

ABIOMED INC
Form 4
August 15, 2014

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LATAIF LOUIS E

(Last) (First) (Middle)

C/O ABIOMED, INC., 22 CHERRY HILL DRIVE

(Street)

DANVERS, MA 01923

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
ABIOMED INC [ABMD]

3. Date of Earliest Transaction (Month/Day/Year)
08/13/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount (A) or (D) Price		
Common Stock, \$0.01 par value	08/13/2014		A		7,740 <u>(5)</u>	A	\$ 0 34,175 D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Option (right to buy) ⁽¹⁾	\$ 10.01					09/29/2006 ⁽²⁾ 09/29/2016	Common Stock	25,000
Stock Option (right to buy) ⁽¹⁾	\$ 13.21					08/08/2007 ⁽³⁾ 08/09/2016	Common Stock	8,000
Stock option (right to buy) ⁽¹⁾	\$ 12.69					08/13/2008 ⁽³⁾ 08/08/2017	Common Stock	8,000
Stock Option (right to buy) ⁽⁴⁾	\$ 18.63					08/12/2009 ⁽³⁾ 08/13/2018	Common Stock	12,000
Stock Option (right to buy) ⁽⁴⁾	\$ 7.67					08/11/2010 ⁽³⁾ 08/12/2019	Common Stock	12,000
Stock Option (right to buy) ⁽⁴⁾	\$ 9.99					08/10/2011 ⁽³⁾ 08/11/2020	Common Stock	12,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LATAIF LOUIS E C/O ABIOMED, INC. 22 CHERRY HILL DRIVE DANVERS, MA 01923	X			

Signatures

/s/ Stephen C. McEvoy (by power of attorney)

08/15/2014

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Grant to reporting person of option to buy shares of Common Stock set forth in Table II, Column 7, under the ABIOMED, Inc. 2000 Stock Incentive Plan.

(2) These options become exercisable in annual 20% increments commencing on the date shown in Table II, Column 6.

(3) This option becomes exercisable in full on the date set forth in Table II, Column 6.

(4) Grant to reporting person of option to buy the number of shares of Common Stock set forth in Table II, Column 7, under the ABIOMED, Inc. 2008 Stock Incentive Plan.

Represents the grant of a performance share award for restricted stock units pursuant to which one third of the shares will be issued to the reporting person on August 13, 2015, August 13, 2016, and August 13, 2017, so long as he continues to be an active director of the issuer on each of the vesting dates.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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(1
)

2,327

(2
)

6

2,330

Balance, end of period

\$
(1,848
)

\$
6,561

\$
(26
)

\$
(206
)

\$
4,481

All amounts in the table above are net of tax.

Three Months Ended
March 31, 2018

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

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

tax effects from tax reform

All amounts in the table above are net of tax.

Explanation of Responses:

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

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Reclassifications Out of Accumulated Other Comprehensive Income

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

⁽¹⁾ Based on 25% blended tax rate

⁽²⁾ These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 11 for additional details).

(In millions)	Three Months Ended March 31, 2018 Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Details about Accumulated Other Comprehensive Income Components		
Unrealized gains (losses) on available-for-sale securities	\$ 0	Other-than-temporary impairment losses realized
	2	Other gains (losses)

Explanation of Responses:

	2	Total before tax
	(1)	Tax (expense) or benefit ⁽¹⁾
	\$ 1	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	\$ (4)	Acquisition and operating expenses ⁽²⁾
Prior service (cost) credit	0	Acquisition and operating expenses ⁽²⁾
	1	Tax (expense) or benefit ⁽¹⁾
	\$ (3)	Net of tax
Total reclassifications for the period	\$ (2)	Net of tax

⁽¹⁾ Based on 27% blended tax rate

⁽²⁾ These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 11 for additional details).

10. SHARE-BASED COMPENSATION

As of March 31, 2019, the Company has outstanding share-based awards under the Aflac Incorporated Long-Term Incentive Plan (the Plan). Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors.

The Plan, as amended on February 14, 2017, allows for a maximum number of shares issuable over its term of 75 million shares including 38 million shares that may be awarded in respect of awards other than options or stock

appreciation rights. If any awards granted under the Plan are forfeited or are terminated before being exercised or settled for any reason other than tax forfeiture, then the shares underlying the awards will again be available under the Plan.

The Plan allows awards to Company employees for incentive stock options (ISOs), non-qualifying stock options (NQSOs), restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, restricted stock, and stock appreciation rights. As of March 31, 2019, approximately 39.4 million shares were available for future grants under this plan. The ISOs and NQSOs have a term of 10 years, and the share-based awards generally vest upon time-based conditions or time and performance-based conditions. Time-based vesting generally occurs after three years. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. As of March 31, 2019, the only performance-based awards issued and outstanding were restricted stock awards.

Stock options and stock appreciation rights granted under the amended Plan have an exercise price of at least the fair market value of the underlying stock on the grant date and have an expiration date no later than 10 years from the grant date. Time-based restricted stock awards, restricted stock units and stock options granted after January 1, 2017 generally vest on a ratable basis over three years, and awards granted prior to the amendment vest on a three years cliff basis. The Compensation Committee of the Board of Directors has the discretion to determine vesting schedules.

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

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

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

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

As of March 31, 2019, total compensation cost not yet recognized in the Company's financial statements related to restricted stock awards was \$70 million, of which \$33 million (824 thousand shares) was related to restricted stock awards with a performance-based vesting condition. The Company expects to recognize these amounts over a weighted-average period of approximately 1.4 years. There are no other contractual terms covering restricted stock awards once vested.

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

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

Explanation of Responses:

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

In February 2019, the Company granted 399 thousand performance-based stock awards, which are contingent on the achievement of the Company's financial performance metrics and its market-based conditions. On the date of grant, the Company estimated the fair value of restricted stock awards with market-based conditions using a Monte Carlo simulation model. The model discounts the value of the stock at the assumed vesting date based on the risk-free interest rate. Based on estimates of actual performance versus the vesting thresholds, the calculated fair value percentage pay-out estimate will be updated each quarter.

The Company uses third-party analyses to assist in developing the assumptions used in, as well as calibrating, a Monte Carlo simulation model. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

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

11. BENEFIT PLANS

The Company has funded defined benefit plans in Japan and the United States, however the U.S. plan was frozen to new participants effective October 1, 2013. The Company also maintains non-qualified, unfunded supplemental retirement plans that provide defined pension benefits in excess of limits imposed by federal tax law for certain Japanese, U.S. and former employees, however the U.S. plan was frozen to new participants effective January 1, 2015. U.S. employees who are not participants in the defined benefit plan receive a nonelective 401(k) employer contribution.

The Company provides certain health care benefits for eligible U.S. retired employees, their beneficiaries and covered dependents (other postretirement benefits). The health care plan is contributory and unfunded. Effective January 1, 2014, employees eligible for benefits included the following: (1) active employees whose age plus service, in years, equaled or exceeded 80 (rule of 80); (2) active employees who were age 55 or older and have met the 15 years of service requirement; (3) active employees who would meet the rule of 80 in the next 5 years; (4) active employees who were age 55 or older and who would meet the 15 years of service requirement within the next 5 years; and (5) current retirees. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

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

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

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

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

12. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

Guaranty Fund Assessments

The United States insurance industry has a policyholder protection system that is monitored and regulated by state insurance departments. These life and health insurance guaranty associations are state entities (in all 50 states as well as Puerto Rico and the District of Columbia) created to protect policyholders of an insolvent insurance company. All insurance companies (with limited exceptions) licensed to sell life or health insurance in a state must be members of that state's guaranty association. Under state guaranty association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business.

In 2009, the Pennsylvania Insurance Commissioner placed long-term care insurer Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company (collectively referred to as Penn Treaty), neither of which is affiliated with Aflac, in rehabilitation and petitioned a state court for approval to liquidate Penn Treaty. A final order of liquidation was granted by a recognized judicial authority on March 1, 2017, and as a result, Penn Treaty is in the process of liquidation. The Company estimated and recognized the impact of its share of guaranty fund assessments resulting from the liquidation using a discounted rate of 4.25%. The Company recognized a discounted liability for the assessments of \$62 million (undiscounted \$94 million), offset by discounted premium tax credits of \$48 million (undiscounted \$74 million), for a net \$14 million impact to net income in the quarter ended March 31, 2017. The Company paid a majority of these assessments by March 31, 2019. The Company used the cost estimate provided as of the liquidation date by the National Organization of Life and Health Guaranty Associations (NOLHGA) to calculate its estimated assessments and tax credits.

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

13. SUBSEQUENT EVENTS

On April 12, 2019, the Company announced that ALIJ priced 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds will bear interest at a fixed rate of .963% per annum and then at six-month Euro Yen LIBOR plus an applicable spread on and after the day immediately following April 18, 2024. The bonds will be callable on each interest payment date on and after April 18, 2024. ALIJ anticipates using the net proceeds of the offering for general corporate purposes.

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

FORWARD-LOOKING INFORMATION

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

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

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

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

Explanation of Responses:

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

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MD&A OVERVIEW

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

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THE COMPANY'S BUSINESS

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States and, effective April 1, 2018, through Aflac Life Insurance Japan Ltd. (ALIJ) in Japan. Prior to April 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. (For more information about the conversion of Aflac Japan to a legal subsidiary, see the Insurance Operations subsection of this MD&A). The Company's operations consist of two reportable business segments: Aflac U.S., which includes Aflac, and Aflac Japan, which includes ALIJ. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. The Company's insurance operations in the United States and Japan service the two markets for the Company's insurance business.

PERFORMANCE HIGHLIGHTS

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

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

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

months of 2019.

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

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

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CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards CodificationTM(ASC). The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that the Company deems to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 94% of the Company's assets and 81% of its liabilities are reported as of March 31, 2019, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

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

New Accounting Pronouncements

For information on new accounting pronouncements and the impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following discussion includes references to the Company's performance measures, adjusted earnings, adjusted earnings per diluted share, and amortized hedge costs/income, which are not calculated in accordance with U.S. GAAP. These measures exclude items that the Company believes may obscure the underlying fundamentals and trends in the Company's insurance operations because they tend to be driven by general economic conditions and events or related to infrequent activities not directly associated with its insurance operations. The Company's management uses adjusted earnings and adjusted earnings per diluted share to evaluate the financial performance of its insurance operations on a consolidated basis, and the Company believes that a presentation of these measures is vitally important to an understanding of its underlying profitability drivers and trends of its insurance business. The Company believes that amortized hedge costs/income, which are a component of adjusted earnings, measure the periodic currency risk management costs/income related to hedging certain foreign currency exchange risks and are an important component of net investment income.

Aflac defines adjusted earnings (a non-U.S. GAAP financial measure) as the profits derived from operations. The most comparative U.S. GAAP measure is net earnings. Adjusted earnings are adjusted revenues less benefits and adjusted expenses. The adjustments to both revenues and expenses account for certain items that cannot be predicted or that are outside management's control. Adjusted revenues are U.S. GAAP total revenues excluding realized investment gains and losses, except for amortized hedge costs/income related to foreign currency exposure management strategies and net interest cash flows from derivatives associated with certain investment strategies. Adjusted expenses are U.S. GAAP total acquisition and operating expenses including the impact of interest cash flows from derivatives associated with notes payable but excluding any nonrecurring or other items not associated with the normal course of the Company's insurance operations and that do not reflect Aflac's underlying business performance.

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

Amortized hedge costs/income represent costs/income incurred or recognized in using foreign currency forward contracts to hedge certain foreign exchange risks in the Company's Japan segment (costs) or in the Corporate and Other segment (income). These amortized hedge costs/income are derived from the difference between the foreign currency spot rate at time of trade inception and the contractual foreign currency forward rate, recognized on a straight line basis over the term of the hedge. There is no comparable U.S. GAAP financial measure for amortized hedge costs/income.

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

yen into U.S. dollars. Adjusted earnings and adjusted earnings per diluted share excluding current period foreign currency impact are computed using the average yen/dollar exchange rate for the comparable prior year period, which eliminates fluctuations driven solely by yen-to-dollar currency rate changes.

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

Reconciliation of Net Earnings to Adjusted Earnings⁽¹⁾

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

⁽¹⁾ Amounts may not foot due to rounding.

⁽²⁾ Amortized hedge costs of \$62 and \$55 for the three-month periods ended March 31, 2019, and 2018, respectively, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and included in adjusted earnings as a decrease to net investment income. See "Hedge Costs/Income" discussion below for further information.

⁽³⁾ Amortized hedge income of \$20 and \$2 for the three-month periods ended March 31, 2019 and 2018, respectively, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and included in adjusted earnings as an increase to net investment income. See "Hedge Costs/Income" discussion below for further information.

⁽⁴⁾ Net interest cash flows from derivatives associated with certain investment strategies of \$(7) for the three-month periods ended March 31, 2019 and an immaterial amount in 2018, respectively, have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

⁽⁵⁾ A gain of \$17 and \$17 for the three-month periods ended March 31, 2019 and 2018, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

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

⁽⁷⁾ Amounts excluding current period foreign currency impact are computed using the average yen/dollar exchange rate for the comparable prior-year period, which eliminates fluctuations driven solely by yen-to-dollar currency rate changes.

Realized Investment Gains and Losses

The Company's investment strategy is to invest primarily in fixed maturity securities to provide a reliable stream of investment income, which is one of the drivers of the Company's growth and profitability. This investment strategy incorporates asset-liability matching (ALM) to align the expected cash flows of the portfolio to the needs of the Company's liability structure. The Company does not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio management and rebalancing. The realization of investment gains and losses is independent of the underwriting and administration of the Company's insurance products. Realized investment gains and losses include securities transactions, impairments, changes in loan loss reserves, derivative and foreign currency activities and changes in fair value of equity securities.

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

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

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Certain Derivative and Foreign Currency Gains (Losses)

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

Amortized Hedge Costs/Income

Adjusted earnings includes the impact of amortized hedge costs/income. Amortized hedge costs/income represent costs/income incurred or recognized in using foreign currency forward contracts to hedge certain foreign currency exchange risks in the company's Japan segment (costs) or in the Corporate and Other segment (income). These amortized hedge costs/income are derived from the difference between the foreign currency spot rate at time of trade inception and the contractual foreign currency forward rate, recognized on a straight line basis over the term of the hedge. There is no comparable U.S. GAAP financial measure for amortized hedge costs/income.

Amortized hedge costs/income can fluctuate based upon many factors, including the derivative notional amount, the length of time of the derivative contract, changes in both U.S. and Japan interest rates, and supply and demand for dollar funding. Amortized hedge costs and income have increased in recent periods due to changes in the previously mentioned factors. For additional information regarding foreign currency hedging, refer to Hedging Activities in the Analysis of Financial Condition section of this MD&A.

For additional information regarding realized investment gains and losses, including details of reported amounts for the periods presented, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Other and Non-recurring Items

The United States insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. The system can result in periodic charges to the Company as a result of insolvencies/bankruptcies that occur with other companies in the life insurance industry. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. These charges neither relate to the ordinary course of the Company's business nor reflect the Company's underlying business performance, but result from external situations not controlled by the Company. The Company excludes any charges associated with U.S. guaranty fund assessments and the corresponding tax benefit or expense from adjusted earnings.

In Japan, the government also requires the insurance industry to contribute to a policyholder protection corporation that provides funds for the policyholders of insolvent insurers; however, these costs are calculated and administered differently than in the United States. In Japan, these costs are not directly

related to specific insolvencies or bankruptcies, but are rather a regular operational cost for an insurance company. Based on this structure, the Company does not remove the Japan policyholder protection expenses from adjusted earnings.

Nonrecurring items also include conversion costs related to legally converting the Company's Japan business to a subsidiary; these costs primarily consist of expenditures for legal, accounting, consulting, integration of systems and processes and other similar services. These Japan branch conversion costs were an immaterial amount and \$29 million for the three-month periods ended March 31, 2019 and 2018, respectively.

Foreign Currency Translation

Aflac Japan's premiums and a significant portion of its investment income are received in yen, and its claims and most expenses are paid in yen. Aflac Japan purchases yen-denominated assets and U.S. dollar-denominated assets, which may be hedged to yen, to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into dollars for financial reporting purposes. The Company translates Aflac Japan's yen-denominated income statement into dollars using the average exchange rate for the reporting period, and the Company translates its yen-denominated balance sheet using the exchange rate at the end of the period.

Due to the size of Aflac Japan, whose functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on the Company's reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current period results in relation to the comparable prior period, while yen strengthening has the effect of magnifying current period results in relation to the comparable prior period. Management evaluates the Company's financial performance both including and excluding the impact of foreign currency translation to monitor, respectively, cumulative currency impacts on book value and the currency-neutral operating performance over time.

Income Taxes

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

INSURANCE OPERATIONS

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

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

Annualized premiums in force is defined as the amount of gross premium that a policyholder must pay over a full year in order to keep coverage. The growth of net premiums (defined below) is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates.

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

annualized premium sales are determined by applications submitted during the reporting period. For Aflac U.S., new annualized premium sales are determined by applications that are issued during the reporting period. Policy conversions are defined as the positive difference in the annualized premium when a policy upgrades in the current reporting period.

Net premiums (sometimes referred to as net premium income or net earned premium) is a financial measure that appears on the Company's Consolidated Statement of Earnings and in segment reporting. This measure reflects collected or due premiums that have been earned ratably on policies in force during the reporting period, reduced by premiums that have been ceded to third parties and increased by premiums assumed through reinsurance.

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

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

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

Aflac Japan Summary of Operating Results

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

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

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

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

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

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

Aflac Japan Percentage Changes Over Previous Period

(Yen Operating Results)

For the Periods Ended March 31,

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

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

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

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

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

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

Aflac Japan Sales

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

	In Dollars		In Yen	
	Three Months		Three Months	
(In millions of dollars and billions of yen)	2019	2018	2019	2018
New annualized premium sales	\$171	\$178	18.8	19.2
Increase (decrease) over prior period	(4.0)%	(8.6)%	(2.0)%	(13.0)%

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

	Three Months	
	2019	2018
Cancer	59.3 %	55.5 %
Medical	30.0	34.0
Income support	1.4	2.1
Ordinary life:		
WAYS	.5	.5
Child endowment	.3	.5
Other ordinary life ⁽¹⁾	8.0	6.3
Other	.5	1.1
Total	100.0%	100.0%

⁽¹⁾ Includes term and whole life

The foundation of Aflac Japan's product portfolio has been, and continues to be, third sector products, which include cancer, medical and Income Support insurance products. Sales of third sector products on a yen basis decreased 3.2% in the first quarter of 2019, compared with the same respective period in 2018. Aflac Japan has been focusing more on promotion of cancer and medical insurance products in this low-interest-rate environment. These products are less interest-rate sensitive and more profitable compared to first sector savings products. With continued cost pressure on Japan's health care system, the Company expects the need for third sector products will continue to rise in the future and that the medical and cancer insurance products Aflac Japan provides will continue to be an important part of its product portfolio.

Independent corporate agencies and individual agencies contributed 46.1% of total new annualized premium sales for Aflac Japan in the first quarter of 2019, compared with 43.3% for the same period in 2018. Affiliated corporate agencies, which include Japan Post, contributed 49.4% of total new annualized premium sales in the first quarter of 2019, compared with 52.0% in the first quarter of 2018. Japan Post offers Aflac's cancer insurance products in more than 20,000 post offices. The Company believes this alliance with Japan Post has and will further benefit its cancer insurance sales. During the three-month period ended March 31, 2019, Aflac Japan recruited 20 new sales agencies. At March 31, 2019, Aflac Japan was represented by more than 9,600 sales agencies, with approximately 108,000 licensed sales associates employed by those agencies.

At March 31, 2019, Aflac Japan had agreements to sell its products at 369 banks, approximately 90% of the total number of banks in Japan. Bank channel sales accounted for 4.5% of new annualized premium sales in the first quarter of 2019 for Aflac Japan, compared with 4.7% during the first quarter of 2018.

Strategic Alliance with Japan Post Holdings

On December 19, 2018, the Parent Company and Aflac Japan entered into the Basic Agreement with Japan Post Holdings. Pursuant to the terms of the Basic Agreement, Japan Post Holdings agreed to form a capital relationship with the Parent Company, and Japan Post Holdings and Aflac Japan agreed to reconfirm existing initiatives regarding cancer insurance and to consider new joint initiatives, including

leveraging digital technology in various processes, cooperation in new product development to promote customer-centric business management, cooperation in domestic and/or overseas business expansion and joint investment in third party entities and cooperation regarding asset management.

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

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

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

Aflac Japan Investments

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

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

The following table details the investment purchases for Aflac Japan.

(In millions)	Three Months Ended March 31,	
	2019	2018
Yen-denominated:		
Fixed maturity securities:		
Japan government and agencies	\$583	\$3,187
Private placements	424	162
Other fixed maturity securities	249	250
Equity securities	108	99
Total yen-denominated	\$1,364	\$3,698
U.S. dollar-denominated:		
Fixed maturity securities:		
Other fixed maturity securities	\$668	\$40
Bank loans	0	180
Equity securities	27	41
Commercial mortgage and other loans:		
Transitional real estate loans	323	1,570
Commercial mortgage loans	0	13
Middle market loans	376	117
Other investments	41	127
Total dollar-denominated	\$1,435	\$2,088
Total Aflac Japan purchases	\$2,799	\$5,786

See the Analysis of Financial Condition section of this MD&A for further discussion of these investment programs, and see Notes 3 and 4 of the Notes to the Consolidated Financial Statements and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for more information regarding loans and loan receivables.

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

	Three Months	
	2019	2018
Total purchases for the period (in millions) ⁽¹⁾	\$2,758	\$5,659
New money yield ^{(1), (2)}	3.29	% 2.54 %
Return on average invested assets ⁽³⁾	2.32	2.26
Portfolio book yield, including U.S. dollar-denominated investments, end of period ⁽¹⁾	2.61	% 2.55 %

⁽¹⁾ Includes fixed maturity securities, commercial mortgage and other loans, equity securities, and excludes alternative investments in limited partnerships

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

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

The increase in the Aflac Japan new money yield in the three-month period ended March 31, 2019 was primarily due to increased allocations to higher yielding U.S. dollar-denominated asset classes.

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

AFLAC U.S. SEGMENT**Aflac U.S. Pretax Adjusted Earnings**

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

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

Aflac U.S. Summary of Operating Results

(In millions)	Three Months Ended March 31,	
	2019	2018
Net premium income	\$1,461	\$1,427
Net investment income	177	175
Other income	2	2
Total adjusted revenues	1,640	1,604
Benefits and claims	721	697
Adjusted expenses:		
Amortization of deferred policy acquisition costs	159	146
Insurance commissions	149	147
Insurance and other expenses	288	277
Total adjusted expenses	596	570
Total benefits and adjusted expenses	1,317	1,267
Pretax adjusted earnings	\$323	\$337

Percentage change over previous period:

Net premium income	2.4	%2.7	%
Net investment income	1.1	(1.7)
Total adjusted revenues	2.2	2.2	
Pretax adjusted earnings	(4.2)	8.7

Annualized premiums in force increased 2.7% to \$6.2 billion at March 31, 2019, compared with \$6.0 billion at March 31, 2018.

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

	Three Months Ended March 31,	
	2019	2018
Ratios to total adjusted revenues:		
Benefits and claims	44.0 %	43.5 %
Adjusted expenses:		
Amortization of deferred policy acquisition costs	9.7	9.1
Insurance commissions	9.0	9.2
Insurance and other expenses	17.6	17.3
Total adjusted expenses	36.3	35.6
Pretax adjusted earnings	19.7	21.0
Ratios to total premiums:		
Benefits and claims	49.3 %	48.8 %
Adjusted expenses:		
Amortization of deferred policy acquisition costs	10.9	10.2

Explanation of Responses:

For the three-month period ended March 31, 2019, the benefit ratio increased compared with the same period in 2018. The adjusted expense ratio increased for the three-month period ended March 31, 2019, when compared to the

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same period in 2018, primarily due to spending increases reflecting ongoing investments in the U.S. platform, distribution, and customer experience. The pretax adjusted profit margin declined when compared to the same period in 2018 due to the higher benefit and expense ratios. (Note that all of these ratios-to-revenue reflect reduced net investment income due to the Company's planned drawdown of excess capital to lower Risk-Based Capital (RBC) ratios. See the Capital Resources and Liquidity section of this MD&A for further discussion of the planned reduction of RBC.)

Aflac U.S. Sales

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

(In millions)	Three Months	
	2019	2018
New annualized premium sales	\$340	\$335
Increase (decrease) over prior period	1.5 %	.6 %

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

	Three Months	
	2019	2018
Accident	28.7 %	29.3 %
Short-term disability	23.6	23.0
Critical care ⁽¹⁾	20.9	22.1
Hospital indemnity	15.2	14.9
Dental/vision	5.0	5.3
Life	6.6	5.4
Total	100.0%	100.0%

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

New annualized premium sales for accident insurance, the leading Aflac U.S. product category, decreased .5%; short-term disability sales increased 4.4%; critical care insurance sales (including cancer insurance) decreased 3.2%; and hospital indemnity insurance sales increased 2.4% in the first quarter of 2019, compared with the same period in 2018.

The addition of group products has expanded Aflac U.S.'s reach and enabled Aflac U.S. to generate more sales opportunities with larger employers and through broker and sales agent channels. The Company anticipates that the appeal of Aflac U.S. group products will continue to enhance opportunities to connect with larger businesses and their employees. The Aflac U.S. portfolio of group and individual products offers businesses the opportunity to give their employees a more valuable and comprehensive selection of benefit options.

In the first quarter of 2019, the Aflac U.S. sales force included an average of approximately 8,200 U.S. agents, including brokers, who were actively producing business on a weekly basis. The Company believes that this average weekly producer equivalent metric allows sales management to monitor progress and needs.

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

Aflac U.S. products provide cash benefits that can be used to help with increasing out-of-pocket medical expenses, help cover household costs, or protect against income and asset loss. Group products and relationships with insurance brokers that handle the larger-case market are helping Aflac U.S. expand its

reach by selling to larger businesses. Aflac U.S. is regularly evaluating the marketplace to identify opportunities to bring the most relevant, cost-effective products to customers. The Company believes the need for its products remains very strong, and Aflac U.S. continues to work on enhancing its distribution capabilities to access employers of all sizes, including initiatives that benefit the field force and the broker community. At the same time, the Company is seeking opportunities to leverage its brand strength and attractive product portfolio in the evolving health care environment.

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U.S. Regulatory Environment

Healthcare Reform Legislation

The Affordable Care Act (ACA), federal health care legislation, was intended to give Americans of all ages and income levels access to comprehensive major medical health insurance and gave the U.S. federal government direct regulatory authority over the business of health insurance. While the ACA was enacted in 2010, the major elements of the law became effective on January 1, 2014. The ACA included major changes to the U.S. health care insurance marketplace. Among other changes, the ACA included an individual medical insurance coverage mandate (the monetary penalty for noncompliance with which has since been repealed effective 2019 by the Tax Act), provided for penalties on certain employers for failing to provide adequate coverage, created health insurance exchanges, and addressed coverage and exclusions as well as medical loss ratios. It also imposed an excise tax on certain high cost plans, known as the “Cadillac tax,” that is currently scheduled to begin in 2022. The ACA also included changes in government reimbursements and tax credits for individuals and employers and altered federal and state regulation of health insurers. The ACA, as enacted, does not require material changes in the design of the Company's insurance products. However, indirect consequences of the legislation and regulations could present challenges that could potentially have an impact on the Company's sales model, financial condition and results of operations. Members of Congress continue to consider legislation that would repeal and replace key provisions of the ACA. There can be no assurance that any legislation affecting the ACA will be passed by Congress, nor as to the ultimate timing or provisions of any such legislation, nor as to the effect of any such legislation on the design or marketability of the Company's insurance products. Further, certain provisions of the ACA have been and may continue to be subject to challenge through litigation, the ultimate effects of which on the ACA are uncertain.

While the current U.S. presidential administration has pursued a stated policy of attempting to create more competition in the marketplace through executive orders and rule making, it is unclear what impact these will have on the U.S. healthcare market, nor is it known whether proposed or final rules will be challenged or withstand judicial scrutiny. The President signed an Executive Order in October 2017 directing federal regulatory agencies to review and modify certain regulations issued under the ACA. The stated objectives of the Executive Order are to increase competition and consumer choices in health care markets, and to lower costs for health care, by making association health plans available to more employers, allowing employers to make better use of health reimbursement arrangements, and expanding coverage through short-term insurance. The Executive Order tasks three federal agencies, the Departments of Labor (DOL), Treasury, and Health and Human Services (HHS) with reviewing current rules and developing guidance to implement the order. These agencies have since proposed or finalized certain rules and guidance, although their ultimate impact on healthcare markets is not known, the Company continues to anticipate that the Executive Order will not have a significant impact on the availability or marketability of its products. The U.S. Department of Justice recently indicated its support for a previous U.S. district court ruling that the individual mandate is unconstitutional and that the remainder of the ACA is invalid.

Tax Reform Legislation

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

The Tax Act also transitions international corporate taxation from a worldwide system to a modified territorial system, which in light of the current tax treatment of Aflac Japan as a branch has the effect of

subjecting the earnings of Aflac Japan to Japan taxation and subjecting the Company's other earnings, including the consolidated earnings of the Parent Company, to U.S. taxation. The treatment of Aflac Japan as a branch for U.S. tax purposes did not change following the completion of its conversion from a branch structure to a subsidiary structure for legal purposes on April 1, 2018.

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

The Tax Act changes became effective on January 1, 2018. However, because changes to tax rates are accounted for in the period of enactment, during the period ended December 31, 2017, the Company revalued its deferred tax assets and liabilities and recorded a net deferred tax liability reduction of \$1.9 billion as of that date. In the fourth quarter of 2018, the Company recorded an immaterial adjustment to the provisional Japan deferred tax balances and no valuation allowance adjustment related to anticipatory foreign tax credit asset, rendering final values for the Company's deferred tax liability. For information on the effects of the Tax Act during the period ended December 31, 2018, see Note 10 of the Notes to the Consolidated Financial Statements presented in the 2018 Annual Report. For information on the conversion of Aflac Japan from a branch to a subsidiary, see General Business under Item 1, Business, in the 2018 Annual Report.

Dodd-Frank Act

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

The Dodd-Frank Act also established a Federal Insurance Office (FIO) under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The FIO does not directly regulate the insurance industry, but under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements reached by the federal government, subject to certain requirements and restrictions. The FIO and certain federal agencies must achieve consensus positions with the state insurance regulators when taking positions on insurance proposals by certain international forums. In December 2013, the FIO released a report entitled "How To Modernize And Improve The System Of Insurance Regulation In The United States." The report was required by the Dodd-Frank Act, and included 18 recommended areas of near-term reform for the states, including addressing capital adequacy and safety/soundness issues, reform of insurer resolution practices, and reform of marketplace regulation. The report also listed nine recommended areas for direct federal involvement in insurance regulation. Some of the recommendations outlined in the FIO report released in December 2013 have been implemented. The National Association of Registered Agents and Brokers Reform Act, signed into law in January 2015, simplifies the agent and broker licensing process across state lines. The FIO has also engaged with the supervisory colleges to monitor financial stability and identify regulatory gaps for large national and internationally active insurers. The President and Congress have stated proposals to reform or repeal certain provisions of the Dodd-Frank Act, some of which have been implemented. The Company is currently not subject to any regulatory provisions of the Dodd-Frank Act, but cannot predict with any degree of certainty what impact, if any, the law might have on Aflac's business, financial condition, or results of operations.

Insurance Guaranty Laws

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

Aflac U.S. Investments

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

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

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

(In millions)	Three Months Ended March 31, 2019 2018	
Fixed maturity securities:		
Other fixed maturity securities	\$594	\$119
Infrastructure debt	60	16
Equity securities ⁽¹⁾	16	23
Commercial mortgage and other loans:		
Transitional real estate loans	48	73
Commercial mortgage loans	25	0
Middle market loans	29	31
Other investments	5	23
Total Aflac U.S. Purchases	\$777	\$285

⁽¹⁾ Includes FHLB purchases

See Note 3 of the Notes to the Consolidated Financial Statements and Notes 1 and 3 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for more information regarding loans and loans receivables.

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

	Three Months 2019 2018	
Total purchases for period (in millions) ⁽¹⁾	\$772	\$262
New money yield ^{(1), (2)}	4.48 %	4.69 %
Return on average invested assets ⁽³⁾	5.08	5.04
Portfolio book yield, end of period ⁽¹⁾	5.49 %	5.52 %

⁽¹⁾ Includes fixed maturity securities, commercial mortgage and other loans, equity securities, and excludes alternative investments in limited partnerships

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

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

The decrease in the Aflac U.S. new money yield for the three-month period ended March 31, 2019 was primarily due to decreased allocations to higher yielding floating rate assets. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on the Company's investments.

CORPORATE AND OTHER

Aflac defines pretax adjusted earnings, a non-U.S. GAAP financial measure, as adjusted earnings before the application of income taxes. See the Results of Operations section of this MD&A for the Company's definition of adjusted earnings and a reconciliation of adjusted earnings to the most directly comparable U.S. GAAP measure of net earnings. Changes in the pretax adjusted earnings of Corporate and other are primarily affected by investment income. The following table presents a summary of results for Corporate and other.

Corporate and Other Summary of Operating Results

(In millions)	Three Months Ended March 31,	
	2019	2018
Total premiums	\$50	\$54
Net investment income	22	19
Amortized hedge income related to certain foreign currency management strategies	20	2
Net investment income, including amortized hedge income	42	21
Other income	3	4
Total adjusted revenues	95	79
Total net benefits and claims	47	52
Interest expense	33	30
Other adjusted expenses	33	43
Total benefits and adjusted expenses	113	125
Pretax adjusted earnings	\$(18)	\$(46)

In December 2018, the Parent Company invested \$20 million in Singapore Life Pte. Ltd. (Singapore Life), a digitally-focused life insurance company based in Singapore. The Parent Company plans to make an additional investment of \$16 million in the second quarter of 2019, bringing the total investment to \$36 million. As part of the relationship, Aflac also plans to enter into a reinsurance agreement on certain protection products with Singapore Life. However, the Company does not currently expect the equity investment or the reinsurance agreement to have a material impact on its financial position or results of operation.

ANALYSIS OF FINANCIAL CONDITION

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

Investments

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

The following table details investments by segment.

Investments by Segment

(In millions)	Aflac Japan		Aflac U.S.	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Available for sale, fixed maturity securities, at fair value	\$73,485	\$ 69,409	\$13,038	\$ 12,132
Held to maturity, fixed maturity securities, at amortized cost	30,163	30,318	0	0
Equity securities	847	806	150	137
Commercial mortgage and other loans:				
Transitional real estate loans	3,721	3,621	660	756
Commercial mortgage loans	759	763	324	301
Middle market loans	1,412	1,144	304	334
Other investments:				
Policy loans	222	219	14	13
Short-term investments ⁽¹⁾	318	0	225	141
Limited partnerships	379	333	42	37
Other	0	0	25	26
Total investments	111,306	106,613	14,782	13,877
Cash and cash equivalents	1,783	1,779	524	641
Total investments and cash ⁽²⁾	\$113,089	\$ 108,392	\$15,306	\$ 14,518

⁽¹⁾ Includes securities lending collateral

⁽²⁾ Excludes investments and cash held by the Parent Company and other business segments of \$3,043 in 2019 and \$3,333 in 2018

Cash and cash equivalents totaled \$3.9 billion, or 3.0% of total investments and cash, as of March 31, 2019, compared with \$4.3 billion, or 3.4%, at December 31, 2018. For a discussion of the factors affecting the Company's cash balance, see the Operating Activities, Investing Activities and Financing Activities subsections of this MD&A.

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

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

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

Composition of Securities Portfolio by Credit Rating

	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	.9 %	.9 %	1.0 %	.9 %
AA	3.9	3.9	3.9	4.0
A	68.6	70.4	67.9	69.9
BBB	22.9	21.5	23.2	21.6
BB or lower	3.7	3.3	4.0	3.6
Total	100.0 %	100.0 %	100.0 %	100.0 %

As of March 31, 2019, the Company's direct and indirect exposure to securities in its investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

The following table presents the 10 largest unrealized loss positions in the Company's portfolio as of March 31, 2019.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
Diamond Offshore Drilling Inc.	B	\$ 143	\$ 83	\$ (60)
AXA	BBB	293	252	(41)
Baker Hughes Inc.	A	122	103	(19)
Kommunal Landspensjonskasse (Klp)	BBB	135	118	(17)
Transocean Inc.	CCC	72	58	(14)
Abbvie Inc.	BBB	177	164	(13)
Time Warner Cable Inc.	BBB	118	105	(13)
National Oilwell Varco Inc.	BBB	83	71	(12)
Tyco Electronics Group Sa	A	105	94	(11)
Discovery Communications	BBB	108	98	(10)

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

Below-Investment-Grade Securities

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

Below-Investment-Grade Investments

(In millions)	March 31, 2019			
	Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Investcorp Capital Limited	\$383	\$ 383	\$410	\$ 27
Republic of South Africa	360	360	372	12
KLM Royal Dutch Airlines	270	199	231	32
Republic of Tunisia	180	106	119	13
Telecom Italia SpA	180	180	217	37
Barclays Bank PLC	180	111	148	37
Navient Corp.	135	66	80	14
Transnet	135	135	136	1
Diamond Offshore Drilling Inc.	124	143	83	(60)
IKB Deutsche Industriebank AG	117	50	88	38
Arconic Inc.	100	84	99	15
EMC Corp.	80	80	74	(6)
Generalitat de Catalunya	72	26	66	40
Teva Pharmaceuticals	68	66	62	(4)
Transocean Inc.	68	72	58	(14)
National Gas Co. Trinidad and Tobago	52	50	51	1
Petrobras International Finance Company	50	52	51	(1)
CF Industries Inc.	50	49	49	0
Other Issuers (below \$50 million in par value)	200	196	194	(2)
Subtotal ⁽¹⁾	2,804	2,408	2,588	180
Senior secured bank loans	946	958	933	(25)
High yield corporate bonds	575	565	575	10
Middle market loans, net of reserves ⁽²⁾	1,739	1,716	1,710	(6)
Grand Total	\$6,064	\$ 5,647	\$5,806	\$ 159

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

⁽²⁾ Middle market loans are carried at amortized cost

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

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

Fixed Maturity Securities by Sector

The Company maintains diversification in investments by sector to avoid concentrations to any one sector, thus managing exposure risk. The following table shows the distribution of fixed maturities by sector classification.

(In millions)	March 31, 2019	
	Amortized Cost	% of Total
Government and agencies	\$ 53,389	49.0
Municipalities	2,527	2.3
Mortgage- and asset-backed securities	400	.4
Public utilities	8,391	7.7
Electric	6,437	5.9
Natural gas	299	.3
Other	774	.7
Utility/energy	881	.8
Sovereign and supranational	2,170	2.0
Banks/financial institutions	9,411	8.6
Banking	5,560	5.1
Insurance	1,837	1.7
Other	2,014	1.8
Other corporate	32,581	30.0
Basic industry	3,446	3.2
Capital goods	2,984	2.7
Communications	4,027	3.7
Consumer cyclical	3,266	3.0
Consumer non-cyclical	6,180	5.7
Energy	4,654	4.3
Other	1,278	1.2
Technology	2,851	2.6
Transportation	3,895	3.6
Total fixed maturity securities	\$ 108,869	100.0

Securities by Type of Issuance

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

The following table details investment securities by type of issuance.

Investment Securities by Type of Issuance

(In millions)	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturity securities	\$89,167	\$102,715	\$83,482	\$93,255
Equity securities	1,033	1,033	936	936
Total publicly issued	90,200	103,748	84,418	94,191
Privately issued securities: ⁽¹⁾				
Fixed maturity securities	19,702 ⁽²⁾	22,655 ⁽²⁾	23,692	26,362
Equity securities	8	8	51	51
Total privately issued	19,710	22,663	23,743	26,413
Total investment securities	\$109,910	\$126,411	\$108,161	\$120,604

⁽¹⁾ Primarily consists of securities owned by Aflac Japan

⁽²⁾ Excludes 144A securities starting in the first quarter of 2019

The following table details the Company's reverse-dual currency securities.

Reverse-Dual Currency Securities⁽¹⁾

(Amortized cost, in millions)	March 31, 2019	December 31, 2018
Privately issued reverse-dual currency securities	\$5,121	\$ 5,120
Publicly issued collateral structured as reverse-dual currency securities	1,657	1,657
Total reverse-dual currency securities	\$6,778	\$ 6,777
Reverse-dual currency securities as a percentage of total investment securities	6.2 %	6.3 %

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

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

Hedging Activities

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

Foreign Currency Exchange Rate Risk Hedge Program

Explanation of Responses:

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

Aflac Japan hedges U.S. dollar-denominated investments back to yen (see *Aflac Japan's U.S. Dollar-Denominated Hedge Program* below).

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Aflac Japan maintains certain unhedged U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of the Company's investment in Aflac Japan (see *Aflac Japan's U.S. Dollar-Denominated Hedge Program* below).

The Parent Company designates yen-denominated liabilities (notes payable and loans) as non-derivative hedging instruments and designates certain foreign currency forwards and options as derivative hedges of the Company's net investment in Aflac Japan (see *Parent Company's Foreign Currency Hedge Program* below).

The Parent Company enters into forward contracts to accomplish a dual objective of hedging foreign currency exchange rate risk related to dividend payments by its subsidiary, ALIJ, and reducing enterprise-wide hedge costs. (see *Parent Company's Foreign Currency Hedge Program* below).

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

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

(In millions)	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities:				
Fixed maturity securities (excluding bank loans)	\$17,418	\$18,068	\$17,101	\$17,003
Fixed maturity securities - bank loans (floating rate)	1,204	1,171	1,296	1,238
Fixed maturity securities - economically converted to yen	1,679	2,399	1,679	2,269
Equity securities	198	198	177	177
Commercial mortgage and other loans:				
Transitional real estate loans (floating rate)	3,721	3,735	3,621	3,625
Commercial mortgage loans	759	747	763	736
Middle market loans (floating rate)	1,412	1,412	1,144	1,146
Other investments	379	379	333	333
Total U.S. dollar-denominated investments in Aflac Japan	\$26,770	\$28,109	\$26,114	\$26,527

As of March 31, 2019, Aflac Japan had \$8.6 billion outstanding notional amounts of foreign currency forwards and \$11.4 billion outstanding notional amounts of foreign currency options, of which none were in-the-money, hedging the U.S. dollar-denominated investments. The fair value of Aflac Japan's unhedged U.S. dollar portfolio was \$17.1 billion (excluding certain U.S. dollar-denominated assets shown in the table above as a result of consolidation that have been economically converted to yen using derivatives).

Foreign exchange derivatives used for hedging are periodically settled, which results in cash receipt or payment at maturity or early termination. The Company had net cash settlements of \$12 million and \$1 million for the three-month periods ended March 31, 2019 and 2018, respectively, associated with the currency derivatives used for hedging Aflac Japan's U.S. dollar-denominated investments.

For additional discussion of the risks associated with the foreign currency exposure refer to the Currency Risk section in Item 7A., Quantitative and Qualitative Disclosures about Market Risk, and the Risk Factor sections titled "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate"

and “Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity” in the 2018 Annual Report. For discussion of the Company's view on the stressed economic surplus in Aflac Japan, refer to the Investments subsection within Item 1., Business, in the 2018 Annual Report.

Parent Company's Foreign Currency Hedge Program

The Company has designated certain yen-denominated liabilities and, prior to April 1, 2018, foreign currency forwards and options of the Parent Company as accounting hedges of its net investment in Aflac Japan. The Company's consolidated yen-denominated net asset position was partially hedged at \$1.8 billion as of March 31, 2019 and December 31, 2018, respectively, with hedging instruments comprised completely of yen-denominated debt.

The Company makes its accounting designation of net investment hedge at the beginning of each quarter. If the total of the designated Parent Company non-derivative and derivative notional is equal to or less than the Company's net investment in Aflac Japan, the hedge is deemed to be effective, and the currency exchange effect on the yen-denominated liabilities and the change in estimated fair value of the derivatives are reported in the unrealized foreign currency component of other comprehensive income. The Company's net investment hedge was effective during the three-month periods ended March 31, 2019 and 2018, respectively.

In order to economically mitigate risks associated with the enterprise-wide exposure to the yen and the level and volatility of hedge costs, the Parent Company enters into foreign exchange forward contracts. By buying U.S. dollars and selling yen, the Parent Company is effectively lowering its overall economic exposure to the yen, while Aflac Japan's U.S dollar exposure remains reduced as a result of Aflac Japan's U.S. dollar-denominated hedge program that economically creates yen assets. Among other objectives, this strategy is intended to offset the enterprise-wide amortized hedge costs by generating amortized hedge income. The portion of the enterprise-wide amortized hedge income contributed by this strategy for the three-month periods ended March 31, 2019 and 2018 was \$20 million and \$2 million, respectively. This activity is reported in Corporate and Other. As this program evolves, the Company will continue to evaluate the program's efficacy, including third-party review. See the Results of Operations section of this MD&A for the Company's definition of amortized hedge costs/income.

The following table presents metrics related to Aflac Japan amortized hedge costs and the Parent Company amortized hedge income for the periods ended March 31.

Amortized Hedge Costs/Income Metrics⁽¹⁾

	Three Months 2019 2018	
Aflac Japan:		
FX forward (sell USD, buy yen) notional at end of period (in billions) ⁽²⁾	\$8.6	\$9.9
Weighted average remaining tenor (in months) ⁽³⁾	14.3	23.6
Amortized hedge costs for period (in millions)	\$(62)	(55)
Parent Company:		
FX forward (buy USD, sell yen) notional at end of period (in billions) ⁽²⁾	\$2.6	\$.7
Weighted average remaining tenor (in months) ⁽³⁾	14.1	12.1
Amortized hedge income for period (in millions)	\$20	\$2

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

⁽²⁾ Notional is reported net of any offsetting positions within Aflac Japan or the Parent Company, respectively.

⁽³⁾ Tenor based on period reporting date to settlement date

Interest Rate Risk Hedge Program

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

See Note 4 of the Notes to the Consolidated Financial Statements for additional information on the Company's hedging activities. For additional discussion of the risks associated with the foreign currency exposure refer to the Currency Risk section in Item 1A. Risk Factors in the 2018 Annual Report.

Deferred Policy Acquisition Costs

The following table presents deferred policy acquisition costs by segment.

(In millions)	March 31, December 31,		% Change	
	2019	2018		
Aflac Japan	\$ 6,405	\$ 6,384	.3	% ⁽¹⁾
Aflac U.S.	3,487	3,491	(.1)
Total	\$ 9,892	\$ 9,875	.2	%

⁽¹⁾ Aflac Japan's deferred policy acquisition costs increased .3% in yen during the three months ended March 31, 2019.

See Note 6 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for additional information on the Company's deferred policy acquisition costs.

Policy Liabilities

The following table presents policy liabilities by segment.

(In millions)	March 31, December 31,		% Change	
	2019	2018		
Aflac Japan	\$93,189	\$ 92,791	.4	% ⁽¹⁾
Aflac U.S.	11,065	10,981	.8	
Other	193	183	5.5	
Intercompany eliminations ⁽²⁾	(767)	(767)	.0	
Total	\$103,680	\$ 103,188	.5	%

⁽¹⁾ Aflac Japan's policy liabilities increased .4% in yen during the three months ended March 31, 2019.

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

Notes Payable

Notes payable totaled \$5.9 billion at March 31, 2019, compared with \$5.8 billion at December 31, 2018.

See Note 8 of the accompanying Notes to the Consolidated Financial Statements for additional information on the Company's notes payable. See Note 1 of the accompanying Notes to the Consolidated Financial Statements for additional information regarding the change in accounting for leases.

On April 12, 2019, the Company announced that ALIJ priced 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds will bear interest at a fixed rate of .963% per annum and then at six-month Euro Yen LIBOR plus an applicable spread on and after the day immediately following April 18, 2024. The bonds will be callable on each interest payment date on and after April 18, 2024. Aflac Japan anticipates using the net proceeds of the offering for general corporate purposes.

Benefit Plans

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on the Company's Japanese and U.S. plans, see Note 11 of the accompanying Notes to the Consolidated Financial Statements and Note 14 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

Policyholder Protection

Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection Corporation (LIPPC) included government fiscal measures supporting the LIPPC. On November 25, 2016, Japan's Diet passed legislation that extended the government's fiscal support of the LIPPC through March 2022. Effective April 2014, the annual LIPPC contribution amount for the total life industry was lowered from 40 billion yen to 33 billion yen. Aflac Japan recognized an expense of .9 billion yen and 1.0 billion yen for the three-month periods ended March 31, 2019 and 2018, respectively, for LIPPC assessments.

Guaranty Fund Assessments

Under U.S. state guaranty association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business. The amount of the guaranty fund assessment that an insurer is assessed is based on its proportionate share of premiums in that state. Guaranty fund assessments for the three-month periods ended March 31, 2019 and 2018, were immaterial.

As of March 31, 2019, the Company has estimated and recognized the impact of its share of guaranty fund assessments resulting from the liquidation of a long-term care insurer. See Note 12 of the Notes to the Consolidated Financial Statements for further information on the assessment.

Off-Balance Sheet Arrangements

As of March 31, 2019, the Company had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 15 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for information on material unconditional purchase obligations that are not recorded on the Company's balance sheet.

CAPITAL RESOURCES AND LIQUIDITY

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

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

(In millions)	2019	2018
Dividends declared or paid by Aflac Japan and Aflac U.S.	\$356	\$100
Management fees paid by Aflac Japan and Aflac U.S.	41	96

The primary uses of cash by the Parent Company are shareholder dividends, the repurchase of its common stock and interest on its outstanding indebtedness and operating expenses.

In 2018, the Company announced a change in its internal dividend policy which allows the Company to increase the proportion of regulatory earnings transferred from Aflac U.S. and Aflac Japan to the Parent Company. The Company intends to maintain higher than historical levels of capital and liquidity at the Parent Company with the goals of addressing the Company's hedge costs and related potential need for

collateral and mitigating against long-term weakening of the Japanese yen. Further, the Company plans to continue to maintain a portfolio of unhedged U.S. dollar based investments at Aflac Japan and consider whether the amount of such investments should be increased or decreased relative to the Company's view of economic equity surplus in Aflac Japan in light of potentially rising hedge costs and other factors. See Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations under "Forward-Looking Information," for a description of factors that could cause actual results to differ materially from those contemplated by the Company in regards to its capital management intentions.

The Parent Company accesses debt security markets to provide additional sources of capital. In September 2018, the Parent Company filed a shelf registration statement with the SEC that allows the Company to issue an indefinite amount of debt securities, in one or more series, from time to time until September 2021. In August 2018, the Parent Company

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filed a shelf registration with Japanese regulatory authorities that allows the Parent Company to conduct public offerings of bonds in Japan, including yen-denominated Samurai notes, up to 200 billion yen or its equivalent through August 2020. The shelf registration statement is for possible public offerings in Japan, but the bonds issued under the shelf may be transferred by the bondholders to U.S. persons in compliance with U.S. law. The Company believes outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 8 of the Notes to the Consolidated Financial Statements.

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

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

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

As of March 31, 2019, the Parent Company and Aflac had four lines of credit with third parties as well as two intercompany lines of credit. For additional information on the Company's lines of credit, see Note 8 of the Notes to the Consolidated Financial Statements.

As part of an arrangement with Federal Home Loan Bank of Atlanta (FHLB), Aflac U.S. obtains low-cost funding from FHLB supported by acceptable forms of collateral pledged by Aflac U.S. In the first three months of 2019, Aflac U.S. borrowed and repaid \$108 million under this program. As of March 31, 2019, Aflac U.S. had outstanding borrowings of \$289 million reported in its balance sheet. For more information on the FHLB program, refer to the Investments subsection within Analysis of Financial Condition in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2018 Annual Report.

The Company's financial statements convey its financing arrangements during the periods presented. The Company has not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in its balance sheet or disclosed therein. The Company was in compliance with all of the covenants of its notes payable and lines of credit at March 31, 2019. The Company has not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial assets that have been accounted for as a sale under applicable accounting standards, including securities lending transactions. See Notes 3 and 4 of the Notes to the Consolidated Financial Statements and Notes 1, 3, and 4 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for more information on the Company's securities lending and derivative activities. With the exception of disclosed activities in those referenced footnotes and the Risk Factors in the 2018 Annual Report entitled, "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate" and "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity," the Company does not have a known trend, demand, commitment, event or uncertainty that would reasonably result in its liquidity increasing or decreasing by a material amount. As of March 31, 2019, the Parent Company had \$1.0 billion as a capital reserve and an

additional \$1.0 billion of contingent liquidity in order to mitigate liquidity risk of derivative positions that are reducing enterprise-wide foreign currency exposure. The Company's cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

Consolidated Cash Flows

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

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

(In millions)	2019	2018
Operating activities	\$1,544	\$1,238
Investing activities	(1,291)	(199)
Financing activities	(686)	(473)
Exchange effect on cash and cash equivalents	(12)	23
Net change in cash and cash equivalents	\$(445)	\$589

Operating Activities

The principal cash inflows for the Company's insurance activities come from insurance premiums and investment income. The principal cash outflows are the result of policy claims, operating expenses, income tax, as well as interest expense. The Company expects its future cash flows from premiums and investment portfolios to be sufficient to meet its cash needs for benefits and expenses.

Investing Activities

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

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

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

Financing Activities

Consolidated cash used by financing activities was \$686 million in the first three months of 2019, compared with consolidated cash used by financing activities of \$473 million for the same period of 2018.

See the preceding discussion in this Capital Resources and Liquidity section of MD&A for details and any outstanding balances as of March 31, 2019, for the Company's lines of credit and FHLB financing arrangement.

The Company was in compliance with all of the covenants of its notes payable and lines of credit at March 31, 2019.

Cash returned to shareholders through dividends and treasury stock purchases was \$685 million during the three-month period ended March 31, 2019, compared with \$491 million during the three-month period

ended March 31, 2018.

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

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Treasury Stock Purchased

(In millions of dollars and thousands of shares)	2019	2018
Treasury stock purchases	\$ 490	\$ 296
Number of shares purchased:		
Open market	10,237	6,640
Other	561	315
Total shares purchased	10,798	6,955

Treasury Stock Issued

(In millions of dollars and thousands of shares)	2019	2018
Stock issued from treasury:		
Cash financing	\$ 12	\$ 14
Noncash financing	18	15
Total stock issued from treasury	\$ 30	\$ 29
Number of shares issued	939	788

During the first three months of 2019, the Company repurchased 10.2 million shares of its common stock for \$490 million as part of its share repurchase program. As of March 31, 2019, a remaining balance of 58.8 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors. The Company currently plans to repurchase a total of \$1.3 billion to \$1.7 billion of its common stock in 2019, assuming stable capital conditions and absent compelling alternatives.

Cash dividends paid to shareholders were \$.27 per share in the first quarter of 2019, compared with \$.26 per share in the first quarter of 2018. The following table presents the dividend activity for the three-month periods ended March 31.

(In millions)	2019	2018
Dividends paid in cash	\$195	\$195
Dividends through issuance of treasury shares	8	8
Total dividends to shareholders	\$203	\$203

In April 2019, the board of directors declared the second quarter cash dividend of \$.27 per share, an increase of 3.8% compared with the same period in 2018. The dividend is payable on June 3, 2019 to shareholders of record at the close of business on May 22, 2019.

Regulatory Restrictions

Aflac and CAIC are domiciled in Nebraska and are subject to its regulations. Subsequent to the Japan branch conversion to a subsidiary, Aflac Japan is domiciled in Japan and subject to local regulations. See further discussion below. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the National Association of Insurance Commissioners (NAIC), as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from U.S. GAAP and are intended to emphasize policyholder protection and company solvency. Similar laws apply in New York, the domiciliary jurisdiction of Aflac's New York insurance subsidiary.

The continued long-term growth of the Company's business may require increases in the statutory capital and surplus of its insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings, capital contributions by the Parent Company from funds generated through debt or equity offerings, or reinsurance transactions. The

NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations.

As of March 31, 2019, Aflac's RBC ratio remains high and reflects a strong capital and surplus position, even reflecting the full negative impact of the U.S. Tax Act, which was fully adopted in 2018. This reduction occurs as a result of writing down deferred tax assets and the increase in required capital due to the reduction in tax rates. However, Aflac expects to recover from this negative impact over a period of three to five years through additional statutory income, assuming that the additional income is fully retained.

The maximum amount of dividends that can be paid to the Parent Company by Aflac without prior approval of Nebraska's director of insurance is the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2019 in excess of \$1.3 billion would be considered extraordinary and require such approval. Following the Japan branch conversion to a subsidiary, the Company used extraordinary dividends as needed to actively manage to appropriate RBC levels that are lower yet sufficient to maintain ratings and support prudent capital management.

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

The Company has already undertaken various measures to mitigate the sensitivity of Aflac Japan's SMR. For example, the Company employs policy reserve matching (PRM) investment strategies, which is a Japan-specific accounting treatment that reduces SMR interest rate sensitivity since PRM-designated investments are carried at amortized cost consistent with corresponding liabilities. In order for a PRM-designated asset to be held at amortized cost, there are certain criteria that must be maintained. The primary criteria relates to maintaining the duration of designated assets and liabilities within a specified tolerance range. If the duration difference is not maintained within the specified range without rebalancing, then a certain portion of the assets must be re-classified as available for sale and held at fair value with any associated unrealized gain or loss recorded in surplus. To rebalance, assets may need to be sold in order to maintain the duration with the specified range, resulting in realizing a gain or loss from the sale. For U.S. GAAP, PRM investments are categorized as available for sale. The Company also uses foreign currency derivatives to hedge a portion of its U.S. dollar-denominated investments. (See Notes 3, 4 and 8 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report for additional information on the Company's investment strategies, hedging activities, and reinsurance, respectively.)

As of March 31, 2019, Aflac Japan's SMR remains high and reflects a strong capital and surplus position. As part of the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018, the Company experienced an accounting-driven decline in the SMR of approximately 130 points, based on the SMR as of

December 31, 2017. The Company expects to be able to pay dividends out of certain accounts, thus restoring this accounting impact over an estimated three-year period.

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

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Aflac Japan Remittances

(In millions of dollars and billions of yen)

	2019	2018
Aflac Japan management fees paid to Parent Company	\$ 32	\$ 40
Expenses allocated to Aflac Japan (in dollars)	2	8
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in dollars)	256	312
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in yen)	28.3	33.4

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 13 of the Notes to the Consolidated Financial Statements and the Regulatory Restrictions subsection of MD&A, both in the 2018 Annual Report.

Other

For information regarding commitments and contingent liabilities, see Note 12 of the Notes to the Consolidated Financial Statements.

Additional Information

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed primarily to the following types of market risks: currency risk, interest rate risk, credit risk and equity risk. The Company regularly monitors its market risks and uses a variety of strategies to manage its exposure to these market risks. A description of the Company's market risk exposures may be found under "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A, of the 2018 Annual Report. There have been no material changes to the Company's market risk exposures from the market risk exposures previously disclosed in the 2018 Annual Report.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the first fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

During the first three months of 2019, the Company repurchased shares of its common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	4,465,400	\$ 46.44	4,465,400	64,582,487
February 1 - February 28	4,170,417	48.65	3,624,583	60,957,904
March 1 - March 31	2,162,830	49.50	2,147,500	58,810,404
Total	10,798,647 ⁽¹⁾	\$ 47.91	10,237,483	58,810,404

⁽¹⁾During the first three months of 2019, 561,164 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

Item 6. Exhibits

(a) EXHIBIT INDEX

- 3.0 - Articles of Incorporation, as amended – incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended and restated – incorporated by reference from Form 8-K dated November 10, 2015, Exhibit 3.1 (File No. 001-07434).
- 4.0 - There are no instruments with respect to long-term debt not being registered in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 10.50 - Shareholders Agreement, dated February 28, 2019, by and between Aflac Incorporated, Japan Post Holdings Co., Ltd., J&A Alliance Holdings Corporation (solely in its capacity as trustee of J&A Alliance Trust), and General Incorporated Association J&A Alliance.
- 15 - Letter from KPMG LLP regarding unaudited interim financial information.
- 31.1 - Certification of CEO dated April 26, 2019, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 31.2 - Certification of CFO dated April 26, 2019, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 32 - Certification of CEO and CFO dated April 26, 2019, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH- XBRL Taxonomy Extension Schema.
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB - XBRL Taxonomy Extension Label Linkbase.
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase.

SIGNATURES

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

Aflac Incorporated

April 26, 2019 /s/ **Frederick J. Crawford**
(Frederick J. Crawford)
Executive Vice President,
Chief Financial Officer

April 26, 2019 /s/ **June Howard**
(June Howard)
Senior Vice President, Financial Services; Chief Accounting Officer

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