional) transition method to adopt the new leases standard by recording a cumulative effect adjustment to beginning retained earnings. Additionally, the amendments provide lessors with a practical expedient to not separate nonlease components from associated lease components and instead account for those components as a single component under certain conditions. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	The Company has elected the optional transition method. The adoption of this guidance is not expected to have a significant impact on the Company’s financial position, results of operations, or disclosures.
ASU 2018-10 Codification Improvements to Topic 842, Leases	In July 2018, the FASB issued guidance which clarifies, corrects errors in, or makes minor improvements to the Codification related to ASU 2016-02, *Leases* (Topic 842). The amendments in this ASU affect narrow aspects of the guidance issued in the amendments to ASU 2016-02, including but not limited to, Residual Value Guarantees, Rate Implicit in the Lease, Lessee Reassessment of Lease Classification and Variable Lease Payments that Depend on an Index or a Rate. Amendments within this ASU follow the effective dates of Topic 842, which are	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

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Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-01 Leases: Land Easement Practical Expedient for Transition to Topic 842	In January 2018, the FASB issued guidance which provides an entity with the option to elect a transition practical expedient to not evaluate, under Topic 842, land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. The amendments clarify that new or modified land easements should be evaluated under the new leases standard once an entity has adopted the new standard. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2017-12 Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities	In August 2017, the FASB issued guidance which improves and simplifies the accounting rules around hedge accounting and will create more transparency around how economic results are presented on financial statements. Issues addressed in this new guidance include: 1) risk component hedging, 2) accounting for the hedged item in fair value hedges of interest rate risk, 3) recognition and presentation of the effects of hedging instruments, and 4) amounts excluded from the assessment of hedge effectiveness. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the guidance.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2017-04 Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment	In January 2017, the FASB issued amendments simplifying the subsequent measurement of goodwill. An entity, under this update, is no longer required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, the entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments are effective for public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any goodwill impairment tests performed on testing dates after January 1, 2017.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-13 Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments	In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for credit losses in order to reflect the amount expected to be collected on the financial asset(s). The measurement of expected credit losses is amended by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform about a credit loss. Credit losses on available-for-sale debt securities will continue to be measured in a manner similar to current U.S. GAAP; however, the amendments require that credit losses be presented as an allowance rather than as a write-down. Other amendments include changes to the balance sheet presentation and interest income recognition of purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (PCD financial assets). The amendments are effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may early adopt this guidance as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments will be adopted following a modified-retrospective approach resulting in a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. Two exceptions to this adoption method are for PCD financial assets and debt securities for which other-than-temporary impairment (OTTI) will have been recognized before the effective date. Loans purchased with credit deterioration accounted for under current U.S. GAAP as "purchased credit impaired" (PCI) financial assets will be classified as PCD financial assets at transition and PCD guidance will be applied prospectively. Debt securities that have experienced OTTI before the effective date will follow a prospective adoption method which allows an entity to maintain the same amortized cost basis before and after the effective date.	The Company has identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, loan and loan receivables and reinsurance recoverables (See Notes 3 and 7 for current balances of instruments in scope). The Company is progressing towards updating its credit loss projection models and accounting systems to comply with the required changes in measurement of credit losses. The Company currently expects loans and loan receivables and held-to-maturity fixed maturity securities to be the asset classes most significantly impacted upon adoption of the guidance. The Company continues to evaluate the impact of adoption of this guidance on its financial position, results of operations, and disclosures.

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-02 Leases	In February 2016, the FASB established Topic 842, Leases, by issuing ASU No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Under the new guidance, lessor accounting is largely unchanged. The new standard is effective for the Company on January 1, 2019, as we do not plan to early adopt. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The Company is electing to use its effective date as its date of initial application. The transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. Because the Company expects to adopt the new standard on January 1, 2019 and use the effective date as the date of initial application, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company expects to elect the 'package of practical expedients', which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight.	The Company has identified certain operating leases in scope of this guidance to include office space and equipment leases (See Note 15 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report for current balances of leases in scope). The leases within scope of this guidance will increase the Company's ROU assets and lease liabilities recorded on its statement of financial position, however the Company estimates leases within scope of the guidance to represent less than 1% of its total assets as of September 30, 2018. The Company estimates that the adoption of this guidance will not have a significant impact on its financial position, results of operations, or disclosures.

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to the Company's business.

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

2. BUSINESS SEGMENT INFORMATION

The Company consists of two reportable insurance business segments: Aflac Japan and Aflac U.S., both of which sell supplemental health and life insurance. Operating business segments that are not individually reportable and business activities, including reinsurance retrocession activities, not included in Aflac Japan or Aflac U.S. are included in the "Corporate and other" category.

The Company does not allocate corporate overhead expenses to business segments. Consistent with U.S. GAAP accounting guidance for segment reporting, the Company evaluates and manages its business segments using a financial performance measure called pretax adjusted earnings. Adjusted earnings are adjusted revenues less benefits and adjusted expenses. The adjustments to both revenues and expenses account for certain items that cannot be predicted or that are outside management's control. Adjusted revenues are U.S. GAAP total revenues excluding realized investment gains and losses, except for amortized hedge costs related to foreign currency exposure management strategies and net interest cash flows from derivatives associated with certain investment strategies. Adjusted expenses are U.S. GAAP total acquisition and operating expenses including the impact of interest cash flows from derivatives associated with notes payable but excluding any nonrecurring or other items not associated with the normal course of the Company's insurance operations and that do not reflect Aflac's underlying business performance. The Company excludes income taxes related to operations to arrive at pretax adjusted earnings. Information regarding operations by segment follows:

(In millions)	Three Months Ended September 30, **2018**	2017	Nine Months Ended September 30, **2018**	2017
Revenues:				
Aflac Japan:				
Net earned premiums	**$3,159**	$3,200	**$9,649**	$9,616
Net investment income, less amortized hedge costs	**606**	561	**1,801**	1,676
Other income	**10**	11	**31**	31
Total Aflac Japan	**3,775**	3,772	**11,481**	11,323
Aflac U.S.:				
Net earned premiums	**1,426**	1,393	**4,280**	4,172
Net investment income	**187**	181	**544**	539
Other income	**3**	1	**7**	3
Total Aflac U.S.	**1,616**	1,575	**4,831**	4,714
Corporate and other	**82**	69	**245**	204
Total adjusted revenues	**5,473**	5,416	**16,557**	16,241
Realized investment gains (losses) (1),(2),(3)	**104**	90	**75**	2
Total revenues	**$5,577**	$5,506	**$16,632**	$16,243

(1) Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $59 and $60 for the three- month periods and $168 and for both the nine-month periods ended September 30, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing segment operations.

(2) Amortized hedge costs in Aflac Japan were partially offset by derivatives entered into as part of corporate activities and resulted in a benefit of $9 for the three-month period and $18 for the nine-month period ended September 30, 2018, respectively, which has been reclassified from realized investment gains (losses) and reported as an increase in net investment income when analyzing operations.

(3) An immaterial amount of net interest cash flows from derivatives associated with certain investment strategies in the three- and nine-month periods ended September 30, 2018, were reclassified from realized investment gains (losses) into net investment income when analyzing operations.

(In millions)	Three Months Ended September 30, **2018**	2017	Nine Months Ended September 30, **2018**	2017
Pretax earnings:				
Aflac Japan	**$756**	$748	**$2,411**	$2,308
Aflac U.S.	**334**	316	**1,011**	956
Corporate and other	**(29)**	(50)	**(113)**	(150)
Pretax adjusted earnings	**1,061**	1,014	**3,309**	3,114
Realized investment gains (losses) (1),(2),(3),(4)	**88**	71	**25**	(57)
Other income (loss)	**(3)**	(10)	**(73)**	(38)
Total earnings before income taxes	**$1,146**	$1,075	**$3,261**	$3,019
Income taxes applicable to pretax adjusted earnings	**$270**	$338	**$862**	$1,031
Effect of foreign currency translation on after-tax adjusted earnings	**(1)**	(29)	**27**	(31)

(1) Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $59 and $60 for the three- month periods and $168 for both the nine-month periods ended September 30, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from pretax adjusted earnings when analyzing segment operations.
(2) Amortized hedge costs in Aflac Japan were partially offset by derivatives entered into as part of corporate activities and resulted in a benefit of $9 for the three-month period and $18 for the nine-month period ended September 30, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in pretax adjusted earnings when analyzing operations.
(3) An immaterial amount of net interest cash flows from derivatives associated with certain investment strategies in the three- and nine-month periods ended September 30, 2018, were reclassified from realized investment gains (losses) into net investment income when analyzing operations.
(4) Excluding a gain of $17 and $19 for the three-month periods and $50 and $60 for the nine-month periods ended September 30, 2018, and 2017, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is included in adjusted earnings when analyzing segment operations

Assets were as follows:

(In millions)	**September 30, 2018**	December 31, 2017
Assets:		
Aflac Japan	**$ 116,181**	$ 114,402
Aflac U.S.	**19,585**	19,893
Corporate and other	**2,175**	2,922
Total assets	**$ 137,941**	$ 137,217

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3. INVESTMENTS

Investment Holdings

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

(In millions)	September 30, 2018 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value through other comprehensive income:				
Fixed maturity securities: [1]				
Yen-denominated:				
Japan government and agencies	**$29,499**	**$ 2,955**	**$ 426**	**$32,028**
Municipalities	**376**	**25**	**17**	**384**
Mortgage- and asset-backed securities	**151**	**21**	**0**	**172**
Public utilities	**1,685**	**303**	**9**	**1,979**
Sovereign and supranational	**1,116**	**133**	**1**	**1,248**
Banks/financial institutions	**5,317**	**602**	**159**	**5,760**
Other corporate	**4,618**	**683**	**36**	**5,265**
Total yen-denominated	**42,762**	**4,722**	**648**	**46,836**
U.S. dollar-denominated:				
U.S. government and agencies	**136**	**7**	**1**	**142**
Municipalities	**1,339**	**123**	**12**	**1,450**
Mortgage- and asset-backed securities	**154**	**8**	**1**	**161**
Public utilities	**4,863**	**562**	**91**	**5,334**
Sovereign and supranational	**248**	**61**	**0**	**309**
Banks/financial institutions	**2,767**	**431**	**19**	**3,179**
Other corporate	**23,983**	**1,677**	**775**	**24,885**
Total U.S. dollar-denominated	**33,490**	**2,869**	**899**	**35,460**
Total securities available for sale	**$76,252** [1]	**$ 7,591**	**$ 1,547**	**$82,296** [1]

[1] *Includes perpetual securities ($1,408 at amortized cost and $1,591 at fair value)*

(In millions)	September 30, 2018 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	**$21,224**	**$ 4,652**	**$ 0**	**$25,876**
Municipalities	**353**	**97**	**0**	**450**
Mortgage- and asset-backed securities	**14**	**1**	**0**	**15**
Public utilities	**3,150**	**302**	**1**	**3,451**
Sovereign and supranational	**1,516**	**276**	**0**	**1,792**
Banks/financial institutions	**1,491**	**163**	**11**	**1,643**
Other corporate	**2,673**	**356**	**6**	**3,023**
Total yen-denominated	**30,421**	**5,847**	**18**	**36,250**
Total securities held to maturity	**$30,421**	**$ 5,847**	**$ 18**	**$36,250**

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(In millions)	September 30, 2018 Fair Value
Equity securities, carried at fair value through net earnings:	
Equity securities: [1]	
Yen-denominated	**$707**
U.S. dollar-denominated	**352**
Total equity securities	**$1,059** [1]

[1] *Includes perpetual securities ($66 at fair value)*

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

[1] *Includes perpetual securities ($1,462 at amortized cost and $1,789 at fair value)*

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

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

The methods of determining the fair values of the Company's investments in fixed maturity securities and equity securities are described in Note 5.

During the first nine months of 2018, the Company did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

During the third quarter of 2017, the Company did not reclassify any investments from the held-to-maturity category to
the available-for-sale category. During the second quarter of 2017, the Company reclassified three investments from the held-to-maturity category to the available-for-sale category as a result of the issuers' credit rating being downgraded to below investment grade. At the time of the transfer, the securities had an amortized cost of $773 million and an unrealized gain of $47 million. During the first quarter of 2017, the Company did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

Contractual and Economic Maturities

The contractual and economic maturities of the Company's investments in fixed maturity securities at September 30, 2018, were as follows:

(In millions)	Amortized Cost	Fair Value
Available for sale: [1]		
Due in one year or less	$ 691	$ 757
Due after one year through five years	8,058	8,199
Due after five years through 10 years	10,282	10,936
Due after 10 years	56,916	62,071
Mortgage- and asset-backed securities	305	333
Total fixed maturity securities available for sale	$ 76,252	$ 82,296
Held to maturity:		
Due in one year or less	$ 528	$ 533
Due after one year through five years	541	569
Due after five years through 10 years	1,303	1,415
Due after 10 years	28,034	33,718
Mortgage- and asset-backed securities	15	15
Total fixed maturity securities held to maturity	$ 30,421	$ 36,250

[1] Includes perpetual securities, categorized in accordance with their respective economic maturities (the expected maturity date created by the combination of features in the financial instrument)

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Concentrations

The Company's process for investing in credit-related investments begins with an independent approach to underwriting each issuer's fundamental credit quality. The Company evaluates independently those factors that it believes could influence an issuer's ability to make payments under the contractual terms of the Company's instruments. This includes a thorough analysis of a variety of items including the issuer's country of domicile (including political, legal, and financial considerations); the industry in which the issuer competes (with an analysis of industry structure, end-market dynamics, and regulation); company specific issues (such as management, assets, earnings, cash generation, and capital needs); and contractual provisions of the instrument (such as financial covenants and position in the capital structure). The Company further evaluates the investment considering broad business and portfolio management objectives, including asset/liability needs, portfolio diversification, and expected income.

Investment exposures that individually exceeded 10% of shareholders' equity were as follows:

	September 30, 2018			December 31, 2017		
(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	Credit Rating	Amortized Cost	Fair Value
Japan National Government[1]	**A+**	**$49,603**	**$56,679**	A	$48,399	$56,532

[1]Japan Government Bonds (JGBs) or JGB-backed securities

Realized Investment Gains and Losses

Information regarding pretax realized gains and losses from investments is as follows:

(In millions)	Three Months Ended September 30, **2018**	2017	Nine Months Ended September 30, **2018**	2017
Realized investment gains (losses):				
Fixed maturity securities: [1]				
Available for sale:				
Gross gains from sales	**$60**	$18	**$81**	$40
Gross losses from sales	**(26)**	(5)	**(99)**	(24)
Foreign currency gains (losses) on sales and redemptions	**3**	3	**27**	(47)
Other-than-temporary impairment losses	**0**	(1)	**(2)**	(5)
Total fixed maturity securities	**37**	15	**7**	(36)
Equity securities [1],[2]	**27**	39 [3]	**(1)**	73 [3]
Loan loss reserves	**(5)**	(1)	**(15)**	(4)
Derivatives and other:				
Derivative gains (losses)	**(162)**	(40)	**(190)**	(143)
Foreign currency gains (losses)	**159**	17	**123**	(56)
Total derivatives and other	**(3)**	(23)	**(67)**	(199)
Total realized investment gains (losses)	**$56**	$30	**$(76)**	$(166)

[1] Includes perpetual securities

[2] See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.

[3] Includes impairments of $6 for the three-month period and $18 for the nine-month period ended September 30, 2017

The unrealized holding gains, net of losses, recorded as a component of realized investment gains and losses for the three-month period ended September 30, 2018, that relates to equity securities still held at the September 30, 2018, reporting date was $25 million. The unrealized holding gains, net of losses, recorded as a component of realized investment gains and losses for the nine-month period ended September 30, 2018, that relates to equity securities still held at the September 30, 2018, reporting date was $1 million.

Unrealized Investment Gains and Losses

Effect on Shareholders' Equity

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

(In millions)	**September 30, 2018**	December 31, 2017
Unrealized gains (losses) on securities available for sale	**$6,044**	$ 9,358
Deferred income taxes	**(1,804)**	(3,394)
Shareholders' equity, unrealized gains (losses) on investment securities	**$4,240**	$ 5,964

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

Gross Unrealized Loss Aging

The following tables show the fair values and gross unrealized losses of the Company's available-for-sale and held-to-maturity investments that were in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

(In millions)	September 30, 2018 Total Fair Value	Unrealized Losses	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
Fixed maturity securities: [1]						
U.S. government and agencies:						
U.S. dollar-denominated	**$80**	**$ 1**	**$80**	**$ 1**	**$ 0**	**$ 0**
Japan government and agencies:						
Yen-denominated	**9,221**	**426**	**9,221**	**426**	**0**	**0**
Municipalities:						
U.S. dollar-denominated	**490**	**12**	**490**	**12**	**0**	**0**
Yen-denominated	**224**	**17**	**224**	**17**	**0**	**0**
Mortgage- and asset-backed securities:						
U.S. dollar-denominated	**81**	**1**	**81**	**1**	**0**	**0**
Public utilities:						
U.S. dollar-denominated	**1,726**	**91**	**1,721**	**91**	**5**	**0**
Yen-denominated	**381**	**10**	**381**	**10**	**0**	**0**
Sovereign and supranational:						
Yen-denominated	**43**	**1**	**43**	**1**	**0**	**0**
Banks/financial institutions:						
U.S. dollar-denominated	**552**	**19**	**517**	**18**	**35**	**1**
Yen-denominated	**2,806**	**170**	**2,806**	**170**	**0**	**0**
Other corporate:						
U.S. dollar-denominated	**11,731**	**775**	**11,291**	**744**	**440**	**31**
Yen-denominated	**1,134**	**42**	**1,134**	**42**	**0**	**0**
Total	**$28,469**	**$ 1,565**	**$27,989**	**$ 1,533**	**$ 480**	**$ 32**

[1] *Includes perpetual securities*

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

(1) *Includes perpetual securities*

Analysis of Securities in Unrealized Loss Positions

The unrealized losses on the Company's fixed maturity securities investments have been primarily related to general market changes in interest rates, foreign exchange rates, and/or the levels of credit spreads rather than specific concerns with the issuer's ability to pay interest and repay principal.

For any significant declines in fair value of its fixed maturity securities, the Company performs a more focused review of the related issuers' credit profile. For corporate issuers, the Company evaluates their assets, business profile including industry dynamics and competitive positioning, financial statements and other available financial data. For non-corporate issuers, the Company analyzes all sources of credit support, including issuer-specific factors. The Company utilizes information available in the public domain and, for certain private placement issuers, from consultations with the issuers directly. The Company also considers ratings from Nationally Recognized Statistical Rating Organizations (NRSROs), as well as the specific characteristics of the security it owns including seniority in the issuer's capital structure, covenant protections, or other relevant features. From these reviews, the Company evaluates the issuers' continued ability to service the Company's investment through payment of interest and principal.

Assuming no credit-related factors develop, unrealized gains and losses on fixed maturity securities are expected to diminish as investments near maturity. Based on its credit analysis, the Company believes that the issuers of its fixed maturity investments in the sectors shown in the table above have the ability to service their obligations to the Company.

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Other Investments

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

(In millions)	**September 30, 2018**	December 31, 2017
Other investments:		
Transitional real estate loans	**$ 4,128**	$ 1,235
Commercial mortgage loans	**1,026**	908
Middle market loans	**1,363**	859
Policy loans	**223**	210
Short-term investments	**2**	57
Other	**267**	133
Total other investments	**$ 7,009**	$ 3,402

Loans and Loan Receivables

The Company classifies its transitional real estate loans (TREs), commercial mortgage loans (CMLs) and middle market loans (MMLs) as held-for-investment and includes them in the other investments line on the consolidated balance sheets. The Company carries them on the balance sheet at amortized cost less an estimated allowance for loan losses. The Company's allowance for loan losses is established using both general and specific allowances. The general allowance is used for loans grouped by similar risk characteristics where a loan-specific or market-specific risk has not been identified, but for which the Company estimates probable incurred losses. The specific allowance is used on an individual loan basis when it is probable that a loss has been incurred. As of September 30, 2018, and December 31, 2017, the Company's allowance for loan losses was $25 million and $11 million, respectively. As of September 30, 2018, and December 31, 2017, the Company had no loans that were past due in regards to principal and/or interest payments. Additionally, the Company held no loans that were on nonaccrual status or considered impaired as of September 30, 2018, and December 31, 2017. The Company had no troubled debt restructurings during the nine months ended September 30, 2018 and 2017.

Transitional Real Estate Loans

Transitional real estate loans are commercial mortgage loans that are typically relatively short-term floating rate instruments secured by a first lien on the property. These loans provide funding for properties undergoing a change in their physical characteristics and/or economic profile. As of September 30, 2018, the Company had $720 million in outstanding commitments to fund transitional real estate loans. These commitments are contingent on the final underwriting and due diligence to be performed.

Commercial Mortgage Loans

As of September 30, 2018, the Company had $86 million in outstanding commitments to fund commercial mortgage loans. These commitments are contingent on the final underwriting and due diligence to be performed.

Middle Market Loans

Middle market loans are generally considered to be below investment grade. The carrying value for middle market loans included an unfunded amount of $155 million and $109 million, as of September 30, 2018, and December 31, 2017, respectively, that is reflected in other liabilities on the consolidated balance sheets.

As of September 30, 2018, the Company had commitments of approximately $896 million to fund potential future loan originations related to this investment program. These commitments are contingent upon the availability of middle market loans that meet the Company's underwriting criteria.

Other

Other investments primarily includes investments in limited partnerships. As of September 30, 2018, the Company had $1.0 billion in outstanding commitments to fund alternative investments in limited partnerships.

Variable Interest Entities (VIEs)

As a condition of its involvement or investment in a VIE, the Company enters into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of the Company's investment or its beneficial interest in the VIE.

For those VIEs other than certain unit trust structures, the Company's involvement is passive in nature. The Company has not, nor has it been, required to purchase any securities issued in the future by these VIEs.

The Company's ownership interest in VIEs is limited to holding the obligations issued by them. The Company has no direct or contingent obligations to fund the limited activities of these VIEs, nor does it have any direct or indirect financial guarantees related to the limited activities of these VIEs. The Company has not provided any assistance or any other type of financing support to any of the VIEs it invests in, nor does it have any intention to do so in the future. For those VIEs in which the Company holds debt obligations, the weighted-average lives of the Company's notes are very similar to the underlying collateral held by these VIEs where applicable.

The Company's risk of loss related to its interests in any of its VIEs is limited to the carrying value of the related investments held in the VIE.

VIEs - Consolidated

The following table presents the cost or amortized cost, fair value and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported.

Investments in Consolidated Variable Interest Entities

	September 30, 2018		December 31, 2017	
(In millions)	**Cost or Amortized Cost**	**Fair Value**	Cost or Amortized Cost	Fair Value
Assets:				
Fixed maturity securities, available for sale *(1)*	**$4,045**	**$4,853**	$4,538	$5,509
Equity securities	**179**	**179**	606	753
Other investments *(2)*	**5,388**	**5,369**	2,341	2,328
Other assets *(3)*	**190**	**190**	151	151
Total assets of consolidated VIEs	**$9,802**	**$10,591**	$7,636	$8,741
Liabilities:				
Other liabilities *(3)*	**$101**	**$101**	$128	$128
Total liabilities of consolidated VIEs	**$101**	**$101**	$128	$128

(1) Includes perpetual securities
(2) Consists of TREs, CMLs, MMLs, and alternative investments in limited partnerships
(3) Consists entirely of derivatives

The Company is substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, the Company has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and is therefore considered to be the primary beneficiary of the VIEs that it consolidates. The Company also participates in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding invested assets and foreign currency swaps, as appropriate, and utilizing the cash flows from these securities to service its investment. Neither the Company nor any of its creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, the Company is not a direct counterparty to the swap contracts and has no control over them. The Company's loss exposure to these VIEs is limited to its original investment. The Company's consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of its investment in unit trust structures, the underlying collateral assets and funding of the Company's consolidated VIEs are generally static in nature.

Investments in Unit Trust Structures

The Company also utilizes unit trust structures in its Aflac Japan segment to invest in various asset classes. As the sole investor of these VIEs, the Company is required to consolidate these trusts under U.S. GAAP.

VIEs-Not Consolidated

The table below reflects the amortized cost, fair value and balance sheet caption in which the Company's investment in VIEs not consolidated are reported.

Investments in Variable Interest Entities Not Consolidated

(In millions)	**September 30, 2018**		December 31, 2017	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Assets:				
Fixed maturity securities, available for sale [1]	**$4,746**	**$5,261**	$5,004	$5,724
Fixed maturity securities, held to maturity	**2,402**	**2,702**	2,549	2,929
Other investments	**33**	**33**	55	55
Total investments in VIEs not consolidated	**$7,181**	**$7,996**	$7,608	$8,708

[1] *Includes perpetual securities*

The Company holds alternative investments in limited partnerships that have been determined to be VIEs. These partnerships invest in private equity and structured investments. The Company’s maximum exposure to loss on these investments is limited to the amount of its investment. The Company is not the primary beneficiary of these VIEs and is therefore not required to consolidate them. The Company classifies these investments as Other investments in the consolidated balance sheets.

Certain investments in VIEs that the Company is not required to consolidate are investments that are in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents or sponsors. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. The Company does not have the power to direct the activities that most significantly impact the entity's economic performance, nor does it have the obligation to absorb losses of the entity or the right to receive benefits from the entity. As such, the Company is not the primary beneficiary of these VIEs and is therefore not required to consolidate them.

Securities Lending and Pledged Securities

The Company lends fixed maturity and public equity securities to financial institutions in short-term security-lending transactions. These short-term security-lending arrangements increase investment income with minimal risk. The Company's security lending policy requires that the fair value of the securities received as collateral be 102% or more of the fair value of the loaned securities and that unrestricted cash received as collateral be 100% or more of the fair value of the loaned securities. These securities continue to be carried as investment assets on the Company's balance sheet during the terms of the loans and are not reported as sales. The Company receives cash or other securities as collateral for such loans. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans where the Company receives as collateral securities that the Company is not permitted to sell or repledge, the collateral is not reported as an asset.

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

Securities Lending Transactions Accounted for as Secured Borrowings
September 30, 2018
Remaining Contractual Maturity of the Agreements

(In millions)	**Overnight and Continuous**[(1)]	**Up to 30 days**	**30-90 days**	**Greater than 90 days**	**Total**
Securities lending transactions:					
Fixed maturity securities:					
Japan government and agencies	**$ 15**	**$1,516**	**1**	**$1,158**	**$2,690**
Public utilities	**17**	**0**	**0**	**0**	**17**
Banks/financial institutions	**48**	**0**	**0**	**0**	**48**
Other corporate	**365**	**0**	**0**	**0**	**365**
Equity securities	**8**	**0**	**0**	**0**	**8**
Total borrowings	**$ 453**	**$1,516**	**$ 1**	**$1,158**	**$3,128**
Gross amount of recognized liabilities for securities lending transactions					**$1,970**
Amounts related to agreements not included in offsetting disclosure in Note 4					**$1,158**

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

Securities Lending Transactions Accounted for as Secured Borrowings
December 31, 2017
Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous[(1)]	Up to 30 days	Total
Securities lending transactions:			
Fixed maturity securities:			
Japan government and agencies	$ 0	$ 49	$49
Public utilities	73	0	73
Banks/financial institutions	54	0	54
Other corporate	415	0	415
Equity securities	15	0	15
Total borrowings	$ 557	$ 49	$606
Gross amount of recognized liabilities for securities lending transactions			$606
Amounts related to agreements not included in offsetting disclosure in Note 4			$0

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

The Company did not have any repurchase agreements or repurchase-to-maturity transactions outstanding as of September 30, 2018, and December 31, 2017, respectively.

Certain fixed maturity securities can be pledged as collateral as part of derivative transactions, or pledged to support state deposit requirements or certain investment programs. For additional information regarding pledged securities related to derivative transactions, see Note 4.

4. DERIVATIVE INSTRUMENTS

The Company's freestanding derivative financial instruments have historically consisted of: (1) foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated investments in Aflac Japan's portfolio; (2) foreign currency forwards and options used to economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long term exposure to a weakening yen; (3) swaps associated with the Company's notes payable, consisting of cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and its subordinated debentures; (4) foreign currency swaps and credit default swaps that are associated with investments in special-purpose entities, including VIEs where the Company is the primary beneficiary; and (5) interest rate swaps used to economically hedge interest rate fluctuations in certain variable-rate investments. The Company does not use derivative financial instruments for trading purposes, nor does it engage in leveraged derivative transactions. Some of the Company's derivatives are designated as cash flow hedges, fair value hedges or net investment hedges; however, other derivatives do not qualify for hedge accounting or the Company elects not to designate them as accounting hedges.

Derivative Types

Foreign currency forwards and options are executed for the Aflac Japan segment in order to hedge the currency risk on the carrying value of certain U.S. dollar-denominated investments. The average maturity of these forwards and options can change depending on factors such as market conditions and types of investments being held. In situations where the maturity of the forwards and options are shorter than the underlying investment being hedged, the Company may enter into new forwards and options near maturity of the existing derivative in order to continue hedging the underlying investment. In forward transactions, Aflac Japan agrees with another party to buy a fixed amount of yen and sell a corresponding amount of U.S. dollars at a specified future date. Aflac Japan also executes foreign currency option transactions in a collar strategy, where Aflac Japan agrees with another party to simultaneously purchase a fixed amount of U.S. dollar put options and sell U.S. dollar call options. The combination of these two actions results in no net premium being paid (i.e. a costless or zero-cost collar). The foreign currency forwards and options are used in fair value hedging relationships to mitigate the foreign exchange risk associated with U.S. dollar-denominated investments supporting yen-denominated liabilities.

Foreign currency forwards and options are also used to hedge the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agrees with another party to buy a fixed amount of U.S. dollars and sell a corresponding amount of yen at a specified price at a specified future date. In the option transactions, the Company uses a combination of foreign currency options to protect expected future cash flows by simultaneously purchasing yen put options (options that protect against a weakening yen) and selling yen call options (options that limit participation in a strengthening yen). The combination of these two actions create a zero-cost collar.

The Company enters into foreign currency swaps pursuant to which it exchanges an initial principal amount in one currency for an initial principal amount of another currency, with an agreement to re-exchange the currencies at a future date at an agreed upon exchange rate. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. Foreign currency swaps are used primarily in the consolidated VIEs in the Company's Aflac Japan portfolio to convert foreign-denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. The Company also uses foreign currency swaps to economically convert certain of its U.S. dollar-denominated senior note and subordinated debenture principal and interest obligations into yen-denominated obligations.

In order to mitigate a portion of volatility risk to investment income, the Company economically hedges interest rate fluctuations for certain of its variable–rate investments by entering into receive–fixed, pay–floating interest rate swaps. These derivatives are cleared and settled through a central clearinghouse.

Derivative Balance Sheet Classification

The tables below summarize the balance sheet classification of the Company's derivative fair value amounts, as well as the gross asset and liability fair value amounts. The fair value amounts presented do not include income accruals. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and are not reflective of exposure or credit risk.

(In millions)	**September 30, 2018**			December 31, 2017		
		Asset Derivatives	**Liability Derivatives**		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	**Notional Amount**	**Fair Value**	**Fair Value**	Notional Amount	Fair Value	Fair Value
Cash flow hedges:						
Foreign currency swaps	**$75**	**$ 0**	**$ (5)**	$75	$ 0	$ (8)
Total cash flow hedges	**75**	**0**	**(5)**	75	0	(8)
Fair value hedges:						
Foreign currency forwards	**3,172**	**0**	**(67)**	7,640	2	(221)
Foreign currency options	**9,279**	**0**	**(12)**	7,670	0	(2)
Total fair value hedges	**12,451**	**0**	**(79)**	15,310	2	(223)
Net investment hedge:						
Foreign currency forwards	**0**	**0**	**0**	5	0	0
Foreign currency options	**0**	**0**	**0**	434	12	(1)
Total net investment hedge	**0**	**0**	**0**	439	12	(1)
Non-qualifying strategies:						
Foreign currency swaps	**5,373**	**302**	**(202)**	5,386	296	(189)
Foreign currency forwards	**10,501**	**128**	**(210)**	3,683	20	(53)
Foreign currency options	**373**	**0**	**0**	770	0	0
Credit default swaps	**0**	**0**	**0**	88	1	0
Interest rate swaps	**2,250**	**0**	**(1)**	0	0	0
Total non-qualifying strategies	**18,497**	**430**	**(413)**	9,927	317	(242)
Total derivatives	**$31,023**	**$ 430**	**$ (497)**	$25,751	$ 331	$ (474)
Balance Sheet Location						
Other assets	**$11,232**	**$ 430**	**$ 0**	$10,948	$ 331	$ 0
Other liabilities	**19,791**	**0**	**(497)**	14,803	0	(474)
Total derivatives	**$31,023**	**$ 430**	**$ (497)**	$25,751	$ 331	$ (474)

Cash Flow Hedges

Certain of the Company's consolidated VIEs have foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, the Company has designated the derivative as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset (“cash flow” hedge). The maximum length of time for which these cash flows are hedged is eight years. The remaining derivatives in the Company's consolidated VIEs that have not qualified for hedge accounting are included in “non-qualifying strategies.”

Fair Value Hedges

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

The following table presents the gains and losses on derivatives and the related hedged items in fair value hedges.

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Fair Value Hedging Relationships

(In millions)		Hedging Derivatives			Hedged Items	
Hedging Derivatives	**Hedged Items**	**Total Gains (Losses)**	**Gains (Losses) Excluded from Effectiveness Testing**	**Gains (Losses) Included in Effectiveness Testing**	**Gains (Losses)**	**Ineffectiveness Recognized for Fair Value Hedge**
Three Months Ended September 30, 2018:						
Foreign currency forwards	Fixed maturity securities	**$(106)**	**$ (19)**	**$ (87)**	**$ 83**	**$ (4)**
Foreign currency options	Fixed maturity securities	**(7)**	**(7)**	**0**	**0**	**0**
Nine Months Ended September 30, 2018:						
Foreign currency forwards	Fixed maturity securities	**$93**	**$ (88)**	**$ 181**	**$ (195)**	**$ (14)**
Foreign currency options	Fixed maturity securities	**(10)**	**(10)**	**0**	**0**	**0**
Three Months Ended September 30, 2017:						
Foreign currency forwards	Fixed maturity and equity securities	$(114)	$ (53)	$ (61)	$ 61	$ 0
Foreign currency options	Fixed maturity securities	(14)	(14)	0	0	0
Nine Months Ended September 30, 2017:						
Foreign currency forwards	Fixed maturity and equity securities	$193	$ (151)	$ 344	$ (326)	$ 18
Foreign currency options	Fixed maturity securities	3	(8)	11	(10)	1

Net Investment Hedge

The Company's investment in Aflac Japan is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, the Parent Company's yen-denominated liabilities (see Note 8) have been designated as non-derivative hedges and, prior to April 1, 2018, foreign currency forwards and options have been designated as derivative hedges of the foreign currency exposure of the Company's net investment in Aflac Japan.

The Company's net investment hedge was effective during the three- and nine-month periods ended September 30, 2018 and 2017, respectively.

Non-qualifying Strategies

For the Company's derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings within realized investment gains (losses). The amount of gain or loss recognized in earnings for the Company's VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed maturity securities associated with these swaps is recorded through other comprehensive income.

As of September 30, 2018, the Parent Company had cross-currency interest rate swap agreements related to its $550 million senior notes due March 2020, $350 million senior notes due February 2022, $700 million senior notes due June 2023, $750 million senior notes due November 2024 and $450 million senior notes due March 2025. Changes in the values of these swaps are recorded through current period earnings. For additional information regarding these swaps, see Note 8 in this report and Note 9 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

The Company uses foreign exchange forwards and options to mitigate the currency risk of some of its U.S. dollar-denominated loan receivables held within the Aflac Japan segment. The Company has not elected to apply hedge accounting for these loan receivables due to the change in fair value of the foreign exchange forwards and the foreign

currency remeasurement of the loan receivables being recorded through current period earnings, and generally offsetting each other within realized investment gains (losses).
In order to economically mitigate currency risk of future yen dividends from Aflac Japan while lowering consolidated hedge costs associated with Aflac Japan's U.S. dollar investment hedging, starting in the first quarter of 2018, the Parent Company began entering into offsetting hedge positions using foreign exchange forwards. This activity is reported in the Corporate and other segment.

The Company uses interest rate swaps to economically convert the variable rate investment income to a fixed rate on certain variable-rate investments.

Impact of Derivatives and Hedging Instruments

The following table summarizes the impact to realized investment gains (losses) and other comprehensive income (loss) from all derivatives and hedging instruments.

(In millions)	Three Months Ended September 30, **2018** Realized Investment Gains (Losses)	Three Months Ended September 30, **2018** Other Comprehensive Income (Loss)[1]	Three Months Ended September 30, 2017 Realized Investment Gains (Losses)	Three Months Ended September 30, 2017 Other Comprehensive Income (Loss)[1]	Nine Months Ended September 30, **2018** Realized Investment Gains (Losses)	Nine Months Ended September 30, **2018** Other Comprehensive Income (Loss)[1]	Nine Months Ended September 30, 2017 Realized Investment Gains (Losses)	Nine Months Ended September 30, 2017 Other Comprehensive Income (Loss)[1]
Qualifying hedges:								
Cash flow hedges:								
Foreign currency swaps	**$0**	**$ (2)**	$0	$ (1)	**$1**	**$ 2**	$0	$ 0
Total cash flow hedges	**0**	**(2)**	0	(1)	**1**	**2**	0	0
Fair value hedges:								
Foreign currency forwards[2]	**(23)**		(53)		**(102)**		(133)	
Foreign currency options[2]	**(7)**		(14)		**(10)**		(7)	
Total fair value hedges	**(30)**		(67)		**(112)**		(140)	
Net investment hedge:								
Non-derivative hedging instruments	**0**	**36**	0	5	**0**	**7**	0	(13)
Foreign currency forwards	**0**	**0**	0	4	**0**	**0**	0	(24)
Foreign currency options	**0**	**0**	0	(5)	**0**	**(8)**	0	3
Total net investment hedge	**0**	**36**	0	4	**0**	**(1)**	0	(34)
Non-qualifying strategies:								
Foreign currency swaps	**23**		17		**51**		43	
Foreign currency forwards	**(154)**		10		**(129)**		(46)	
Foreign currency options	**0**		0		**0**		0	
Interest rate swaps	**(1)**		0		**(1)**		0	
Total non-qualifying strategies	**(132)**		27		**(79)**		(3)	
Total	**$(162)**	**$ 34**	$(40)	$ 3	**$(190)**	**$ 1**	$(143)	$ (34)

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

[2] *Impact shown net of effect of hedged items (see Fair Value Hedges section of this Note 4 for further detail)*

The Company reclassified an immaterial amount related to its cash flow hedges from accumulated other comprehensive income (loss) into earnings for the three- and nine-month periods ended September 30, 2018 and 2017.

There was no gain or loss reclassified from accumulated other comprehensive income (loss) into earnings related to the net investment hedge for the three- and nine-month periods ended September 30, 2018 and 2017. As of September 30, 2018, deferred gains and losses on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months were immaterial.

Credit Risk Assumed through Derivatives

For the foreign currency and credit default swaps associated with the Company's VIE investments for which it is the primary beneficiary, the Company bears the risk of loss due to counterparty default even though it is not a direct counterparty to those contracts.

The Company is a direct counterparty to the foreign currency swaps that it has entered into in connection with certain of its senior notes and subordinated debentures; foreign currency forwards; and foreign currency options, and therefore the Company is exposed to credit risk in the event of nonperformance by the counterparties in those contracts. The risk of counterparty default for the Company's foreign currency swaps, certain foreign currency forwards, and foreign currency options is mitigated by collateral posting requirements that counterparties to those transactions must meet.

As of September 30, 2018, there were 15 counterparties to the Company's derivative agreements, with three comprising 51% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

	September 30, 2018			December 31, 2017		
(In millions)	**Notional Amount of Derivatives**	**Asset Derivatives Fair Value**	**Liability Derivatives Fair Value**	Notional Amount of Derivatives	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Counterparties' credit rating:						
AA	**$5,207**	**$ 79**	**$ (42)**	$4,708	$ 52	$ (37)
A	**25,378**	**345**	**(401)**	20,604	271	(370)
BBB	**438**	**6**	**(54)**	439	8	(67)
Total	**$31,023**	**$ 430**	**$ (497)**	$25,751	$ 331	$ (474)

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

The Company also engages in OTC cleared derivative transactions through regulated central clearing counterparties. These positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to these derivatives.

Collateral posted by the Company to third parties for derivative transactions can generally be repledged or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was approximately $301 million and $264 million as of September 30, 2018, and December 31, 2017, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2018, the Company estimates that it would be required to post a maximum of $79 million of additional collateral to these derivative counterparties. The Company is generally allowed to sell or repledge collateral obtained from its derivative counterparties, although it does not typically exercise such rights. (See the Offsetting tables below for collateral posted or received as of the reported balance sheet dates.)

Offsetting of Financial Instruments and Derivatives

Most of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Parent Company or Aflac and its respective counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements with the master netting arrangements generally provide that the Company will receive or pledge financial collateral at the first dollar of exposure.

The Company has securities lending agreements with unaffiliated financial institutions that post collateral to the Company in return for the use of its fixed maturity and public equity securities (see Note 3). When the Company has entered into securities lending agreements with the same counterparty, the agreements generally provide for net settlement in the event of default by the counterparty. This right of set-off allows the Company to keep and apply collateral received if the counterparty failed to return the securities borrowed from the Company as contractually agreed.

The tables below summarize the Company's derivatives and securities lending transactions, and as reflected in the tables, in accordance with U.S. GAAP, the Company's policy is to not offset these financial instruments in the Consolidated Balance Sheets.

Offsetting of Financial Assets and Derivative Asset
September 30, 2018

				Gross Amounts Not Offset in Balance Sheet			
(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
Derivative assets:							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	**$240**	**$ 0**	**$ 240**	**$(118)**	**$ (10)**	**$(109)**	**$ 3**
Total derivative assets subject to a master netting agreement or offsetting arrangement	**240**	**0**	**240**	**(118)**	**(10)**	**(109)**	**3**
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	**190**		**190**				**190**
Total derivative assets not subject to a master netting	**190**		**190**				**190**

agreement or offsetting arrangement							
Total derivative assets	**430**	**0**	**430**	**(118)**	**(10)**	**(109)**	**193**
Securities lending and similar arrangements	**1,927**	**0**	**1,927**	**0**	**0**	**(1,927)**	**0**
Total	**$ 2,357**	**$ 0**	**$ 2,357**	**$ (118)**	**$ (10)**	**$ (2,036)**	**$ 193**

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December 31, 2017

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

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Offsetting of Financial Liabilities and Derivative Liabilities
September 30, 2018

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet: Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Securities Collateral	Cash Collateral Pledged	Net Amount
Derivative liabilities:							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	$(395)	$ 0	$(395)	$118	$ 195	$ 26	$(56)
OTC - cleared	(1)	0	(1)	0	0	1	0
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	(396)	0	(396)	118	195	27	(56)
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	(101)		(101)				(101)
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	(101)		(101)				(101)
Total derivative liabilities	(497)	0	(497)	118	195	27	(157)
Securities lending and similar arrangements	(1,970)	0	(1,970)	1,927	0	0	(43)
Total	$(2,467)	$ 0	$(2,467)	$2,045	$ 195	$ 27	$(200)

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December 31, 2017

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

For additional information on the Company's financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in the 2017 Annual Report.

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets.

Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant inputs are not observable in an active market.

The following tables present the fair value hierarchy levels of the Company's assets and liabilities that are measured and carried at fair value on a recurring basis.

(In millions)	September 30, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturity securities: (1)				
Government and agencies	**$30,888**	**$ 1,282**	**$ 0**	**$32,170**
Municipalities	**0**	**1,834**	**0**	**1,834**
Mortgage- and asset-backed securities	**0**	**161**	**172**	**333**
Public utilities	**0**	**7,209**	**104**	**7,313**
Sovereign and supranational	**0**	**1,557**	**0**	**1,557**
Banks/financial institutions	**0**	**8,916**	**23**	**8,939**
Other corporate	**0**	**29,959**	**191**	**30,150**
Total fixed maturity securities	**30,888**	**50,918**	**490**	**82,296** (1)
Equity securities (1)	**972**	**71**	**16**	**1,059** (1)
Other investments	**2**	**0**	**0**	**2**
Cash and cash equivalents	**3,429**	**0**	**0**	**3,429**
Other assets:				
Foreign currency swaps	**0**	**112**	**190**	**302**
Foreign currency forwards	**0**	**128**	**0**	**128**
Total other assets	**0**	**240**	**190**	**430**
Total assets	**$35,291**	**$ 51,229**	**$ 696**	**$87,216**
Liabilities:				
Other liabilities:				
Foreign currency swaps	**$0**	**$ 106**	**$ 101**	**$207**
Foreign currency forwards	**0**	**277**	**0**	**277**
Foreign currency options	**0**	**12**	**0**	**12**
Interest rate swaps	**0**	**1**	**0**	**1**
Total liabilities	**$0**	**$ 396**	**$ 101**	**$497**

(1) *Includes perpetual securities*

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

(1) *Includes perpetual securities*

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The following tables present the carrying amount and fair value categorized by fair value hierarchy level for the Company's financial instruments that are not carried at fair value.

(In millions)	September 30, 2018 Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturity securities:					
Government and agencies	**$21,224**	**$25,868**	**$ 8**	**$ 0**	**$25,876**
Municipalities	**353**	**0**	**450**	**0**	**450**
Mortgage and asset-backed securities	**14**	**0**	**0**	**15**	**15**
Public utilities	**3,150**	**0**	**3,451**	**0**	**3,451**
Sovereign and supranational	**1,516**	**0**	**1,792**	**0**	**1,792**
Banks/financial institutions	**1,491**	**0**	**1,643**	**0**	**1,643**
Other corporate	**2,673**	**0**	**3,023**	**0**	**3,023**
Other investments [(1)]	**6,542**	**0**	**25**	**6,494**	**6,519**
Total assets	**$36,963**	**$25,868**	**$ 10,392**	**$ 6,509**	**$42,769**
Liabilities:					
Other policyholders' funds	**$6,974**	**$0**	**$ 0**	**$ 6,896**	**$6,896**
Notes payable (excluding capital leases)	**5,264**	**0**	**5,066**	**263**	**5,329**
Total liabilities	**$12,238**	**$0**	**$ 5,066**	**$ 7,159**	**$12,225**

[(1)] *Excludes policy loans of $223 and equity method investments of $242, at carrying value*

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

[(1)] *Excludes policy loans of $210 and equity method investments of $118, at carrying value*

Fair Value of Financial Instruments

Fixed maturity and equity securities

The Company determines the fair values of fixed maturity securities and public and privately-issued equity securities using the following approaches or techniques: price quotes and valuations from third party pricing vendors (including quoted market prices readily available from public exchange markets) and non-binding price quotes the Company obtains from outside brokers.

A third party pricing vendor has developed valuation models to determine fair values of privately issued securities to reflect the impact of the persistent economic environment and the changing regulatory framework. These models are discounted cash flow (DCF) valuation models, but also use information from related markets, specifically the CDS market to estimate expected cash flows. These models take into consideration any unique characteristics of the securities and make various adjustments to arrive at an appropriate issuer-specific loss adjusted credit curve. This credit curve is then used with the relevant recovery rates to estimate expected cash flows and modeling of additional features, including illiquidity adjustments, if necessary, to price the security by discounting those loss adjusted cash flows. In cases where a credit curve cannot be developed from the specific security features, the valuation methodology takes into consideration other market observable inputs, including: 1) the most appropriate comparable security(ies) of the issuer; 2) issuer-specific CDS spreads; 3) bonds or CDS spreads of comparable issuers with similar characteristics such as rating, geography, or sector; or 4) bond indices that are comparative in rating, industry, maturity and region.

The pricing data and market quotes the Company obtains from outside sources, including third party pricing services, are reviewed internally for reasonableness. If a fair value appears unreasonable, the Company will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, the Company may compare the inputs to relevant market indices and other performance measurements. Based on management's analysis, the valuation is confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. The Company has performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

The fixed maturity securities classified as Level 3 consist of securities with limited or no observable valuation inputs. For Level 3 securities, the Company estimates the fair value of these securities by obtaining non-binding broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. The Company considers these inputs to be unobservable. The Company also considers a variety of significant valuation inputs in the valuation process, including forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, and certain probability assumptions. In obtaining these valuation inputs, the Company has determined that certain pricing assumptions and data used by its pricing sources are difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities.

For the periods presented, the Company has not adjusted the quotes or prices it obtains from the pricing services and brokers it uses.

The following tables present the pricing sources for the fair values of the Company's fixed maturity and equity securities.

(In millions)	September 30, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturity securities: [(1)]				
Government and agencies:				
Third party pricing vendor	$ 30,888	$ 1,282	$ 0	$ 32,170
Total government and agencies	30,888	1,282	0	32,170
Municipalities:				
Third party pricing vendor	0	1,834	0	1,834
Total municipalities	0	1,834	0	1,834
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	161	0	161
Broker/other	0	0	172	172
Total mortgage- and asset-backed securities	0	161	172	333
Public utilities:				
Third party pricing vendor	0	7,209	0	7,209
Broker/other	0	0	104	104
Total public utilities	0	7,209	104	7,313
Sovereign and supranational:				
Third party pricing vendor	0	1,557	0	1,557
Total sovereign and supranational	0	1,557	0	1,557
Banks/financial institutions:				
Third party pricing vendor	0	8,916	0	8,916
Broker/other	0	0	23	23
Total banks/financial institutions	0	8,916	23	8,939
Other corporate:				
Third party pricing vendor	0	29,861	0	29,861
Broker/other	0	98	191	289
Total other corporate	0	29,959	191	30,150
Total securities available for sale	$ 30,888	$ 50,918	$ 490	$ 82,296 [(1)]
Equity securities, carried at fair value: [(1)]				
Third party pricing vendor	$ 972	$ 71	$ 0	$ 1,043
Broker/other	0	0	16	16
Total equity securities	$ 972	$ 71	$ 16	$ 1,059 [(1)]

[(1)] *Includes perpetual securities*

(In millions)	September 30, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$25,868	$ 8	$ 0	$25,876
Total government and agencies	25,868	8	0	25,876
Municipalities:				
Third party pricing vendor	0	450	0	450
Total municipalities	0	450	0	450
Mortgage- and asset-backed securities:				
Broker/other	0	0	15	15
Total mortgage- and asset-backed securities	0	0	15	15
Public utilities:				
Third party pricing vendor	0	3,451	0	3,451
Total public utilities	0	3,451	0	3,451
Sovereign and supranational:				
Third party pricing vendor	0	1,792	0	1,792
Total sovereign and supranational	0	1,792	0	1,792
Banks/financial institutions:				
Third party pricing vendor	0	1,643	0	1,643
Total banks/financial institutions	0	1,643	0	1,643
Other corporate:				
Third party pricing vendor	0	3,023	0	3,023
Total other corporate	0	3,023	0	3,023
Total securities held to maturity	$25,868	$ 10,367	$ 15	$36,250

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

[(1)] *Includes perpetual securities*

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

The following is a discussion of the determination of fair value of the Company's remaining financial instruments.

Derivatives

The Company uses derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified in the same fair value hierarchy level as the associated asset. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility.

The fair values of the foreign currency forwards and options associated with certain investments; the foreign currency forwards and options used to hedge foreign exchange risk from the Company's net investment in Aflac Japan and economically hedge certain portions of forecasted cash flows denominated in yen; and the foreign currency swaps associated with certain senior notes and subordinated debentures are based on the amounts the Company would expect to receive or pay. The determination of the fair value of these derivatives is based on observable market inputs, therefore they are classified as Level 2.

For derivatives associated with VIEs where the Company is the primary beneficiary, the Company is not the direct counterparty to the swap contracts. As a result, the fair value measurements incorporate the credit risk of the collateral associated with the VIE. The Company receives valuations from a third party pricing vendor for these derivatives. Based on an analysis of these derivatives and a review of the methodology employed by the pricing vendor, the Company determined that due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data. As a result, the derivatives associated with the Company's consolidated VIEs are classified as Level 3 of the fair value hierarchy.

Other investments

Other investments where fair value is disclosed above include short-term investments and loan receivables. Loan receivables include transitional real estate loans, commercial mortgage loans and middle market loans. The Company's loan receivables do not have readily determinable market prices and generally lack market liquidity. Fair values for loan receivables are determined based on the present value of expected future cash flows discounted at the applicable U.S. Treasury or London Interbank Offered Rate (LIBOR) yield plus an appropriate spread that considers other risk factors, such as credit and liquidity risk. These spreads are provided by the applicable asset managers based on their knowledge of the current loan pricing environment and market conditions. The spreads are a significant component of the pricing inputs and are generally considered unobservable. Therefore, these investments have been assigned a Level 3 within the fair value hierarchy.

Other policyholders' funds

The largest component of the other policyholders' funds liability is the Company's annuity line of business in Aflac Japan. The Company's annuities have fixed benefits and premiums. For this product, the Company estimates the fair value to be equal to the cash surrender value. This is analogous to the value paid to policyholders on the valuation date if they were to surrender their policy. The Company periodically checks the cash value against discounted cash flow projections for reasonableness. The Company considers its inputs for this valuation to be unobservable and have accordingly classified this valuation as Level 3.

Notes payable

The fair values of the Company's publicly issued notes payable are determined by utilizing available sources of observable inputs from third party pricing vendors and are classified as Level 2. The fair values of the Company's yen-denominated loans approximate their carrying values and are classified as Level 3.

Transfers between Hierarchy Levels and Level 3 Rollforward

During the three- and nine-month periods ended September 30, 2018 and 2017, respectively, there were no transfers between Level 1 and 2 for assets and liabilities that are measured and carried at fair value on a recurring basis.

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

Three Months Ended September 30, 2018

	Fixed Maturity Securities				**Equity Securities**	**Derivatives** [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	**Total**
Balance, beginning of period	$ 178	$ 106	$ 23	$ 196	$ 17	$ 110	$ 0	$ 630
Realized investment gains (losses) included in earnings	0	0	0	0	(1)	(19)	0	(20)
Unrealized gains (losses) included in other comprehensive income (loss)	(6)	(2)	0	(4)	0	(2)	0	(14)
Purchases, issuances, sales and settlements:								
Purchases	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	0	0	0	(1)	0	0	0	(1)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$ 172	$ 104	$ 23	$ 191	$ 16	$ 89	$ 0	$ 595
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (19)	$ 0	$ (20)

[1] *Derivative assets and liabilities are presented net*

Three Months Ended September 30, 2017

	Fixed Maturity Securities				**Equity Securities**	**Derivatives** [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	**Total**
Balance, beginning of period	$ 188	$ 53	$ 25	$ 77	$ 14	$ 7	$ 2	$ 366
Realized investment gains (losses) included in earnings	0	0	0	0	0	8	(1)	7
Unrealized gains (losses) included in other comprehensive income (loss)	(2)	0	0	1	0	0	0	(1)
Purchases, issuances, sales and settlements:								
Purchases	0	24	0	25	4	0	0	53
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	(1)	0	0	0	(1)
Settlements	(8)	0	0	0	0	0	0	(8)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$ 178	$ 77	$ 25	$ 102	$ 18	$ 15	$ 1	$ 416

Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$ 0	$ 8	$ (1)	$7

(1) *Derivative assets and liabilities are presented net*

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Nine Months Ended September 30, 2018

(In millions)	Fixed Maturity Securities: Mortgage- and Asset-Backed Securities	Fixed Maturity Securities: Public Utilities	Fixed Maturity Securities: Banks/ Financial Institutions	Fixed Maturity Securities: Other Corporate	Equity Securities	Derivatives (1): Foreign Currency Swaps	Derivatives (1): Credit Default Swaps	**Total**
Balance, beginning of period	$175	$68	$ 25	$ 146	$ 16	$22	$ 1	$453
Realized investment gains (losses) included in earnings	0	0	0	0	(1)	65	(1)	63
Unrealized gains (losses) included in other comprehensive income (loss)	(3)	(4)	(2)	(6)	0	2	0	(13)
Purchases, issuances, sales and settlements:								
Purchases	0	40	0	55	1	0	0	96
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	0	0	0	(4)	0	0	0	(4)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$172	$104	$ 23	$ 191	$ 16	$89	$ 0	$595
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$0	$ 0	$ 0	$ (1)	$65	$ (1)	$63

(1) Derivative assets and liabilities are presented net

Nine Months Ended September 30, 2017

(In millions)	Fixed Maturity Securities: Mortgage- and Asset-Backed Securities	Fixed Maturity Securities: Public Utilities	Fixed Maturity Securities: Banks/ Financial Institutions	Fixed Maturity Securities: Other Corporate	Equity Securities	Derivatives (1): Foreign Currency Swaps	Derivatives (1): Credit Default Swaps	**Total**
Balance, beginning of period	$198	$ 16	$ 25	$ 0	$ 3	$(21)	$ 2	$223
Realized investment gains (losses) included in earnings	0	0	0	0	0	36	(1)	35
Unrealized gains (losses) included in other comprehensive income (loss)	4	0	0	3	0	0	0	7
Purchases, issuances, sales and settlements:								
Purchases	0	61	0	100	16	0	0	177
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	(1)	(1)	0	0	(2)
Settlements	(24)	0	0	0	0	0	0	(24)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$178	$ 77	$ 25	$ 102	$ 18	$15	$ 1	$416
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$ 0	$36	$ (1)	$35

(1) Derivative assets and liabilities are presented net

Fair Value Sensitivity

Level 3 Significant Unobservable Input Sensitivity

The following tables summarize the significant unobservable inputs used in the valuation of the Company's Level 3 investments and derivatives carried at fair value. Included in the tables are the inputs or range of possible inputs that have an effect on the overall valuation of the financial instruments.

September 30, 2018

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturity securities:					
Mortgage- and asset-backed securities	**$172**	Consensus pricing	Offered quotes	N/A	(a)
Public utilities	**104**	Discounted cash flow	Credit spreads	N/A	(a)
Banks/financial institutions	**23**	Consensus pricing	Offered quotes	N/A	(a)
Other corporate	**191**	Discounted cash flow	Credit spreads	N/A	(a)
Equity securities	**16**	Net asset value	Offered quotes	N/A	(a)
Other assets:					
Foreign currency swaps	**133**	Discounted cash flow	Interest rates (USD)	3.27% - 3.30%	(b)
			Interest rates (JPY)	.36% - .96%	(c)
			CDS spreads	12 - 101 bps	
	57	Discounted cash flow	Interest rates (USD)	3.27% - 3.30%	(b)
			Interest rates (JPY)	.36% - .96%	(c)
Total assets	**$696**				
Liabilities:					
Other liabilities:					
Foreign currency swaps	**$96**	Discounted cash flow	Interest rates (USD)	3.27% - 3.30%	(b)
			Interest rates (JPY)	.36% - .96%	(c)
			CDS spreads	31 - 196 bps	
	5	Discounted cash flow	Interest rates (USD)	3.27% - 3.30%	(b)
			Interest rates (JPY)	.36% - .96%	(c)
Total liabilities	**$101**				

(a) N/A represents securities where the Company receives unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

December 31, 2017

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturity securities:					
Mortgage- and asset-backed securities	$175	Consensus pricing	Offered quotes	N/A	(a)
Public utilities	68	Discounted cash flow	Credit spreads	N/A	(a)
Banks/financial institutions	25	Consensus pricing	Offered quotes	N/A	(a)
Other corporate	146	Discounted cash flow	Credit spreads	N/A	(a)
Equity securities	16	Net asset value	Offered quotes	N/A	(a)
Other assets:					
Foreign currency swaps	80	Discounted cash flow	Interest rates (USD)	2.40% - 2.54%	(b)
			Interest rates (JPY)	.26% - .85%	(c)
			CDS spreads	9 - 90 bps	
	70	Discounted cash flow	Interest rates (USD)	2.40% - 2.54%	(b)
			Interest rates (JPY)	.26% - .85%	(c)
Credit default swaps	1	Discounted cash flow	Base correlation	46.33% - 49.65%	(d)
			CDS spreads	25 bps	
			Recovery rate	37.24%	
Total assets	$581				
Liabilities:					
Other liabilities:					
Foreign currency swaps	$120	Discounted cash flow	Interest rates (USD)	2.40% - 2.54%	(b)
			Interest rates (JPY)	.26% - .85%	(c)
			CDS spreads	13 - 157 bps	
	8	Discounted cash flow	Interest rates (USD)	2.40% - 2.54%	(b)
			Interest rates (JPY)	.26% - .85%	(c)
Total liabilities	$128				

(a) N/A represents securities where the Company receives unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps
(d) Range of base correlation for the Company's bespoke tranche for attachment and detachment points corresponding to market indices

The following is a discussion of the significant unobservable inputs or valuation techniques used in determining the fair value of securities and derivatives classified as Level 3.

Net Asset Value

The Company holds certain unlisted equity securities whose fair value is derived based on the financial statements published by the investee. These securities do not trade on an active market and the valuations derived are dependent on the availability of timely financial reporting of the investee. Net asset value is an unobservable input in the determination of fair value of equity securities.

Offered Quotes

In circumstances where the Company's valuation model price is overridden because it implies a value that is not consistent with current market conditions, the Company will solicit bids from a limited number of brokers. The Company also receives unadjusted prices from brokers for its mortgage and asset-backed securities. These quotes are non-binding but are reflective of valuation best estimates at that particular point in time. Offered quotes are an unobservable input in the determination of fair value of mortgage- and asset-backed securities, certain banks/financial institutions, certain other corporate, and equity securities investments.

Interest Rates, CDS Spreads, Foreign Exchange Rates

The significant drivers of the valuation of the interest and foreign exchange swaps are interest rates, foreign exchange rates and CDS spreads. Some of the Company's swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. For the Company's foreign exchange or cross currency swaps that are in a net asset position, an increase in yen interest rates (all other factors held constant) will decrease the present value of the yen final settlement receivable (receive leg), thus decreasing the value of the swap as long as the derivative remains in a net asset position.
Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal amounts at the termination of the swap. Assuming all other factors are held constant, an increase in yen interest rates will decrease the receive leg and decrease the net value of the swap. Likewise, holding all other factors constant, an increase in U.S. dollar interest rates will increase the swap's net value due to the decrease in the present value of the dollar final settlement payable (pay leg).
A similar sensitivity pattern is observed for the foreign exchange rates. When the spot U.S. dollar/Japanese yen (USD/JPY) foreign exchange rate decreases and the swap is receiving a final exchange payment in JPY, the swap value will increase due to the appreciation of the JPY. Most of the Company's swaps are designed to receive payments in JPY at the termination and will thus be impacted by the USD/JPY foreign exchange rate in this way. In cases where there is no final foreign exchange receivable in JPY and the Company is paying JPY as interest payments and receiving USD, a decrease in the foreign exchange rate will lead to a decrease in the swap value.

The extinguisher feature in most of the Company's VIE swaps results in a cessation of cash flows and no further payments between the parties to the swap in the event of a default on the referenced or underlying collateral. To price this feature, the Company applies the survival probability of the referenced entity to the projected cash flows. The survival probability uses the CDS spreads and recovery rates to adjust the present value of the cash flows. For extinguisher swaps with positive values, an increase in CDS spreads decreases the likelihood of receiving the final exchange payments and reduces the value of the swap.

For additional information on the Company's investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in the 2017

Annual Report.

6. POLICY LIABILITIES

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

(In millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Unpaid supplemental health claims, beginning of period	**$3,942**	$3,872	**$3,881**	$3,707
Less reinsurance recoverables	**29**	30	**28**	27
Net balance, beginning of period	**3,913**	3,842	**3,853**	3,680
Add claims incurred during the period related to:				
Current year	**1,760**	1,759	**5,381**	5,278
Prior years	**(131)**	(126)	**(456)**	(386)
Total incurred	**1,629**	1,633	**4,925**	4,892
Less claims paid during the period on claims incurred during:				
Current year	**1,357**	1,357	**3,109**	3,074
Prior years	**217**	234	**1,751**	1,697
Total paid	**1,574**	1,591	**4,860**	4,771
Effect of foreign exchange rate changes on unpaid claims	**(59)**	(14)	**(9)**	69
Net balance, end of period	**3,909**	3,870	**3,909**	3,870
Add reinsurance recoverables	**29**	30	**29**	30
Unpaid supplemental health claims, end of period	**3,938**	3,900	**3,938**	3,900
Unpaid life claims, end of period	**592**	468	**592**	468
Total liability for unpaid policy claims	**$4,530**	$4,368	**$4,530**	$4,368

The incurred claims development related to prior years reflects favorable claims experience compared to previous estimates. The favorable claims development of $456 million for the nine-month period ended September 30, 2018 comprises approximately $325 million from Japan, which represents approximately 71% of the total. Excluding the impact of foreign exchange of a loss of approximately $13 million from December 31, 2017 to September 30, 2018, the favorable claims development in Japan would have been approximately $312 million, representing approximately 68% of the total.

The Company has experienced continued favorable claim trends in 2018 for its core health products in Japan. The Company's experience in Japan related to the average length of stay in the hospital for cancer treatment has shown continued decline in the current period. In addition, cancer treatment patterns in Japan are continuing to be influenced by significant advances in early-detection techniques and by the increased use of pathological diagnosis rather than clinical exams. Additionally, follow-up radiation and chemotherapy treatments are occurring more often on an outpatient basis. Such changes in treatment not only increase the quality of life and initial outcomes for the patients, but also decrease the average length of each hospital stay, resulting in favorable claims development.

The remainder of the favorable claims development related to prior years for the nine-month period ended September 30, 2018, reflects Aflac U.S. favorable claims experience compared to previous estimates, primarily in the cancer and accident lines of business.

7. REINSURANCE

The Company periodically enters into fixed quota-share coinsurance agreements with other companies in the normal course of business. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits are reported net of insurance ceded.

The Company has recorded a deferred profit liability related to reinsurance transactions. The remaining deferred profit liability of $989 million, as of September 30, 2018, is included in future policy benefits in the consolidated balance sheet and is being amortized into income over the expected lives of the policies. The Company has also recorded a reinsurance recoverable for reinsurance transactions, which is included in other assets in the consolidated balance sheet and had a remaining balance of $917 million and $908 million as of September 30, 2018, and December 31, 2017, respectively. The increase in the reinsurance recoverable balance was driven by two aggregating factors: yen strengthening and the growth in reserves related to the business that has been reinsured as the policies age. The spot yen/dollar exchange rate weakened by approximately .5% and ceded reserves increased approximately 1.3% from December 31, 2017, to September 30, 2018.

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

(In millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Direct premium income	**$4,720**	$4,734	**$14,346**	$14,210
Ceded to other companies:				
Ceded Aflac Japan closed blocks	**(122)**	(130)	**(378)**	(390)
Other	**(15)**	(12)	**(45)**	(37)
Assumed from other companies:				
Retrocession activities	**51**	54	**158**	163
Other	**2**	2	**5**	5
Net premium income	**$4,636**	$4,648	**$14,086**	$13,951
Direct benefits and claims	**$3,076**	$3,157	**$9,301**	$9,403
Ceded benefits and change in reserves for future benefits:				
Ceded Aflac Japan closed blocks	**(111)**	(118)	**(343)**	(359)
Eliminations	**10**	13	**33**	39
Other	**(11)**	(9)	**(34)**	(31)
Assumed from other companies:				
Retrocession activities	**48**	53	**149**	159
Eliminations	**(10)**	(13)	**(33)**	(39)
Other	**0**	0	**2**	2
Benefits and claims, net	**$3,002**	$3,083	**$9,075**	$9,174

These reinsurance transactions are indemnity reinsurance that do not relieve the Company from its obligations to policyholders. In the event that the reinsurer is unable to meet their obligations, the Company remains liable for the reinsured claims.

As a part of its capital contingency plan, the Company entered into a committed reinsurance facility agreement on December 1, 2015 in the amount of approximately 110 billion yen of reserves. This reinsurance facility agreement was renewed in 2017 and is effective until December 31, 2018. There are also additional commitment periods of a one-year duration, each of which are automatically extended unless notification is received from the reinsurer within 60 days prior to the expiration. The reinsurer can withdraw from the committed facility if Aflac's Standard and Poor's (S&P) rating drops below BBB-. As of September 30, 2018, the Company has not executed a reinsurance treaty under this committed reinsurance facility.

8. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	**September 30, 2018**	December 31, 2017
2.40% senior notes due March 2020	**$ 549**	$ 548
4.00% senior notes due February 2022	**348**	348
3.625% senior notes due June 2023	**698**	697
3.625% senior notes due November 2024	**746**	745
3.25% senior notes due March 2025	**447**	446
2.875% senior notes due October 2026	**297**	297
6.90% senior notes due December 2039	**220**	220
6.45% senior notes due August 2040	**254**	254
4.00% senior notes due October 2046	**394**	394
Yen-denominated senior notes and subordinated debentures:		
.932% senior notes due January 2027 (principal amount 60.0 billion yen)	**525**	528
2.108% subordinated debentures due October 2047 (principal amount 60.0 billion yen)	**523**	526
Yen-denominated loans:		
Variable interest rate loan due September 2021 (.32% in 2018 and 2017, principal amount 5.0 billion yen)	**44**	44
Variable interest rate loan due September 2023 (.47% in 2018 and 2017, principal amount 25.0 billion yen)	**219**	220
Capitalized lease obligations payable through 2025	**15**	22
Total notes payable	**$ 5,279**	$ 5,289

Amounts in the table above are reported net of debt issuance costs and issuance premiums or discounts, if applicable, that are being amortized over the life of the notes.

A summary of the Company's lines of credit as of September 30, 2018 follows:

Borrower	Type	Term	Expiration Date	Capacity	Amount Outstanding	Interest Rate on Borrowed Amount	Maturity Period	Commitment Fee	Business Purpose
Aflac Incorporated and Aflac	uncommitted bilateral	364 days	November 30, 2018	$100 million	$0 million	The rate quoted by the bank and agreed upon at the time of borrowing	Up to 3 months	None	General corporate purposes
Aflac Incorporated	unsecured revolving	3 years	March 31, 2019, or the date commitments are terminated pursuant to an event of default	100.0 billion yen	0.0 billion yen	A rate per annum equal to (a) Tokyo interbank market rate (TIBOR) plus, the alternative applicable TIBOR margin during the availability period from the closing date to the commitment termination date or (b) the TIBOR rate offered by the agent to major banks in yen for the applicable period plus, the applicable alternative TIBOR margin during the term out period	No later than March 31, 2019	.30% to .50%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	unsecured revolving	5 years	April 4, 2023, or the date commitments are terminated pursuant to an event of default[1]	55.0 billion yen, or the equivalent amount in U.S. dollars	0.0 billion yen	A rate per annum equal to, at the Company's option, either, (a) London Interbank Offered Rate (LIBOR) adjusted for certain costs or (b) a base rate determined by reference to the highest of (1) the federal funds rate plus 1/2 of 1%, (2) the rate of interest for such day announced by Mizuho Bank, Ltd. as its prime rate, or (3) the eurocurrency rate for an interest period of one month plus 1.00%, in each case plus an applicable margin	No later than April 4, 2023	.085% to .225%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	uncommitted bilateral	None specified	None specified	$50 million	$0 million	A rate per annum equal to, at the Parent Company's option, either (a) a eurocurrency rate determined by reference to the agent's LIBOR for the interest period relevant to such borrowing or (b) the base rate determined by reference to the greater of (i) the prime rate as determined by the agent, and (ii) the sum of 0.50% and the federal funds rate for such day	Up to 3 months	None	General corporate purposes
Aflac[2]	uncommitted revolving	364 days	November 30, 2018	$250 million	$0 million	USD three-month LIBOR plus 75 basis points per annum	3 months	None	General corporate purposes
Aflac Incorporated[2]	uncommitted revolving	364 days	April 2, 2019	37.5 billion yen	0.0 billion yen	Three-month TIBOR plus 80 basis points per annum	3 months	None	General corporate purposes

[1] *Effective April 4, 2018, the prior expiration date of September 18, 2020 was extended to April 4, 2023.*

[2] *Intercompany credit agreement*

The Company was in compliance with all of the covenants of its notes payable and lines of credit at September 30, 2018. No events of default or defaults occurred during the nine-month period ended September 30, 2018.

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

9. INCOME TAXES

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

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

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

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

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

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

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

10. SHAREHOLDERS’ EQUITY

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

The following table is a reconciliation of the number of shares of the Company's common stock for the nine-month periods ended September 30.

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(In thousands of shares)	**2018**	2017
Common stock - issued:		
Balance, beginning of period	**1,345,762**	1,342,498
Exercise of stock options and issuance of restricted shares	**1,614**	2,840
Balance, end of period	**1,347,376**	1,345,338
Treasury stock:		
Balance, beginning of period	**564,852**	530,877
Purchases of treasury stock:		
Open market	**20,443**	27,796
Other	**361**	872
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	**(850)**	(1,392)
Exercise of stock options	**(430)**	(526)
Other	**(113)**	(39)
Balance, end of period	**584,263**	557,588
Shares outstanding, end of period	**763,113**	787,750

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share (EPS). The following table presents the approximate number of share-based awards to purchase shares, on a weighted-average basis, that were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share for the following periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2018**	2017	**2018**	2017
Anti-dilutive share-based awards	**46**	532	**34**	670

Share Repurchase Program

During the first nine months of 2018, the Company repurchased 20.4 million shares of its common stock in the open market for $923 million as part of its share repurchase program. During the first nine months of 2017, the Company repurchased 27.8 million shares of its common stock in the open market for $1.0 billion as part of its share repurchase program. In August 2017, the Company's board of directors authorized the purchase of an additional