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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____

Commission File Number: 001-07434



Aflac Incorporated

(Exact name of registrant as specified in its charter)

Georgia	**58-1167100**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1932 Wynnton Road	**Columbus Georgia**	**31999**
(Address of principal executive offices)		(ZIP Code)

706. 323.3431
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $.10 Par Value	AFL	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. 740,383,335 shares of the issuer's common stock were outstanding as of July 18, 2019 .

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2019

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Items other than those listed above are omitted because they are not required or are not applicable.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The June 30, 2019 , and 2018 , consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Aflac Incorporated:

Results of Review of Interim Financial Information

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of June 30, 2019 , the related consolidated statements of earnings and comprehensive income (loss) for the three -month and six -month periods ended June 30, 2019 and 2018 , the related consolidated statements of shareholders' equity for the three -month periods ended March 31 and June 30, 2019 and 2018 , the related consolidated statements of cash flows for the six -month periods ended June 30, 2019 and 2018 , and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

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

Basis for Review Results

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

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

/s/ KPMG LLP

Atlanta, Georgia
July 26, 2019

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended June 30, **2019**	2018	Six Months Ended June 30, **2019**	2018
Revenues:				
Net premiums, principally supplemental health insurance	**$ 4,681**	$ 4,706	**$ 9,373**	$ 9,450
Net investment income	**878**	862	**1,756**	1,699
Realized investment gains (losses):				
Other-than-temporary impairment losses realized and loan loss reserves	**(2)**	(5)	**(4)**	(12)
Other gains (losses)	**(64)**	8	**9**	(119)
Total realized investment gains (losses)	**(66)**	3	**5**	(131)
Other income (loss)	**18**	18	**34**	36
Total revenues	**5,511**	5,589	**11,168**	11,054
Benefits and expenses:				
Benefits and claims, net	**2,964**	3,031	**5,932**	6,073
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**309**	303	**649**	617
Insurance commissions	**329**	338	**661**	676
Insurance and other expenses	**743**	732	**1,460**	1,463
Interest expense	**57**	54	**115**	111
Total acquisition and operating expenses	**1,438**	1,427	**2,885**	2,867
Total benefits and expenses	**4,402**	4,458	**8,817**	8,940
Earnings before income taxes	**1,109**	1,131	**2,351**	2,114
Income taxes	**292**	299	**606**	564
Net earnings	**$ 817**	$ 832	**$ 1,745**	$ 1,550
Net earnings per share:				
Basic	**$ 1.10**	$ 1.08	**$ 2.33**	$ 2.00
Diluted	**1.09**	1.07	**2.32**	1.98
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	**745,153**	772,949	**748,271**	775,734
Diluted	**748,849**	777,807	**752,302**	780,814
Cash dividends per share	**$ .27**	$ .26	**$ .54**	$ .52

See the accompanying Notes to the Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions - Unaudited)	**2019**	2018	**2019**	2018
Net earnings	**$ 817**	$ 832	**$ 1,745**	$ 1,550
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	**417**	(493)	**416**	332
Unrealized gains (losses) on fixed maturity securities:				
Unrealized holding gains (losses) on fixed maturity securities during period	**2,046**	(506)	**5,242**	(2,233)
Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings	**(25)**	28	**(43)**	26
Unrealized gains (losses) on derivatives during period	**(1)**	(2)	**(4)**	4
Pension liability adjustment during period	**(2)**	2	**5**	0
Total other comprehensive income (loss) before income taxes	**2,435**	(971)	**5,616**	(1,871)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**552**	(138)	**1,403**	(469)
Other comprehensive income (loss), net of income taxes	**1,883**	(833)	**4,213**	(1,402)
Total comprehensive income (loss)	**$ 2,700**	$ (1)	**$ 5,958**	$ 148

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions, except for share and per-share amounts)	June 30, 2019 (Unaudited)	December 31, 2018
Assets:		
Investments and cash:		
Fixed maturity securities available for sale, at fair value (amortized cost $77,466 in 2019 and $73,007 in 2018)	**$ 87,836**	$ 78,429
Fixed maturity securities available for sale - consolidated variable interest entities, at fair value (amortized cost $3,729 in 2019 and $3,849 in 2018)	**4,599**	4,466
Fixed maturity securities held to maturity, at amortized cost (fair value $39,035 in 2019 and $36,722 in 2018)	**31,007**	30,318
Equity securities, at fair value	**1,087**	987
Commercial mortgage and other loans (includes $6,233 in 2019 and $5,528 in 2018 of consolidated variable interest entities)	**7,622**	6,919
Other investments (includes $410 in 2019 and $328 in 2018 of consolidated variable interest entities)	**1,427**	787
Cash and cash equivalents	**3,019**	4,337
Total investments and cash	**136,597**	126,243
Receivables	**883**	851
Accrued investment income	**785**	773
Deferred policy acquisition costs	**10,128**	9,875
Property and equipment, at cost less accumulated depreciation [(1)]	**562**	443
Other	**2,445**	2,221
Total assets	**$ 151,400**	$ 140,406
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$ 90,117**	$ 86,368
Unpaid policy claims	**4,706**	4,584
Unearned premiums	**4,763**	5,090
Other policyholders' funds	**7,403**	7,146
Total policy liabilities	**106,989**	103,188
Income taxes	**5,243**	4,020
Payables for return of cash collateral on loaned securities	**1,557**	1,052
Notes payable and lease obligations [(1)]	**6,231**	5,778
Other	**3,139**	2,906
Total liabilities	**123,159**	116,944
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2019 and 2018; issued 1,349,044 shares in 2019 and 1,347,540 shares in 2018	**135**	135
Additional paid-in capital	**2,247**	2,177
Retained earnings	**33,130**	31,788
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	**(1,455)**	(1,847)
Unrealized gains (losses) on fixed maturity securities	**8,055**	4,234
Unrealized gains (losses) on derivatives	**(27)**	(24)
Pension liability adjustment	**(209)**	(212)
Treasury stock, at average cost	**(13,635)**	(12,789)
Total shareholders' equity	**28,241**	23,462
Total liabilities and shareholders' equity	**$ 151,400**	$ 140,406

[(1)] See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2019 related to leases.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In millions, except for per share amounts - Unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2018	$ 135	$ 2,177	$ 31,788	$ 2,151	$ (12,789)	$ 23,462
Net earnings	0	0	928	0	0	928
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	(1)	0	(1)
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	2,327	0	2,327
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	(2)	0	(2)
Pension liability adjustment during period, net of income taxes	0	0	0	6	0	6
Dividends to shareholders ($.27 per share)	0	0	(203)	0	0	(203)
Exercise of stock options	0	11	0	0	0	11
Share-based compensation	0	8	0	0	0	8
Purchases of treasury stock	0	0	0	0	(517)	(517)
Treasury stock reissued	0	12	0	0	18	30
Balance at March 31, 2019	$ 135	$ 2,208	$ 32,513	$ 4,481	$ (13,288)	$ 26,049
Net earnings	0	0	817	0	0	817
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	393	0	393
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	1,494	0	1,494
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	(1)	0	(1)
Pension liability adjustment during period, net of income taxes	0	0	0	(3)	0	(3)
Dividends to shareholders ($.27 per share)	0	0	(200)	0	0	(200)
Exercise of stock options	0	12	0	0	0	12
Share-based compensation	0	15	0	0	0	15
Purchases of treasury stock	0	0	0	0	(358)	(358)
Treasury stock reissued	0	12	0	0	11	23
Balance at June 30, 2019	$ 135	$ 2,247	$ 33,130	$ 6,364	$ (13,635)	$ 28,241

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity (continued)

(In millions, except for per share amounts - Unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2017	$ 135	$ 2,052	$ 29,895	$ 4,028	$ (11,512)	$ 24,598
Cumulative effect of change in accounting principles, net of income tax [(1)]	0	0	(226)	226	0	0
Net earnings	0	0	717	0	0	717
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	447	0	447
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments [(1)]	0	0	0	(984)	0	(984)
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	2	0	2
Pension liability adjustment during period, net of income taxes	0	0	0	(34)	0	(34)
Dividends to shareholders ($.26 per share)	0	0	(203)	0	0	(203)
Exercise of stock options	0	14	0	0	0	14
Share-based compensation	0	10	0	0	0	10
Purchases of treasury stock	0	0	0	0	(309)	(309)
Treasury stock reissued	0	13	0	0	16	29
Balance at March 31, 2018	$ 135	$ 2,089	$ 30,183	$ 3,685	$ (11,805)	$ 24,287
Net earnings	0	0	832	0	0	832
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	(138)	0	(138)
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments [(1)]	0	0	0	(730)	0	(730)
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	1	0	1
Pension liability adjustment during period, net of income taxes	0	0	0	34	0	34
Dividends to shareholders ($.26 per share)	0	0	(206)	0	0	(206)
Exercise of stock options	0	7	0	0	0	7
Share-based compensation	0	15	0	0	0	15
Purchases of treasury stock	0	0	0	0	(306)	(306)
Treasury stock reissued	0	6	0	0	(2)	4
Balance at June 30, 2018	$ 135	$ 2,117	$ 30,809	$ 2,852	$ (12,113)	$ 23,800

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

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Six Months Ended June 30, 2019	2018
Cash flows from operating activities:		
Net earnings	**$ 1,745**	$ 1,550
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**(17)**	(1)
Capitalization of deferred policy acquisition costs	**(712)**	(716)
Amortization of deferred policy acquisition costs	**649**	617
Increase in policy liabilities	**1,019**	1,346
Change in income tax liabilities	**(268)**	(180)
Realized investment (gains) losses	**(5)**	131
Other, net	**(54)**	60
Net cash provided (used) by operating activities	**2,357**	2,807
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Available-for-sale fixed maturity securities	**2,105**	3,869
Equity securities	**154**	216
Held-to-maturity fixed maturity securities	**203**	878
Commercial mortgage and other loans	**888**	358
Costs of investments acquired:		
Available-for-sale fixed maturity securities	**(4,352)**	(6,798)
Equity securities	**(181)**	(233)
Commercial mortgage and other loans	**(1,534)**	(2,705)
Other investments, net	**(616)**	(175)
Settlement of derivatives, net	**(14)**	(36)
Cash received (pledged or returned) as collateral, net	**495**	3,110
Other, net	**125**	73
Net cash provided (used) by investing activities	**(2,727)**	(1,443)
Cash flows from financing activities:		
Purchases of treasury stock	**(847)**	(601)
Proceeds from borrowings	**268**	0
Dividends paid to shareholders	**(389)**	(396)
Change in investment-type contracts, net	**(34)**	9
Treasury stock reissued	**26**	12
Other, net	**(2)**	(12)
Net cash provided (used) by financing activities	**(978)**	(988)
Effect of exchange rate changes on cash and cash equivalents	**30**	(20)
Net change in cash and cash equivalents	**(1,318)**	356
Cash and cash equivalents, beginning of period	**4,337**	3,491
Cash and cash equivalents, end of period	**$ 3,019**	$ 3,847
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 874**	$ 744
Interest paid	**93**	90
Noncash interest	**22**	21
Impairment losses and loan loss reserves included in realized investment losses	**4**	12
Noncash financing activities:		
Lease obligations	**1**	10
Treasury stock issued for:		
Associate stock bonus	**8**	5
Shareholder dividend reinvestment	**14**	8
Share-based compensation grants	**5**	2

See the accompanying Notes to the Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States and, effective April 1, 2018, through Aflac Life Insurance Japan Ltd. (ALIJ) in Japan. Prior to April 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. The Company's operations consist of two reportable business segments: Aflac U.S., which includes Aflac, and Aflac Japan, which includes ALIJ. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. The Company's insurance operations in the United States and Japan service the two markets for the Company's insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 68% and 70% of the Company's total revenues in the six -month periods ended June 30, 2019 and 2018 , respectively. The percentage of the Company's total assets attributable to Aflac Japan was 85% at June 30, 2019 , compared with 84% at December 31, 2018 .

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of June 30, 2019 , and December 31, 2018 , the consolidated statements of earnings and comprehensive income (loss) for the three-month and six -month periods ended June 30, 2019 and 2018 , the consolidated statement of shareholders' equity for the three-month periods ended March 31, 2019 and 2018 and June 30, 2019 and 2018 , and the consolidated statement of cash flows for the six -month periods ended June 30, 2019 and 2018 . Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2018 (2018 Annual Report).

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

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
Accounting Standard Update (ASU) 2018-15 Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	In August 2018, the FASB issued amendments to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	Early adopted as of January 1, 2019	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or disclosures

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02 Leases as clarified and amended by: **ASU 2018-01,** *Leases: Land Easement Practical Expedient for Transition to Topic 842,* **ASU 2018-10** , *Codification Improvements to Topic 842, Leases,* **ASU 2018-11** , *Leases, Targeted Improvements,* and **ASU 2018-20 ,** *Leases: Narrow-Scope Improvements for Lessors*	In February 2016, the FASB issued updated guidance for accounting for leases ("Leases Update"). Per the Leases Update, lessees are required to recognize all leases on the balance sheet with the exception of short-term leases. A lease liability will be recorded for the obligation of a lessee to make lease payments arising from a lease. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The Leases Update provided a number of optional practical expedients. The Company elected the "package of practical expedients," which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Under the Leases Update, lessor accounting is largely unchanged. In January 2018, an amendment was issued to the Leases Update which provided an entity with the option to elect a transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of the Leases Update and that were not previously accounted for as leases. In July 2018, the FASB issued two amendments to the Leases Update which clarified, corrected errors in, or made minor improvements to the Leases Update and provided entities with an optional transition method to adopt the Leases Update by recording a cumulative-effect adjustment to beginning retained earnings. Additionally, the amendments provided lessors with a practical expedient to not separate nonlease components from associated lease components and instead account for those components as a single component under certain conditions. In December 2018, an amendment to the Leases Update was issued to clarify: 1) lessor accounting for all sales (and other similar) taxes; 2) the handling of certain lessor costs when the amount of those costs is not readily determinable; and 3) lessor allocation of certain variable payments to the lease and non-lease components.	January 1, 2019	The Company has operating and finance leases for office space and equipment. The Company elected the short-term lease exemption for all classes of leases which allows the Company to not recognize right-of-use assets and lease liabilities on the consolidated balance sheet and allows the Company to recognize the lease expense for short-term leases on a straight-line basis over the lease term. The Company elected the practical expedient to not separate lease and non-lease components and applied it to all classes of leases where the non-lease components are not significant. Some of the Company's leases include options to extend or terminate the lease and the lease terms may include such options when it is reasonably certain that the Company will exercise that option. Certain leases also include options to purchase the leased property. The leases within scope of the Leases Update increased the Company's right-of-use assets and lease liabilities recorded in its consolidated balance sheet by $134 million. As of January 1, 2019, the Company did not have land easements, but has elected the practical expedient as a safe harbor. The Company elected the optional transition method and as a safe harbor, the practical expedient provided to lessors. The Company has made an accounting policy election to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price. The adoption of the Leases Update and related amendments did not have a significant impact on the Company's financial position, results of operations, or disclosures.

Accounting Pronouncements Pending Adoption

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-17 Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities	In October 2018, the FASB issued targeted improvements which provide that indirect interests held through related parties under common control should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.
ASU 2018-14 Compensation - Retirement Benefits - Defined Benefit Plans - General, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	In August 2018, the FASB issued amendments to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Accordingly, six disclosures requirements were removed, two added and two clarified. The amendments are effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2018-13 Fair Value Measurement, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	In August 2018, the FASB issued amendments to the disclosure requirements on fair value measurements. The amendments remove, modify, and add certain disclosures. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Further, an entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
ASU 2018-12 Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts	In August 2018, the FASB issued amendments that will significantly change how insurers account for long-duration contracts. The amendments will change existing recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted.	The Company is thoroughly evaluating the impact of adoption and expects that the adoption will have a significant impact on the Company's financial position, results of operations, and disclosures. The Company anticipates that the requirement to update assumptions for liability for future policy benefits will have a significant impact on its results of operations, systems, processes and controls while the requirement to update the discount rate will have a significant impact on its equity. The Company has no products with market risk benefits. The Company does not expect to early adopt the updated standard.
ASU 2017-04 Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment	In January 2017, the FASB issued amendments simplifying the subsequent measurement of goodwill. An entity, under this update, is no longer required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, the entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments are effective for public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any goodwill impairment tests performed on testing dates after January 1, 2017.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

Standard	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-13 Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments as clarified and amended by: **ASU 2019-04,** *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* , and **ASU 2019-05,** *Financial Instruments - Credit Losses (Topic 326), Targeted Transition Relief*	In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured at amortized cost to be presented net of an allowance for credit losses (Credit Losses ASU) in order to reflect the amount expected to be collected on the financial asset(s). The measurement of expected credit losses is amended by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information. Credit losses on available-for-sale debt securities will be measured in a manner similar to current U.S. GAAP; however, the amendments require that credit losses be presented as an allowance rather than as a write-down. Other amendments include changes to the balance sheet presentation and interest income recognition of purchased financial assets with a more-than-insignificant credit deterioration since origination (PCD financial assets). The Credit Losses ASU is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may early adopt this guidance as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments will be adopted following a modified-retrospective approach resulting in a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. Two exceptions to this adoption method are for PCD financial assets and debt securities for which other-than-temporary impairment (OTTI) will have been recognized before the effective date. Loans purchased with credit deterioration accounted for under current U.S. GAAP as "purchased credit impaired" (PCI) financial assets will be classified as PCD financial assets at transition and PCD guidance will be applied prospectively. Debt securities that have experienced OTTI before the effective date will follow a prospective adoption method which allows an entity to maintain the same amortized cost basis before and after the effective date. In April 2019, the Credit Losses ASU was amended to allow entities to make a policy election about presentation and disclosure of accrued interest receivable and the related credit losses, whereby entities that write off uncollectible accrued interest receivable in a timely manner can make a policy election not to measure an allowance on the accrued interest receivable. Other amendments made within this Update clarify and address stakeholders' specific issues about certain aspects of the Credit Losses ASU. In May 2019, the FASB granted a targeted transition relief by allowing to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost. These amendments will be effective upon adoption of the Credit Losses ASU.	The Company has identified the following financial instruments in scope of the new guidance: certain fixed maturity securities, loans and loan receivables, reinsurance recoverable, as well as certain other receivable balances and off-balance sheet arrangements. The Company currently expects loans and loan receivables and held-to-maturity fixed maturity securities to be the asset classes most significantly impacted upon adoption of the guidance. (See Notes 3 and 7). The Company is in the process of review and validation of credit models and methodologies and validating inputs, while continuing to develop policies, systems and controls that will be required to implement the Current Expected Credit Losses guidance.The Company also continues to evaluate the impact of adoption of this guidance on its financial position, results of operations, and disclosures. The Company plans to adopt this ASU on January 1, 2020.

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

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

2. BUSINESS SEGMENT INFORMATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Revenues:				
Aflac Japan:				
Net earned premiums	**$ 3,172**	$ 3,227	**$ 6,352**	$ 6,490
Net investment income, less amortized hedge costs	**609**	606	**1,219**	1,194
Other income	**11**	11	**22**	22
Total Aflac Japan	**3,792**	3,844	**7,593**	7,706
Aflac U.S.:				
Net earned premiums	**1,459**	1,426	**2,920**	2,853
Net investment income	**180**	182	**357**	357
Other income	**2**	2	**4**	4
Total Aflac U.S.	**1,641**	1,610	**3,281**	3,214
Corporate and other	**95**	85	**191**	164
Total adjusted revenues	**5,528**	5,539	**11,065**	11,084
Realized investment gains (losses) [(1),(2),(3)]	**(17)**	50	**103**	(30)
Total revenues	**$ 5,511**	$ 5,589	**$ 11,168**	$ 11,054

[(1)] Amortized hedge costs of $62 and $55 for the three-month periods and $124 and $110 for the six -month periods ended June 30, 2019 , and 2018 , respectively, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing operations.

[(2)] Amortized hedge income of $20 and $7 for the three-month periods and $40 and $9 for the six -month periods ended June 30, 2019 , and 2018 , respectively, related to certain foreign currency exposure management strategies has been reclassified from realized investment gains (losses) and reported as an increase to net investment income when analyzing operations.

[(3)] Net interest cash flows from derivatives associated with certain investment strategies of $(7) for the three-month period and $(14) for the six -month period ended June 30, 2019 and an immaterial amount for the three- and six-month periods in 2018, respectively, have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

(In millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Pretax earnings:				
Aflac Japan	**$ 831**	$ 836	**$ 1,666**	$ 1,654
Aflac U.S.	**338**	340	**661**	677
Corporate and other	**(26)**	(38)	**(45)**	(84)
Pretax adjusted earnings	**1,143**	1,138	**2,282**	2,247
Realized investment gains (losses) [(1),(2),(3),(4)]	**(34)**	35	**70**	(63)
Other income (loss)	**0**	(42)	**(1)**	(70)
Total earnings before income taxes	**$ 1,109**	$ 1,131	**$ 2,351**	$ 2,114
Income taxes applicable to pretax adjusted earnings	**$ 297**	$ 303	**$ 587**	$ 592
Effect of foreign currency translation on after-tax adjusted earnings	**(4)**	7	**(13)**	29

[(1)] Amortized hedge costs of $62 and $55 for the three-month periods and $124 and $110 for the six -month periods ended June 30, 2019 , and 2018 , respectively, related to certain foreign currency management strategies have been reclassified from realized investment gains (losses) and reported as a deduction from pretax adjusted earnings when analyzing operations.

[(2)] Amortized hedge income of $20 and $7 for the three-month periods and $40 and $9 for the six -month periods ended June 30, 2019 , and 2018 , respectively, related to certain foreign currency management strategies has been reclassified from realized investment gains (losses) and reported as an increase in pretax adjusted earnings when analyzing operations.

[(3)] Net interest cash flows from derivatives associated with certain investment strategies of $(7) for the three-month period and $(14) for the six -month period ended June 30, 2019 and and an immaterial amount for the three- and six-month periods in 2018, respectively, have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

[(4)] A gain of $17 for the three-month periods and $33 for the six -month periods ended June 30, 2019 , and 2018 , respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable have been reclassified from realized investment gains (losses) and included in adjusted earnings when analyzing operations

Assets were as follows:

(In millions)	June 30, 2019	December 31, 2018
Assets:		
Aflac Japan	**$ 128,329**	$ 118,342
Aflac U.S.	**20,881**	19,100
Corporate and other	**2,190**	2,964
Total assets	**$ 151,400**	$ 140,406

3. INVESTMENTS

Investment Holdings

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

	June 30, 2019			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value through other comprehensive income:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	**$ 32,154**	**$ 5,800**	**$ 0**	**$ 37,954**
Municipalities	**525**	**120**	**1**	**644**
Mortgage- and asset-backed securities	**237**	**29**	**0**	**266**
Public utilities	**1,865**	**392**	**0**	**2,257**
Sovereign and supranational	**762**	**60**	**0**	**822**
Banks/financial institutions	**6,126**	**700**	**106**	**6,720**
Other corporate	**5,333**	**932**	**22**	**6,243**
Total yen-denominated	**47,002**	**8,033**	**129**	**54,906**
U.S. dollar-denominated:				
U.S. government and agencies	**195**	**11**	**0**	**206**
Municipalities	**1,198**	**133**	**0**	**1,331**
Mortgage- and asset-backed securities	**143**	**7**	**0**	**150**
Public utilities	**3,941**	**634**	**27**	**4,548**
Sovereign and supranational	**257**	**73**	**0**	**330**
Banks/financial institutions	**2,880**	**566**	**14**	**3,432**
Other corporate	**25,579**	**2,492**	**539**	**27,532**
Total U.S. dollar-denominated	**34,193**	**3,916**	**580**	**37,529**
Total securities available for sale	**$ 81,195**	**$ 11,949**	**$ 709**	**$ 92,435**

(In millions)	December 31, 2018 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value through other comprehensive income:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	$ 30,637	$ 3,700	$ 140	$ 34,197
Municipalities	385	32	9	408
Mortgage- and asset-backed securities	155	22	0	177
Public utilities	1,732	280	4	2,008
Sovereign and supranational	826	123	0	949
Banks/financial institutions	5,440	502	238	5,704
Other corporate	4,852	649	44	5,457
Total yen-denominated	44,027	5,308	435	48,900
U.S dollar-denominated:				
U.S. government and agencies	137	9	1	145
Municipalities	1,343	120	8	1,455
Mortgage- and asset-backed securities	155	8	1	162
Public utilities	4,772	496	105	5,163
Sovereign and supranational	251	60	0	311
Banks/financial institutions	2,860	389	35	3,214
Other corporate	23,311	1,343	1,109	23,545
Total U.S. dollar-denominated	32,829	2,425	1,259	33,995
Total securities available for sale	$ 76,856	$ 7,733	$ 1,694	$ 82,895

(In millions)	**June 30, 2019** **Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	**$ 22,611**	**$ 6,606**	**$ 0**	**$ 29,217**
Municipalities	**836**	**274**	**0**	**1,110**
Mortgage- and asset-backed securities	**19**	**1**	**0**	**20**
Public utilities	**2,762**	**386**	**0**	**3,148**
Sovereign and supranational	**1,188**	**192**	**0**	**1,380**
Banks/financial institutions	**978**	**110**	**12**	**1,076**
Other corporate	**2,613**	**477**	**6**	**3,084**
Total yen-denominated	**31,007**	**8,046**	**18**	**39,035**
Total securities held to maturity	**$ 31,007**	**$ 8,046**	**$ 18**	**$ 39,035**

(In millions)	December 31, 2018 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	$ 21,712	$ 5,326	$ 0	$ 27,038
Municipalities	359	110	0	469
Mortgage- and asset-backed securities	14	1	0	15
Public utilities	2,727	254	8	2,973
Sovereign and supranational	1,551	289	0	1,840
Banks/financial institutions	1,445	158	20	1,583
Other corporate	2,510	332	38	2,804
Total yen-denominated	30,318	6,470	66	36,722
Total securities held to maturity	$ 30,318	$ 6,470	$ 66	$ 36,722

(In millions)	**June 30, 2019**	December 31, 2018
Equity securities, carried at fair value through net earnings:	**Fair Value**	Fair Value
Equity securities:		
Yen-denominated	**$ 679**	$ 641
U.S. dollar-denominated	**408**	346
Total equity securities	**$ 1,087**	$ 987

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

During the first and second quarters of 2019 and 2018, respectively, the Company did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

Contractual and Economic Maturities

The contractual and economic maturities of the Company's investments in fixed maturity securities at June 30, 2019 , were as follows:

(In millions)	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	$ 1,093	$ 1,153
Due after one year through five years	8,423	8,478
Due after five years through 10 years	9,887	10,961
Due after 10 years	61,412	71,427
Mortgage- and asset-backed securities	380	416
Total fixed maturity securities available for sale	$ 81,195	$ 92,435
Held to maturity:		
Due in one year or less	$ 139	$ 140
Due after one year through five years	1,284	1,367
Due after five years through 10 years	726	815
Due after 10 years	28,839	36,693
Mortgage- and asset-backed securities	19	20
Total fixed maturity securities held to maturity	$ 31,007	$ 39,035

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

Investment Concentrations

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

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

	June 30, 2019			December 31, 2018		
(In millions)	Credit Rating	Amortized Cost	Fair Value	Credit Rating	Amortized Cost	Fair Value
Japan National Government [(1)]	**A+**	**$53,298**	**$65,321**	A+	$51,207	$59,945

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

Realized Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Realized investment gains (losses):				
Fixed maturity securities:				
Available for sale:				
Gross gains from sales	**$ 32**	$ 12	**$ 44**	$ 22
Gross losses from sales	**(3)**	(71)	**(11)**	(73)
Foreign currency gains (losses) on sales and redemptions	**(4)**	29	**9**	24
Other-than-temporary impairment losses	**0**	(2)	**0**	(2)
Total fixed maturity securities	**25**	(32)	**42**	(29)
Equity securities	**(11)**	18	**47**	(28)
Loan receivables:				
Loan loss reserves	**(2)**	(3)	**(4)**	(10)
Total loan receivables	**(2)**	(3)	**(4)**	(10)
Derivatives and other:				
Derivative gains (losses)	**122**	(172)	**122**	(28)
Foreign currency gains (losses)	**(200)**	192	**(202)**	(36)
Total derivatives and other	**(78)**	20	**(80)**	(64)
Total realized investment gains (losses)	**$ (66)**	$ 3	**$ 5**	$ (131)

The unrealized holding losses , net of gains , recorded as a component of realized investment gains and losses for the three-month period ended June 30, 2019 , that relates to equity securities still held at the June 30, 2019 , reporting date was $13 million . The unrealized holding gains , net of losses , recorded as a component of realized investment gains and losses for the six -month period ended June 30, 2019 , that relates to equity securities still held at the June 30, 2019 , reporting date was $34 million .

Unrealized Investment Gains and Losses

Effect on Shareholders' Equity

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

(In millions)	**June 30, 2019**	December 31, 2018
Unrealized gains (losses) on securities available for sale	**$ 11,240**	$ 6,039
Deferred income taxes	**(3,185)**	(1,805)
Shareholders' equity, unrealized gains (losses) on fixed maturity securities	**$ 8,055**	$ 4,234

Gross Unrealized Loss Aging

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

(In millions)	June 30, 2019					
	Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
Municipalities:						
Yen-denominated	**$ 14**	**$ 1**	**$ 14**	**$ 1**	**$ 0**	**$ 0**
Public utilities:						
U.S. dollar-denominated	**597**	**27**	**116**	**5**	**481**	**22**
Banks/financial institutions:						
U.S. dollar-denominated	**284**	**14**	**110**	**5**	**174**	**9**
Yen-denominated	**1,862**	**118**	**1,862**	**118**	**0**	**0**
Other corporate:						
U.S. dollar-denominated	**7,957**	**539**	**2,125**	**143**	**5,832**	**396**
Yen-denominated	**713**	**28**	**713**	**28**	**0**	**0**
Total	**$ 11,427**	**$ 727**	**$ 4,940**	**$ 300**	**$ 6,487**	**$ 427**

(In millions)	December 31, 2018					
	Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. government and agencies:						
U.S. dollar-denominated	$ 67	$ 1	$ 67	$ 1	$ 0	$ 0
Japan government and agencies:						
Yen-denominated	3,604	140	3,604	140	0	0
Municipalities:						
U.S. dollar-denominated	515	8	515	8	0	0
Yen-denominated	148	9	148	9	0	0
Mortgage- and asset-backed securities:						
U.S. dollar-denominated	74	1	74	1	0	0
Public utilities:						
U.S. dollar-denominated	1,585	105	892	48	693	57
Yen-denominated	604	12	604	12	0	0
Banks/financial institutions:						
U.S. dollar-denominated	625	35	340	19	285	16
Yen-denominated	3,057	258	3,057	258	0	0
Other corporate:						
U.S. dollar-denominated	12,899	1,109	5,782	407	7,117	702
Yen-denominated	1,306	82	1,306	82	0	0
Total	$ 24,484	$ 1,760	$ 16,389	$ 985	$ 8,095	$ 775

Analysis of Securities in Unrealized Loss Positions

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

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

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

Commercial Mortgage and Other Loans

The Company classifies its transitional real estate loans (TREs), commercial mortgage loans (CMLs) and middle market loans (MMLs) as held-for-investment and includes them in the commercial mortgage and other loans line on the consolidated balance sheets. The Company carries them on the balance sheet at amortized cost less an estimated allowance for loan losses.

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

(In millions)	**June 30, 2019**	December 31, 2018
Commercial mortgage and other loans:		
Transitional real estate loans	**$ 4,592**	$ 4,394
Commercial mortgage loans	**1,161**	1,065
Middle market loans	**1,900**	1,487
Total gross commercial mortgage and other loans	**7,653**	6,946
Allowance for loan loss	**(31)**	(27)
Total net commercial mortgage and other loans	**$ 7,622**	$ 6,919

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

Transitional Real Estate Loans

Transitional real estate loans are commercial mortgage loans that are typically relatively short-term floating rate instruments secured by a first lien on the property. These loans provide funding for properties undergoing a change in their physical characteristics and/or economic profile and do not typically require any principal repayment prior to the maturity date. This loan portfolio has guidelines that limit the average loan-to-value at origination to be 70% or lower with individual loan-to-value limits at origination of 80% or less. As of June 30, 2019 , the Company had $767 million in outstanding commitments to fund transitional real estate loans. These commitments are contingent on the final underwriting and due diligence to be performed.

Commercial Mortgage Loans

Commercial mortgage loans are typically fixed rate loans on commercial real estate with partial repayment of principal over the life of the loan with the remaining outstanding principal being repaid upon maturity. This loan portfolio has guidelines that limit the average loan-to-value at origination to be 65% or lower with individual loan-to-value limits at origination of 70% or less. As of June 30, 2019 , the Company had $95 million in outstanding commitments to fund commercial mortgage loans. These commitments are contingent on the final underwriting and due diligence to be performed.

Middle Market Loans

Middle market loans are typically first lien senior secured cash flow loans to small to mid-size companies for working capital, refinancing, acquisition, and recapitalization. These loans are generally considered to be below investment grade. The carrying value for middle market loans included an unfunded amount of $130 million and $56 million , as of June 30, 2019 , and December 31, 2018 , respectively, that is reflected in other liabilities on the consolidated balance sheets.

As of June 30, 2019 , the Company had commitments of approximately $489 million to fund potential future loan originations related to this investment program. These commitments are contingent upon the availability of middle market loans that meet the Company's underwriting criteria.

Allowance for Loan Losses

The Company's allowance for loan losses is established using both general and specific allowances. The general allowance is used for loans grouped by similar risk characteristics where a loan-specific or market-specific risk has not been identified, but for which the Company estimates probable incurred losses. The specific allowance is used on an individual loan basis when it is probable that a loss has been incurred. There was no specific loan loss reserve as of June 30, 2019 , and December 31, 2018 . The following table presents the rollforward of the general allowance for loan losses by portfolio segment during the six -month period ended June 30 .

(In millions)	Commercial Mortgage Loans	Transitional Real Estate Loans	Middle Market Loans	Total
Allowance for loan losses at December 31, 2018	$ (1)	$ (17)	$ (9)	$ (27)
Addition to (release of) allowance for credit losses	0	(1)	(3)	(4)
Allowance for loan losses at June 30, 2019	$ (1)	$ (18)	$ (12)	$ (31)

The key credit quality indicators used by the Company in establishing the general and specific loan loss reserves, as well as in determining whether or not a loan should be impaired, include loan-to-value and debt service coverage ratios for CMLs and TREs and ratings for our middle market loan portfolio. Given that transitional real estate loans involve properties undergoing renovation or construction, loan-to-value provides the most insight on the credit risk of the property. The performance of the loans are monitored and reviewed periodically, but not less than quarterly.

As of June 30, 2019 , and December 31, 2018 , the Company had no loans that were past due in regards to principal and/or interest payments. Additionally, the Company held no loans that were on nonaccrual status or considered impaired as of June 30, 2019 , and December 31, 2018 . The Company had no troubled debt restructurings during the six months ended June 30, 2019 and 2018.

Other Investments

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

(In millions)	June 30, 2019	December 31, 2018
Other investments:		
Policy loans	**$ 246**	$ 232
Short-term investments [1]	**677**	152
Limited partnerships	**471**	377
Other	**33**	26
Total other investments	**$ 1,427**	$ 787

[1] *Includes securities lending collateral*

As of June 30, 2019 , the Company had $881 million in outstanding commitments to fund alternative investments in limited partnerships.

Variable Interest Entities (VIEs)

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

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

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

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

VIEs - Consolidated

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

Investments in Consolidated Variable Interest Entities

	June 30, 2019		December 31, 2018	
(In millions)	**Cost or Amortized Cost**	**Fair Value**	Cost or Amortized Cost	Fair Value
Assets:				
Fixed maturity securities, available for sale	**$ 3,729**	**$ 4,599**	$ 3,849	$ 4,466
Equity securities	**187**	**187**	160	160
Commercial mortgage and other loans	**6,233**	**6,259**	5,528	5,506
Other investments [1]	**410**	**410**	328	328
Other assets [2]	**201**	**201**	182	182
Total assets of consolidated VIEs	**$ 10,760**	**$ 11,656**	$ 10,047	$ 10,642
Liabilities:				
Other liabilities [2]	**$ 107**	**$ 107**	$ 102	$ 102
Total liabilities of consolidated VIEs	**$ 107**	**$ 107**	$ 102	$ 102

[1] *Consists entirely of alternative investments in limited partnerships*
[2] *Consists entirely of derivatives*

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

Investments in Unit Trust Structures

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

VIEs - Not Consolidated

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

Investments in Variable Interest Entities Not Consolidated

	June 30, 2019		December 31, 2018	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Assets:				
Fixed maturity securities, available for sale	**$ 4,309**	**$ 4,961**	$ 4,575	$ 4,982
Fixed maturity securities, held to maturity	**2,019**	**2,389**	2,007	2,254
Other investments [(1)]	**61**	**61**	49	49
Total investments in VIEs not consolidated	**$ 6,389**	**$ 7,411**	$ 6,631	$ 7,285

[(1)] Consists entirely of alternative investments in limited partnerships

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

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

Securities Lending and Pledged Securities

The Company lends fixed maturity and public equity securities to financial institutions in short-term security-lending transactions. These short-term security-lending arrangements increase investment income with minimal risk. The Company receives cash or other securities as collateral for such loans. The Company's security lending policy requires that the fair value of the securities received as collateral be 102% or more of the fair value of the loaned securities and that unrestricted cash received as collateral be 100% or more of the fair value of the loaned securities. The securities loaned continue to be carried as investment assets on the Company's balance sheet during the terms of the loans and are

not reported as sales. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans where the Company receives as collateral securities that the Company is not permitted to sell or repledge, the collateral is not reflected on the consolidated financial statements.

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

Securities Lending Transactions Accounted for as Secured Borrowings				
June 30, 2019				
Remaining Contractual Maturity of the Agreements				
(In millions)	**Overnight and Continuous [1]**	**Up to 30 days**	**Greater than 90 days**	**Total**
Securities lending transactions:				
Fixed maturity securities:				
Japan government and agencies	**$ 0**	**$ 605**	**$ 2,539**	**$ 3,144**
Public utilities	**56**	**0**	**0**	**56**
Banks/financial institutions	**78**	**0**	**0**	**78**
Other corporate	**804**	**0**	**0**	**804**
Equity securities	**14**	**0**	**0**	**14**
Total borrowings	**$ 952**	**$ 605**	**$ 2,539**	**$ 4,096**
Gross amount of recognized liabilities for securities lending transactions				**$ 1,557**
Amounts related to agreements not included in offsetting disclosure in Note 4				**$ 2,539**

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

Securities Lending Transactions Accounted for as Secured Borrowings				
December 31, 2018				
Remaining Contractual Maturity of the Agreements				
(In millions)	Overnight and Continuous [1]	Up to 30 days	Greater than 90 days	Total
Securities lending transactions:				
Fixed maturity securities:				
Japan government and agencies	$ 0	$ 387	$ 1,190	$ 1,577
Municipalities	5	0	0	5
Public utilities	27	0	0	27
Banks/financial institutions	74	0	0	74
Other corporate	549	0	0	549
Equity securities	10	0	0	10
Total borrowings	$ 665	$ 387	$ 1,190	$ 2,242
Gross amount of recognized liabilities for securities lending transactions				$ 1,052
Amounts related to agreements not included in offsetting disclosure in Note 4				$ 1,190

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

The Company did not have any repurchase agreements or repurchase-to-maturity transactions outstanding as of June 30, 2019 , and December 31, 2018 , respectively.

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

4. DERIVATIVE INSTRUMENTS

The Company's freestanding derivative financial instruments have historically consisted of:

- foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated investments in Aflac Japan's portfolio
- foreign currency forwards and options used to economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long term exposure to a weakening yen
- cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and subordinated debentures
- foreign currency swaps and, in prior periods, credit default swaps that are associated with investments in special-purpose entities, including VIEs where the Company is the primary beneficiary
- interest rate swaps used to economically hedge interest rate fluctuations in certain variable-rate investments
- interest rate swaptions used to hedge changes in the fair value associated with interest rate fluctuations for certain U.S. dollar-denominated available-for-sale fixed-maturity securities.

Some of the Company's derivatives are designated as cash flow hedges, fair value hedges or net investment hedges; however, other derivatives do not qualify for hedge accounting or the Company elects not to designate them as accounting hedges.

Derivative Types

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

Prior to April 1, 2018, foreign currency forwards and options (through a collar strategy, as discussed above) hedged the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agreed with another party to buy a fixed amount of U.S. dollars and sell a corresponding amount of yen at a specified price at a specified future date. In the option transactions, the Company used a combination of foreign currency options to protect expected future cash flows by simultaneously purchasing yen put options (options that protect against a weakening yen) and selling yen call options (options that limit participation in a strengthening yen). The combination of these two actions created a zero-cost collar.

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

In order to reduce investment income volatility from its variable-rate investments, the Company enters into receive–fixed, pay–floating interest rate swaps. These derivatives are cleared and settled through a central clearinghouse.

Swaptions are used to mitigate the adverse impact resulting from significant changes in the fair value of U.S. dollar-denominated available-for-sale securities due to fluctuation in interest rates. In a payer swaption, the Company pays a

premium to obtain the right, but not the obligation, to enter into a swap contract where it will pay a fixed rate and receive a floating rate. Interest rate swaption collars are combinations of two swaption positions. In order to maximize the efficiency of the collars while minimizing cost, a collar strategy is used whereby the Company purchases a long payer swaption (the Company purchases an option that allows it to enter into a swap where the Company will pay the fixed rate and receive the floating rate of the swap) and sells a short receiver swaption (the Company sells an option that provides the counterparty with the right to enter into a swap where the Company will receive the fixed rate and pay the floating rate of the swap). The combination of purchasing the long payer swaption and selling the short receiver swaption results in no net premium being paid (i.e. a costless or zero-cost collar).

Derivative Balance Sheet Classification

The table below summarizes the balance sheet classification of the Company's derivative fair value amounts, as well as the gross asset and liability fair value amounts. The fair value amounts presented do not include income accruals. Derivative assets are included in “Other Assets,” while derivative liabilities are included in “Other Liabilities” within the Company’s Consolidated Balance Sheets. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and are not reflective of exposure or credit risk.

	June 30, 2019			December 31, 2018		
(In millions)		**Asset Derivatives**	**Liability Derivatives**		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	**Notional Amount**	**Fair Value**	**Fair Value**	Notional Amount	Fair Value	Fair Value
Cash flow hedges:						
Foreign currency swaps - VIE	**$ 75**	**$ 0**	**$ 6**	$ 75	$ 1	$ 4
Total cash flow hedges	**75**	**0**	**6**	75	1	4
Fair value hedges:						
Foreign currency forwards	**842**	**0**	**19**	2,086	0	34
Foreign currency options	**10,901**	**0**	**2**	9,070	3	1
Interest rate swaptions	**1,500**	**0**	**3**	500	0	1
Total fair value hedges	**13,243**	**0**	**24**	11,656	3	36
Non-qualifying strategies:						
Foreign currency swaps	**2,800**	**88**	**107**	2,800	103	129
Foreign currency swaps - VIE	**2,587**	**201**	**101**	2,587	181	101
Foreign currency forwards	**16,081**	**222**	**109**	16,057	126	117
Foreign currency options	**1,042**	**0**	**0**	430	0	0
Interest rate swaps	**4,750**	**15**	**0**	4,750	3	0
Total non-qualifying strategies	**27,260**	**526**	**317**	26,624	413	347
Total derivatives	**$ 40,578**	**$ 526**	**$ 347**	$ 38,355	$ 417	$ 387

Cash Flow Hedges

For certain variable-rate U.S. dollar-denominated available-for-sale securities held by Aflac Japan via consolidated VIEs, foreign currency swaps are used to swap the USD variable rate interest and principal payments to fixed rate JPY interest and principal payments. The Company has designated foreign currency swaps as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset (“cash flow” hedge). The remaining maximum length of time for which these cash flows are hedged is seven years. The derivatives in the Company's consolidated VIEs that are not designated as accounting hedges are discussed in the "non-qualifying strategies" section of this note.

Fair Value Hedges

The Company designates and accounts for certain foreign currency forwards, options, and interest rate swaptions as fair value hedges when they meet the requirements for hedge accounting. The Company recognizes gains and losses on these derivatives as well as the offsetting gain or loss on the related hedged items in current earnings.

Foreign currency forwards and options hedge the foreign currency exposure of certain U.S. dollar-denominated available-for-sale fixed-maturity investments held in Aflac Japan. The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the

assessment of hedge effectiveness. The change in fair value of the foreign currency option related to the time value of the option is recognized in current earnings and is excluded from the assessment of hedge effectiveness.

Interest rate swaptions hedge the interest rate exposure of certain U.S. dollar-denominated available-for-sale securities held in Aflac Japan. For these hedging relationships, the Company excludes time value from the assessment of hedge effectiveness and recognizes changes in the intrinsic value of the swaptions in current earnings within net investment income. The change in the time value of the swaptions is recognized in other comprehensive income (loss) and amortized into earnings (net investment income) over its legal term.

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

Fair Value Hedging Relationships

(In millions)		Hedging Derivatives			Hedged Items	
Hedging Derivatives	**Hedged Items**	**Total Gains (Losses)**	**Gains (Losses) Excluded from Effectiveness Testing [1]**	**Gains (Losses) Included in Effectiveness Testing [2]**	**Gains (Losses) [2]**	**Net Realized Gains (Losses) Recognized for Fair Value Hedge**
Three Months Ended June 30, 2019:						
Foreign currency forwards	Fixed maturity securities	**$ 6**	**$ (14)**	**$ 20**	**$ (21)**	**$ (1)**
Interest rate swaptions	Fixed-maturity securities	**(2)**	**(2)**	**0**	**0**	**0**
Total gains (losses)		**$ 4**	**$ (16)**	**$ 20**	**$ (21)**	**$ (1)**
Six Months Ended June 30, 2019:						
Foreign currency forwards	Fixed maturity securities	**$ 15**	**$ (24)**	**$ 39**	**$ (39)**	**$ 0**
Foreign currency options	Fixed maturity securities	**(4)**	**(4)**	**0**	**0**	**0**
Interest rate swaptions	Fixed maturity securities	**(3)**	**(3)**	**0**	**0**	**0**
Total gains (losses)		**$ 8**	**$ (31)**	**$ 39**	**$ (39)**	**$ 0**
Three Months Ended June 30, 2018:						
Foreign currency forwards	Fixed maturity securities	$ (215)	$ (30)	$ (185)	$ 186	$ 1
Foreign currency options	Fixed maturity securities	(2)	(2)	0	0	0
Total gains (losses)		(217)	(32)	(185)	186	1
Six Months Ended June 30, 2018:						
Foreign currency forwards	Fixed maturity securities	$ 199	$ (69)	$ 268	$ (278)	$ (10)
Foreign currency options	Fixed maturity securities	(3)	(3)	0	0	0
Total gains (losses)		$ 196	$ (72)	$ 268	$ (278)	$ (10)

[1] Gains (losses) excluded from effectiveness testing includes the forward point on foreign currency forwards and time value change on foreign currency options which are reported in the consolidated statement of earnings as realized investment gains (losses). It also includes the change in the fair value of the interest rate swaptions related to the time value of the swaptions which is recognized as a component of other comprehensive income (loss).

[2] Gains and losses on foreign currency forwards and options and related hedged items are reported in the consolidated statement of earnings as realized investment gains (losses). For interest rate swaptions and related hedged items, gains and losses included in the hedge assessment are reported within net investment income. For the three-month and six -month periods ended June 30, 2019 , those gains and losses on interest rate swaptions and related hedged items were immaterial.

The following table shows the carrying amounts of assets designated and qualifying as hedged items in fair value hedges of interest rate risk and the related cumulative hedge adjustment included in the carrying amount.

(In millions)	Carrying Amount of the Hedged Assets/(Liabilities) [1]		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Assets/(Liabilities)	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
Fixed maturity securities	**$ 5,084**	$ 6,593	**$ 269**	$ 294

[1] The balance includes hedging adjustment on discontinued hedging relationships of $269 in 2019 and $294 in 2018.
The total notional amount of the Company's interest rate swaptions was $1,500 in 2019 and $500 in 2018. The hedging adjustment related to these derivatives was immaterial.

Net Investment Hedge

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

The Company's net investment hedge was effective during the three- and six -month periods ended June 30, 2019 and 2018 , respectively.

Non-qualifying Strategies

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

As of June 30, 2019 , the Parent Company had cross-currency interest rate swap agreements related to its $350 million senior notes due February 2022, $700 million senior notes due June 2023, $750 million senior notes due November 2024 and $450 million senior notes due March 2025. Changes in the values of these swaps are recorded through current period earnings. For additional information regarding these swaps, see Note 9 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

The Company uses foreign exchange forwards and options to economically mitigate the currency risk of some of its U.S. dollar-denominated loan receivables held within the Aflac Japan segment. These arrangements are not designated as accounting hedges, as the foreign currency remeasurement of the loan receivables impacts current period earnings, and generally offsets gains and losses from foreign exchange forwards within realized investment gains (losses). The Company also has certain foreign exchange forwards on U.S. dollar-denominated AFS securities where hedge accounting is not being applied.

In order to economically mitigate currency risk of future yen dividends from Aflac Japan while lowering consolidated hedge costs associated with Aflac Japan's U.S. dollar investment hedging, the Parent Company entered into offsetting hedge positions using foreign exchange forwards. This activity is reported in the Corporate and other segment.

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

Impact of Derivatives and Hedging Instruments

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

	Three Months Ended June 30,					
	2019			2018		
(In millions)	**Net Investment Income [1]**	**Realized Investment Gains (Losses)**	**Other Comprehensive Income (Loss) [2]**	Net Investment Income [1]	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) [2]
Qualifying hedges:						
Cash flow hedges:						
Foreign currency swaps - VIE	**$ 0**	**$ 0**	**$ 0**	$ 0	$ 0	$ (2)
Total cash flow hedges	**0**	**0** [3]	**0**	0	0 [3]	(2)
Fair value hedges:						
Foreign currency forwards [4]		**(15)**			(29)	
Foreign currency options [4]		**0**			(2)	
Interest rate swaptions [4]	**(1)**	**0**	**(1)**	0	0	0
Total fair value hedges	**(1)**	**(15)**	**(1)**	0	(31)	0
Net investment hedge:						
Non-derivative hedging instruments		**0**	**(54)**		0	55
Foreign currency options		**0**	**0**		0	0
Total net investment hedge		**0**	**(54)**		0	55
Non-qualifying strategies:						
Foreign currency swaps		**0**			50	
Foreign currency swaps - VIE		**13**			(36)	
Foreign currency forwards		**114**			(154)	
Foreign currency options		**0**			(1)	
Interest rate swaps		**10**			0	
Total non- qualifying strategies		**137**			(141)	
Total	**$ (1)**	**$ 122**	**$ (55)**	$ 0	$ (172)	$ 53

[1] *Net investment income (loss) includes net interest on swaps.*

[2] *Cash flow hedge items and the change in the fair value of interest rate swaptions related to the time value of the swaptions in fair value hedges are recorded as unrealized gains (losses) on derivatives and net investment hedge items are recorded in the unrealized foreign currency translation gains (losses) line in the consolidated statement of comprehensive income (loss).*

[3] *Impact of cash flow hedges reported as realized investment gains (losses) includes an immaterial amount of gains or losses reclassified from accumulated other comprehensive income (loss) into earnings. It also includes an immaterial amount excluded from effectiveness testing during the three-month periods ended June 30, 2019 and 2018 , respectively.*

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

	Six Months Ended June 30,					
	2019			2018		
(In millions)	**Net Investment Income [1]**	**Realized Investment Gains (Losses)**	**Other Comprehensive Income (Loss) [2]**	Net Investment Income [1]	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) [2]
Qualifying hedges:						
Cash flow hedges:						
Foreign currency swaps - VIE	**$ (1)**	**$ 0**	**$ (2)**	$ 0	$ 1	$ 4
Total cash flow hedges	**(1)**	**0** [3]	**(2)**	0	1 [3]	4
Fair value hedges:						
Foreign currency forwards [4]		**(24)**			(79)	
Foreign currency options [4]		**(4)**			(3)	
Interest rate swaptions [4]	**(1)**	**0**	**(2)**	0	0	0
Total fair value hedges	**(1)**	**(28)**	**(2)**	0	(82)	0
Net investment hedge:						
Non-derivative hedging instruments		**0**	**(54)**		0	(29)
Foreign currency options		**0**	**0**		0	(8)
Total net investment hedge		**0**	**(54)**		0	(37)
Non-qualifying strategies:						
Foreign currency swaps		**44**			(60)	
Foreign currency swaps - VIE		**(3)**			88	
Foreign currency forwards		**93**			25	
Foreign currency options		**0**			0	
Interest rate swaps		**16**			0	
Total non-qualifying strategies		**150**			53	
Total	**$ (2)**	**$ 122**	**$ (58)**	$ 0	$ (28)	$ (33)

[1] Net investment income (loss) includes net interest on swaps.

[2] Cash flow hedge items and the change in the fair value of interest rate swaptions related to the time value of the swaptions in fair value hedges are recorded as unrealized gains (losses) on derivatives and net investment hedge items are recorded in the unrealized foreign currency translation gains (losses) line in the consolidated statement of comprehensive income (loss).

[3] Impact of cash flow hedges reported as realized investment gains (losses) includes an immaterial amount of gains or losses reclassified from accumulated other comprehensive income (loss) into earnings. It also includes an immaterial amount excluded from effectiveness testing during the six-month periods ended June 30, 2019 and 2018 , respectively.

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

As of June 30, 2019 , deferred gains and losses on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months were immaterial.

Credit Risk Assumed through Derivatives

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

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

As of June 30, 2019 , there were 17 counterparties to the Company's derivative agreements, with four comprising 66% of the aggregate notional amount. As of June 30, 2019 , all counterparties were investment grade.

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

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

Collateral posted by the Company to third parties for derivative transactions can generally be repledged or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was approximately $54 million and $139 million as of June 30, 2019 , and December 31, 2018 , respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2019 , the Company estimates that it would be required to post a maximum of $39 million of additional collateral to these derivative counterparties. The Company is generally allowed to sell or repledge collateral obtained from its derivative counterparties, although it does not typically exercise such rights. (See the Offsetting tables below for collateral posted or received as of the reported balance sheet dates.)

Offsetting of Financial Instruments and Derivatives

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

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

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

Offsetting of Financial Assets and Derivative Asset

	June 30, 2019						
				Gross Amounts Not Offset in Balance Sheet			
(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
Derivative assets:							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	$ 310	$ 0	$ 310	$ (141)	$ (101)	$ (62)	$ 6
OTC - cleared	15	0	15	0	0	(7)	8
Total derivative assets subject to a master netting agreement or offsetting arrangement	325	0	325	(141)	(101)	(69)	14
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	201		201				201
Total derivative assets not subject to a master netting agreement or offsetting arrangement	201		201				201
Total derivative assets	526	0	526	(141)	(101)	(69)	215
Securities lending and similar arrangements	1,536	0	1,536	0	0	(1,536)	0
Total	$ 2,062	$ 0	$ 2,062	$ (141)	$ (101)	$ (1,605)	$ 215

(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet			Net Amount
				Financial Instruments	Securities Collateral	Cash Collateral Received	
	December 31, 2018						
Derivative assets:							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	$ 231	$ 0	$ 231	$ (152)	$ (23)	$ (55)	$ 1
OTC - cleared	3	0	3	0	0	(3)	0
Total derivative assets subject to a master netting agreement or offsetting arrangement	234	0	234	(152)	(23)	(58)	1
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	183		183				183
Total derivative assets not subject to a master netting agreement or offsetting arrangement	183		183				183
Total derivative assets	417	0	417	(152)	(23)	(58)	184
Securities lending and similar arrangements	1,029	0	1,029	0	0	(1,029)	0
Total	$ 1,446	$ 0	$ 1,446	$ (152)	$ (23)	$ (1,087)	$ 184

Offsetting of Financial Liabilities and Derivative Liabilities

	June 30, 2019						
				Gross Amounts Not Offset in Balance Sheet			
(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
Derivative liabilities:							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	$ 240	$ 0	$ 240	$ (141)	$ (17)	$ (76)	$ 6
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	240	0	240	(141)	(17)	(76)	6
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	107		107				107
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	107		107				107
Total derivative liabilities	347	0	347	(141)	(17)	(76)	113
Securities lending and similar arrangements	1,557	0	1,557	(1,536)	0	0	21
Total	$ 1,904	$ 0	$ 1,904	$ (1,677)	$ (17)	$ (76)	$ 134

December 31, 2018							
				Gross Amounts Not Offset in Balance Sheet			
(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
Derivative liabilities:							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	$ 285	$ 0	$ 285	$ (152)	$ (37)	$ (68)	$ 28
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	285	0	285	(152)	(37)	(68)	28
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	102		102				102
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	102		102				102
Total derivative liabilities	387	0	387	(152)	(37)	(68)	130
Securities lending and similar arrangements	1,052	0	1,052	(1,029)	0	0	23
Total	$ 1,439	$ 0	$ 1,439	$ (1,181)	$ (37)	$ (68)	$ 153

For additional information on the Company's financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant inputs are not observable in an active market.

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

(In millions)	June 30, 2019 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies	$ 36,573	$ 1,587	$ 0	$ 38,160
Municipalities	0	1,975	0	1,975
Mortgage- and asset-backed securities	0	233	183	416
Public utilities	0	6,601	204	6,805
Sovereign and supranational	0	1,152	0	1,152
Banks/financial institutions	0	10,128	24	10,152
Other corporate	0	33,576	199	33,775
Total fixed maturity securities	36,573	55,252	610	92,435
Equity securities	949	73	65	1,087
Other investments	677	0	0	677
Cash and cash equivalents	3,019	0	0	3,019
Other assets:				
Foreign currency swaps	0	88	201	289
Foreign currency forwards	0	222	0	222
Interest rate swaps	0	15	0	15
Total other assets	0	325	201	526
Total assets	$ 41,218	$ 55,650	$ 876	$ 97,744
Liabilities:				
Other liabilities:				
Foreign currency swaps	$ 0	$ 107	$ 107	$ 214
Foreign currency forwards	0	128	0	128
Foreign currency options	0	2	0	2
Interest rate swaptions	0	3	0	3
Total liabilities	$ 0	$ 240	$ 107	$ 347

(In millions)	December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies	$ 32,993	$ 1,349	$ 0	$ 34,342
Municipalities	0	1,863	0	1,863
Mortgage- and asset-backed securities	0	162	177	339
Public utilities	0	7,062	109	7,171
Sovereign and supranational	0	1,260	0	1,260
Banks/financial institutions	0	8,895	23	8,918
Other corporate	0	28,789	213	29,002
Total fixed maturity securities	32,993	49,380	522	82,895
Equity securities	874	67	46	987
Other investments	152	0	0	152
Cash and cash equivalents	4,337	0	0	4,337
Other assets:				
Foreign currency swaps	0	103	182	285
Foreign currency forwards	0	126	0	126
Foreign currency options	0	3	0	3
Interest rate swaps	0	3	0	3
Total other assets	0	235	182	417
Total assets	$ 38,356	$ 49,682	$ 750	$ 88,788
Liabilities:				
Other liabilities:				
Foreign currency swaps	$ 0	$ 132	$ 102	$ 234
Foreign currency forwards	0	151	0	151
Foreign currency options	0	1	0	1
Interest rate swaptions	0	1	0	1
Total liabilities	$ 0	$ 285	$ 102	$ 387

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

	June 30, 2019				
(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturity securities:					
Government and agencies	**$ 22,611**	**$ 28,852**	**$ 365**	**$ 0**	**$ 29,217**
Municipalities	**836**	**0**	**1,110**	**0**	**1,110**
Mortgage and asset-backed securities	**19**	**0**	**7**	**13**	**20**
Public utilities	**2,762**	**0**	**3,148**	**0**	**3,148**
Sovereign and supranational	**1,188**	**0**	**1,380**	**0**	**1,380**
Banks/financial institutions	**978**	**0**	**1,076**	**0**	**1,076**
Other corporate	**2,613**	**0**	**3,084**	**0**	**3,084**
Commercial mortgage and other loans	**7,622**	**0**	**0**	**7,663**	**7,663**
Other investments [(1)]	**33**	**0**	**33**	**0**	**33**
Total assets	**$ 38,662**	**$ 28,852**	**$ 10,203**	**$ 7,676**	**$ 46,731**
Liabilities:					
Other policyholders' funds	**$ 7,403**	**$ 0**	**$ 0**	**$ 7,320**	**$ 7,320**
Notes payable (excluding leases)	**6,098**	**0**	**5,763**	**278**	**6,041**
Total liabilities	**$ 13,501**	**$ 0**	**$ 5,763**	**$ 7,598**	**$ 13,361**

[(1)] Excludes policy loans of $246 and equity method investments of $471 , at carrying value

(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	December 31, 2018				
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturity securities:					
Government and agencies	$ 21,712	$ 27,030	$ 8	$ 0	$ 27,038
Municipalities	359	0	469	0	469
Mortgage and asset-backed securities	14	0	0	15	15
Public utilities	2,727	0	2,973	0	2,973
Sovereign and supranational	1,551	0	1,840	0	1,840
Banks/financial institutions	1,445	0	1,583	0	1,583
Other corporate	2,510	0	2,804	0	2,804
Commercial mortgage and other loans	6,919	0	0	6,893	6,893
Other investments [(1)]	26	0	26	0	26
Total assets	$ 37,263	$ 27,030	$ 9,703	$ 6,908	$ 43,641
Liabilities:					
Other policyholders' funds	$ 7,146	$ 0	$ 0	$ 7,067	$ 7,067
Notes payable (excluding leases)	5,765	0	5,606	270	5,876
Total liabilities	$ 12,911	$ 0	$ 5,606	$ 7,337	$ 12,943

[(1)] Excludes policy loans of $232 and equity method investments of $377 , at carrying value

Fair Value of Financial Instruments

Fixed maturity and equity securities

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

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

The pricing data and market quotes the Company obtains from outside sources, including third party pricing services, are reviewed internally for reasonableness. If a fair value appears unreasonable, the Company will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, the Company may compare the inputs to relevant market indices and other performance measurements. Based on management's analysis, the valuation is

confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. The Company has performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

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

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

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

(In millions)	June 30, 2019 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$ 36,573	$ 1,587	$ 0	$ 38,160
Total government and agencies	36,573	1,587	0	38,160
Municipalities:				
Third party pricing vendor	0	1,975	0	1,975
Total municipalities	0	1,975	0	1,975
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	233	0	233
Broker/other	0	0	183	183
Total mortgage- and asset-backed securities	0	233	183	416
Public utilities:				
Third party pricing vendor	0	6,601	0	6,601
Broker/other	0	0	204	204
Total public utilities	0	6,601	204	6,805
Sovereign and supranational:				
Third party pricing vendor	0	1,152	0	1,152
Total sovereign and supranational	0	1,152	0	1,152
Banks/financial institutions:				
Third party pricing vendor	0	9,970	0	9,970
Broker/other	0	158	24	182
Total banks/financial institutions	0	10,128	24	10,152
Other corporate:				
Third party pricing vendor	0	33,576	0	33,576
Broker/other	0	0	199	199
Total other corporate	0	33,576	199	33,775
Total securities available for sale	$ 36,573	$ 55,252	$ 610	$ 92,435
Equity securities, carried at fair value:				
Third party pricing vendor	$ 949	$ 73	$ 0	$ 1,022
Broker/other	0	0	65	65
Total equity securities	$ 949	$ 73	$ 65	$ 1,087

(In millions)	June 30, 2019 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$ 28,852	$ 365	$ 0	$ 29,217
Total government and agencies	28,852	365	0	29,217
Municipalities:				
Third party pricing vendor	0	1,110	0	1,110
Total municipalities	0	1,110	0	1,110
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	7	0	7
Broker/other	0	0	13	13
Total mortgage- and asset-backed securities	0	7	13	20
Public utilities:				
Third party pricing vendor	0	3,148	0	3,148
Total public utilities	0	3,148	0	3,148
Sovereign and supranational:				
Third party pricing vendor	0	1,380	0	1,380
Total sovereign and supranational	0	1,380	0	1,380
Banks/financial institutions:				
Third party pricing vendor	0	1,076	0	1,076
Total banks/financial institutions	0	1,076	0	1,076
Other corporate:				
Third party pricing vendor	0	3,084	0	3,084
Total other corporate	0	3,084	0	3,084
Total securities held to maturity	$ 28,852	$ 10,170	$ 13	$ 39,035

(In millions)	December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$ 32,993	$ 1,349	$ 0	$ 34,342
Total government and agencies	32,993	1,349	0	34,342
Municipalities:				
Third party pricing vendor	0	1,863	0	1,863
Total municipalities	0	1,863	0	1,863
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	162	0	162
Broker/other	0	0	177	177
Total mortgage- and asset-backed securities	0	162	177	339
Public utilities:				
Third party pricing vendor	0	7,062	0	7,062
Broker/other	0	0	109	109
Total public utilities	0	7,062	109	7,171
Sovereign and supranational:				
Third party pricing vendor	0	1,260	0	1,260
Total sovereign and supranational	0	1,260	0	1,260
Banks/financial institutions:				
Third party pricing vendor	0	8,895	0	8,895
Broker/other	0	0	23	23
Total banks/financial institutions	0	8,895	23	8,918
Other corporate:				
Third party pricing vendor	0	28,789	0	28,789
Broker/other	0	0	213	213
Total other corporate	0	28,789	213	29,002
Total securities available for sale	$ 32,993	$ 49,380	$ 522	$ 82,895
Equity securities, carried at fair value:				
Third party pricing vendor	$ 874	$ 67	$ 0	$ 941
Broker/other	0	0	46	46
Total equity securities	$ 874	$ 67	$ 46	$ 987

(In millions)	December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$ 27,030	$ 8	$ 0	$ 27,038
Total government and agencies	27,030	8	0	27,038
Municipalities:				
Third party pricing vendor	0	469	0	469
Total municipalities	0	469	0	469
Mortgage- and asset-backed securities:				
Broker/other	0	0	15	15
Total mortgage- and asset-backed securities	0	0	15	15
Public utilities:				
Third party pricing vendor	0	2,973	0	2,973
Total public utilities	0	2,973	0	2,973
Sovereign and supranational:				
Third party pricing vendor	0	1,840	0	1,840
Total sovereign and supranational	0	1,840	0	1,840
Banks/financial institutions:				
Third party pricing vendor	0	1,583	0	1,583
Total banks/financial institutions	0	1,583	0	1,583
Other corporate:				
Third party pricing vendor	0	2,804	0	2,804
Total other corporate	0	2,804	0	2,804
Total securities held to maturity	$ 27,030	$ 9,677	$ 15	$ 36,722

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

Derivatives

The Company uses derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified in the same fair value hierarchy level as the associated asset. The Company uses pricing models to determine the estimated fair value of derivatives. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility. The significant inputs to pricing derivatives are generally observable in the market or can be derived by observable market data. When these inputs are observable, the derivatives are classified as Level 2.

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

To determine the fair value of its interest rate derivatives, the Company uses inputs that are generally observable in the market or can be derived from observable market data. Interest rate swaps are cleared trades. In a cleared swap contract, the clearinghouse provides benefits to the counterparties similar to contracts listed for investment traded on an exchange since it maintains a daily margin to mitigate counterparties' credit risk. These derivatives are priced using

observable inputs, accordingly, they are classified as Level 2. For its interest rate swaptions, the Company estimates their fair values using observable market data, including interest rate curves and volatilities. Their fair values are also classified as Level 2.

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

Commercial mortgage and other loans

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

Other investments

Other investments includes short-term investments that are measured at fair value where amortized cost approximates fair value.

Other policyholders' funds

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

Notes payable

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

Transfers between Hierarchy Levels and Level 3 Rollforward

During the three- and six -month periods ended June 30, 2019 and 2018 , respectively, there were no transfers between Level 1 and 2 for assets and liabilities that are measured and carried at fair value on a recurring basis.

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

	Three Months Ended June 30, 2019						
	Fixed Maturity Securities				Equity Securities	Derivatives [1]	
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 178	$ 85	$ 23	$ 284	$ 46	$ 70	$ 0	$ 686
Realized investment gains (losses) included in earnings	0	0	0	0	0	24	0	24
Unrealized gains (losses) included in other comprehensive income (loss)	5	5	1	6	0	0	0	17
Purchases, issuances, sales and settlements:								
Purchases	0	0	0	25	0	0	0	25
Issuances	0	0	0	0	19	0	0	19
Sales	0	0	0	0	0	0	0	0
Settlements	0	(2)	0	0	0	0	0	(2)
Transfers into Level 3	0	116 [2]	0	0	0	0	0	116
Transfers out of Level 3	0	0	0	(116) [2]	0	0	0	(116)
Balance, end of period	$ 183	$ 204	$ 24	$ 199	$ 65	$ 94	$ 0	$ 769
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	$ 0	$ 0	$ 0	$ 0	$ 0	$ 24	$ 0	$ 24

[1] *Derivative assets and liabilities are presented net*
[2] *Transfer due to sector classification change*

	Three Months Ended June 30, 2018						
	Fixed Maturity Securities				Equity Securities	Derivatives [1]	
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 186	$ 83	$ 24	$ 143	$ 16	$ 154	$ 1	$ 607
Realized investment gains (losses) included in earnings	0	0	0	0	0	(42)	(1)	(43)
Unrealized gains (losses) included in other comprehensive income (loss)	(8)	(1)	(1)	(1)	0	(2)	0	(13)
Purchases, issuances, sales and settlements:								
Purchases	0	24	0	56	1	0	0	81
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	0	0	0	(2)	0	0	0	(2)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$ 178	$ 106	$ 23	$ 196	$ 17	$ 110	$ 0	$ 630
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	$ 0	$ 0	$ 0	$ 0	$ 0	$ (42)	$ (1)	$ (43)

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

	Six Months Ended June 30, 2019							
	Fixed Maturity Securities				Equity Securities	Derivatives [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 177	$ 109	$ 23	$ 213	$ 46	$ 80	$ 0	$ 648
Realized investment gains (losses) included in earnings	0	0	0	0	0	16	0	16
Unrealized gains (losses) included in other comprehensive income (loss)	6	6	1	7	0	(2)	0	18
Purchases, issuances, sales and settlements:								
Purchases	0	0	0	88	19	0	0	107
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	(2)	0	0	0	(2)
Settlements	0	(2)	0	0	0	0	0	(2)
Transfers into Level 3	0	116 [2]	0	25 [2]	0	0	0	141
Transfers out of Level 3	0	(25) [2]	0	(132) [2], [3]	0	0	0	(157)
Balance, end of period	$ 183	$ 204	$ 24	$ 199	$ 65	$ 94	$ 0	$ 769
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	$ 0	$ 0	$ 0	$ 0	$ 0	$ 16	$ 0	$ 16

[1] *Derivative assets and liabilities are presented net*
[2] *Transfer due to sector classification change*
[3] *Transfer due to availability of observable market inputs*

	Six Months Ended June 30, 2018							
	Fixed Maturity Securities				Equity Securities	Derivatives [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 175	$ 68	$ 25	$ 146	$ 16	$ 22	$ 1	$ 453
Realized investment gains (losses) included in earnings	0	0	0	0	0	84	(1)	83
Unrealized gains (losses) included in other comprehensive income (loss)	3	(2)	(2)	(3)	0	4	0	0
Purchases, issuances, sales and settlements:								
Purchases	0	40	0	56	1	0	0	97
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	0	0	0	(3)	0	0	0	(3)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$ 178	$ 106	$ 23	$ 196	$ 17	$ 110	$ 0	$ 630
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	$ 0	$ 0	$ 0	$ 0	$ 0	$ 84	$ (1)	$ 83

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

Fair Value Sensitivity

Level 3 Significant Unobservable Input Sensitivity

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

	June 30, 2019			
(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Mortgage- and asset-backed securities	**$ 183**	Consensus pricing	Offered quotes	N/A [(a)]
Public utilities	**204**	Discounted cash flow	Credit spreads	N/A [(a)]
Banks/financial institutions	**24**	Consensus pricing	Offered quotes	N/A [(a)]
Other corporate	**199**	Discounted cash flow	Credit spreads	N/A [(a)]
Equity securities	**65**	Net asset value	Offered quotes	N/A [(a)]
Other assets:				
Foreign currency swaps	**139**	Discounted cash flow	Interest rates (USD)	1.98% - 2.20% [(b)]
			Interest rates (JPY)	0.01% - 0.38% [(c)]
			CDS spreads	11 - 110 bps
	62	Discounted cash flow	Interest rates (USD)	1.98% - 2.20% [(b)]
			Interest rates (JPY)	0.01% - 0.38% [(c)]
Total assets	**$ 876**			
Liabilities:				
Other liabilities:				
Foreign currency swaps	**$ 101**	Discounted cash flow	Interest rates (USD)	1.98% - 2.20% [(b)]
			Interest rates (JPY)	0.01% - 0.38% [(c)]
			CDS spreads	30 - 187 bps
	6	Discounted cash flow	Interest rates (USD)	1.98% - 2.20% [(b)]
			Interest rates (JPY)	0.01% - 0.38% [(c)]
Total liabilities	**$ 107**			

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

December 31, 2018					
(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturity securities:					
Mortgage- and asset-backed securities	$ 177	Consensus pricing	Offered quotes	N/A	(a)
Public utilities	109	Discounted cash flow	Credit spreads	N/A	(a)
Banks/financial institutions	23	Consensus pricing	Offered quotes	N/A	(a)
Other corporate	213	Discounted cash flow	Credit spreads	N/A	(a)
Equity securities	46	Net asset value	Offered quotes	N/A	(a)
Other assets:					
Foreign currency swaps	125	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
			CDS spreads	19 - 120 bps	
	57	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
Total assets	$ 750				
Liabilities:					
Other liabilities:					
Foreign currency swaps	$ 98	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
			CDS spreads	28 - 211 bps	
	4	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
Total liabilities	$ 102				

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

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

Net Asset Value

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

Offered Quotes

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

Interest Rates and CDS Spreads

The significant drivers of the valuation of the foreign exchange swaps are interest rates and CDS spreads. Some of the Company's swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. For the Company's foreign exchange or cross currency swaps that are in a net asset position, an increase in yen interest rates (all other factors held constant) will decrease the present value of the yen final settlement receivable (receive leg), thus decreasing the value of the swap as long as the derivative remains in a net asset position.

Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal amounts at the termination of the swap. Assuming all other factors are held constant, an increase in yen interest rates will decrease the receive leg and decrease the net value of the swap. Likewise, holding all other factors constant, an increase in U.S. dollar interest rates will increase the swap's net value due to the decrease in the present value of the dollar final settlement payable (pay leg).

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

For additional information on the Company's investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

6. POLICY LIABILITIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Unpaid supplemental health claims, beginning of period	**$ 3,967**	$ 4,041	**$ 3,952**	$ 3,881
Less reinsurance recoverables	**29**	31	**28**	28
Net balance, beginning of period	**3,938**	4,010	**3,924**	3,853
Add claims incurred during the period related to:				
Current year	**1,785**	1,779	**3,610**	3,621
Prior years	**(136)**	(133)	**(303)**	(325)
Total incurred	**1,649**	1,646	**3,307**	3,296
Less claims paid during the period on claims incurred during:				
Current year	**1,229**	1,226	**1,735**	1,746
Prior years	**430**	426	**1,568**	1,540
Total paid	**1,659**	1,652	**3,303**	3,286
Effect of foreign exchange rate changes on unpaid claims	**65**	(91)	**65**	50
Net balance, end of period	**3,993**	3,913	**3,993**	3,913
Add reinsurance recoverables	**31**	29	**31**	29
Unpaid supplemental health claims, end of period	**4,024**	3,942	**4,024**	3,942
Unpaid life claims, end of period	**682**	582	**682**	582
Total liability for unpaid policy claims	**$ 4,706**	$ 4,524	**$ 4,706**	$ 4,524

The incurred claims development related to prior years reflects favorable claims experience compared to previous estimates. The favorable claims development of $303 million for the six -month period ended June 30, 2019 comprises approximately $198 million from Japan, which represents approximately 65% of the total. There was no material impact to claims development in Japan from foreign currency exchange from December 31, 2018 to June 30, 2019 .

The Company has experienced continued favorable claim trends in 2019 for its core health products in Japan. The Company's experience in Japan related to the average length of stay in the hospital for cancer treatment has shown continued decline in the current period. In addition, cancer treatment patterns in Japan are continuing to be influenced by significant advances in early-detection techniques and by the increased use of pathological diagnosis rather than clinical exams. Additionally, follow-up radiation and chemotherapy treatments are occurring more often on an outpatient basis. Such changes in treatment not only increase the quality of life and initial outcomes for the patients, but also decrease the average length of each hospital stay, resulting in favorable claims development.

The remainder of the favorable claims development related to prior years for the six -month period ended June 30, 2019 , reflects Aflac U.S. favorable claims experience compared to previous estimates, primarily in the cancer and accident lines of business.

7. REINSURANCE

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

The Company has recorded a deferred profit liability related to reinsurance transactions. The remaining deferred profit liability of $1.0 billion as of June 30, 2019 and December 31, 2018 is included in future policy benefits in the consolidated balance sheet and is being amortized into income over the expected lives of the policies. The Company has also recorded a reinsurance recoverable for reinsurance transactions, which is included in other assets in the consolidated balance sheet and had a remaining balance of $987 million and $941 million as of June 30, 2019 and December 31, 2018 , respectively. The increase in the reinsurance recoverable balance was driven by the growth in reserves related to the business that has been reinsured as the policies age. The spot yen/dollar exchange rate strengthened by approximately 3.0% and ceded reserves increased approximately 3.7% from December 31, 2018 , to June 30, 2019 .

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Direct premium income	**$ 4,766**	$ 4,793	**$ 9,542**	$ 9,626
Ceded to other companies:				
Ceded Aflac Japan closed blocks	**(119)**	(126)	**(240)**	(256)
Other	**(17)**	(16)	**(32)**	(30)
Assumed from other companies:				
Retrocession activities	**50**	53	**100**	107
Other	**1**	2	**3**	3
Net premium income	**$ 4,681**	$ 4,706	**$ 9,373**	$ 9,450
Direct benefits and claims	**$ 3,038**	$ 3,106	**$ 6,078**	$ 6,225
Ceded benefits and change in reserves for future benefits:				
Ceded Aflac Japan closed blocks	**(109)**	(114)	**(219)**	(231)
Eliminations	**10**	11	**20**	23
Other	**(12)**	(12)	**(24)**	(23)
Assumed from other companies:				
Retrocession activities	**47**	49	**97**	101
Eliminations	**(10)**	(11)	**(20)**	(23)
Other	**0**	2	**0**	1
Benefits and claims, net	**$ 2,964**	$ 3,031	**$ 5,932**	$ 6,073

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

As a part of its capital contingency plan, the Company entered into a committed reinsurance facility agreement on December 1, 2015 in the amount of approximately 110 billion yen of reserves. This reinsurance facility agreement was renewed in 2018 and is effective until December 31, 2019. There are also additional commitment periods of a one-year duration, each of which are automatically extended unless notification is received from the reinsurer within 60 days prior to the expiration. The reinsurer can withdraw from the committed facility if Aflac's Standard and Poor's (S&P) rating drops below BBB-. As of June 30, 2019 , the Company has not executed a reinsurance treaty under this committed reinsurance facility.

8. NOTES PAYABLE AND LEASE OBLIGATIONS

A summary of notes payable and lease obligations follows:

(In millions)	June 30, 2019	December 31, 2018
4.00% senior notes due February 2022	$ 348	$ 348
3.625% senior notes due June 2023	698	698
3.625% senior notes due November 2024	746	746
3.25% senior notes due March 2025	448	447
2.875% senior notes due October 2026	298	297
6.90% senior notes due December 2039	220	220
6.45% senior notes due August 2040	254	254
4.00% senior notes due October 2046	394	394
4.750% senior notes due January 2049	540	540
Yen-denominated senior notes and subordinated debentures:		
.932% senior notes due January 2027 (principal amount 60.0 billion yen)	554	538
1.159% senior notes due October 2030 (principal amount 29.3 billion yen)	270	262
1.488% senior notes due October 2033 (principal amount 15.2 billion yen)	140	136
1.750% senior notes due October 2038 (principal amount 8.9 billion yen)	82	79
2.108% subordinated debentures due October 2047 (principal amount 60.0 billion yen)	552	536
.963% perpetual subordinated bonds callable April 2024 (principal amount 30.0 billion yen)	276	0
Yen-denominated loans:		
Variable interest rate loan due September 2021 (.32% in 2019 and 2018, principal amount 5.0 billion yen)	46	45
Variable interest rate loan due September 2023 (.47% in 2019 and 2018, principal amount 25.0 billion yen)	232	225
Finance lease obligations payable through 2025	12	13
Operating lease obligations payable through 2028 [(1)]	121	0
Total notes payable and lease obligations	$ 6,231	$ 5,778

[(1)] See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2019 related to leases. Amounts in the table above are reported net of debt issuance costs and issuance premiums or discounts, if applicable, that are being amortized over the life of the notes.

In April 2019, ALIJ issued 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds 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.

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

	June 30, 2019		
(In millions)	Operating Leases	Finance Leases	Total
2019	$ 32	$ 3	$ 35
2020	30	3	33
2021	20	2	22
2022	17	2	19
2023	9	1	10
After 2023	24	1	25
Total lease payments	$ 132	$ 12	$ 144
Less: Interest	11	0	11
Present value of lease liabilities	$ 121	$ 12	$ 133

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

	June 30, 2019
Weighted average remaining lease term (years):	
Operating leases	4.1
Finance leases	3.8
Weighted average discount rate:	
Operating leases	2.5%
Finance leases	1.5%

Operating lease costs for the three- and six -month periods ended June 30, 2019 were $14 million and $29 million , respectively. Operating cash outflow for operating leases for the six -month period ended June 30, 2019 was $28 million .

A summary of the Company's lines of credit as of June 30, 2019 follows:

Borrower	Type	Term	Expiration Date	Capacity	Amount Outstanding	Interest Rate on Borrowed Amount	Maturity Period	Commitment Fee	Business Purpose
Aflac Incorporated and Aflac	uncommitted bilateral	364 days	December 27, 2019	$100 million	$0 million	The rate quoted by the bank and agreed upon at the time of borrowing	Up to 3 months	None	General corporate purposes
Aflac Incorporated	unsecured revolving	5 years	March 29, 2024, or the date commitments are terminated pursuant to an event of default	100.0 billion yen	0.0 billion yen	A rate per annum equal to (a) Tokyo interbank market rate (TIBOR) plus, the alternative applicable TIBOR margin during the availability period from the closing date to the commitment termination date or (b) the TIBOR rate offered by the agent to major banks in yen for the applicable period plus, the applicable alternative TIBOR margin during the term out period	No later than March 29, 2024	.30% to .50%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	unsecured revolving	5 years	April 4, 2023, or the date commitments are terminated pursuant to an event of default	55.0 billion yen, or the equivalent amount in U.S. dollars	0.0 billion yen	A rate per annum equal to, at the Company's option, either, (a) London Interbank Offered Rate (LIBOR) adjusted for certain costs or (b) a base rate determined by reference to the highest of (1) the federal funds rate plus 1/2 of 1%, (2) the rate of interest for such day announced by Mizuho Bank, Ltd. as its prime rate, or (3) the eurocurrency rate for an interest period of one month plus 1.00%, in each case plus an applicable margin	No later than April 4, 2023	.085% to .225%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	uncommitted bilateral	None specified	None specified	$50 million	$0 million	A rate per annum equal to, at the Parent Company's option, either (a) a eurocurrency rate determined by reference to the agent's LIBOR for the interest period relevant to such borrowing or (b) the base rate determined by reference to the greater of (i) the prime rate as determined by the agent, and (ii) the sum of 0.50% and the federal funds rate for such day	Up to 3 months	None	General corporate purposes
Aflac [(1)]	uncommitted revolving	364 days	November 29, 2019	$250 million	$0 million	USD three-month LIBOR plus 75 basis points per annum	3 months	None	General corporate purposes
Aflac Incorporated [(1)]	uncommitted revolving	364 days	April 2, 2020	50.0 billion yen	0.0 billion yen	Three-month TIBOR plus 70 basis points per annum	3 months	None	General corporate purposes

[(1)] *Intercompany credit agreement*

The Company was in compliance with all of the covenants of its notes payable and lines of credit at June 30, 2019 . No events of default or defaults occurred during the six -month period ended June 30, 2019 .

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

9. SHAREHOLDERS' EQUITY

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

(In thousands of shares)	**2019**	2018
Common stock - issued:		
Balance, beginning of period	**1,347,540**	1,345,762
Exercise of stock options and issuance of restricted shares	**1,504**	1,299
Balance, end of period	**1,349,044**	1,347,061
Treasury stock:		
Balance, beginning of period	**592,254**	564,852
Purchases of treasury stock:		
Share repurchase program	**17,179**	13,441
Other	**574**	328
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	**(836)**	(400)
Exercise of stock options	**(305)**	(327)
Other	**(287)**	(105)
Balance, end of period	**608,579**	577,789
Shares outstanding, end of period	**740,465**	769,272

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2019**	2018	**2019**	2018
Anti-dilutive share-based awards	**1**	48	**12**	28

Share Repurchase Program

During the first six months of 2019 , the Company repurchased 17.2 million shares of its common stock for $847 million as part of its share repurchase program. During the first six months of 2018 , the Company repurchased 13.4 million shares of its common stock for $601 million as part of its share repurchase program. As of June 30, 2019 , a remaining balance of 51.9 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors.

Reclassifications from Accumulated Other Comprehensive Income

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

Changes in Accumulated Other Comprehensive Income

	Three Months Ended June 30, 2019				
(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	**$ (1,848)**	**$ 6,561**	**$ (26)**	**$ (206)**	**$ 4,481**
Other comprehensive income (loss) before reclassification	**393**	**1,512**	**(1)**	**(5)**	**1,899**
Amounts reclassified from accumulated other comprehensive income (loss)	**0**	**(18)**	**0**	**2**	**(16)**
Net current-period other comprehensive income (loss)	**393**	**1,494**	**(1)**	**(3)**	**1,883**
Balance, end of period	**$ (1,455)**	**$ 8,055**	**$ (27)**	**$ (209)**	**$ 6,364**

All amounts in the table above are net of tax.

	Three Months Ended June 30, 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	$ (1,303)	$ 5,206	$ (21)	$ (197)	$ 3,685
Other comprehensive income (loss) before reclassification	(463)	(391)	(2)	(1)	(857)
Amounts reclassified from accumulated other comprehensive income (loss)	0	21	0	3	24
Net current-period other comprehensive income (loss)	(463)	(370)	(2)	2	(833)
Balance, end of period	$ (1,766)	$ 4,836	$ (23)	$ (195)	$ 2,852

All amounts in the table above are net of tax.

(In millions)	Six Months Ended June 30, 2019 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	**$ (1,847)**	**$ 4,234**	**$ (24)**	**$ (212)**	**$ 2,151**
Other comprehensive income (loss) before reclassification	**392**	**3,853**	**(3)**	**(2)**	**4,240**
Amounts reclassified from accumulated other comprehensive income (loss)	**0**	**(32)**	**0**	**5**	**(27)**
Net current-period other comprehensive income (loss)	**392**	**3,821**	**(3)**	**3**	**4,213**
Balance, end of period	**$ (1,455)**	**$ 8,055**	**$ (27)**	**$ (209)**	**$ 6,364**

All amounts in the table above are net of tax.

(In millions)	Six Months Ended June 30, 2018 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
Cumulative effect of change in accounting principle - financial instruments	0	(148)	0	0	(148)
Cumulative effect of change in accounting principle - tax effects from tax reform	(325)	734	(3)	(32)	374
Other comprehensive income (loss) before reclassification	309	(1,733)	3	(5)	(1,426)
Amounts reclassified from accumulated other comprehensive income (loss)	0	19	0	5	24
Net current-period other comprehensive income (loss)	309	(1,714)	3	0	(1,402)
Balance, end of period	$ (1,766)	$ 4,836	$ (23)	$ (195)	$ 2,852

All amounts in the table above are net of tax.

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

Reclassifications Out of Accumulated Other Comprehensive Income

(In millions)	Three Months Ended June 30, 2019	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statements of Earnings**
Unrealized gains (losses) on available-for-sale securities	**$ 0**	Other-than-temporary impairment losses realized
	25	Other gains (losses)
	25	Total before tax
	(7)	Tax (expense) or benefit [1]
	$ 18	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	**$ (3)**	Acquisition and operating expenses [2]
Prior service (cost) credit	**0**	Acquisition and operating expenses [2]
	1	Tax (expense) or benefit [1]
	$ (2)	Net of tax
Total reclassifications for the period	**$ 16**	Net of tax

[1] *Based on 26% 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 June 30, 2018	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statements of Earnings**
Unrealized gains (losses) on available-for-sale securities	$ (2)	Other-than-temporary impairment losses realized
	(26)	Other gains (losses)
	(28)	Total before tax
	7	Tax (expense) or benefit [1]
	$ (21)	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	$ (24)	Net of tax

[1] *Based on 26% 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)	Six Months Ended June 30, 2019	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statements of Earnings**
Unrealized gains (losses) on available-for-sale securities	**$ 0**	Other-than-temporary impairment losses realized
	43	Other gains (losses)
	43	Total before tax
	(11)	Tax (expense) or benefit [1]
	$ 32	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	**$ (7)**	Acquisition and operating expenses [2]
Prior service (cost) credit	**0**	Acquisition and operating expenses [2]
	2	Tax (expense) or benefit [1]
	$ (5)	Net of tax
Total reclassifications for the period	**$ 27**	Net of tax

[1] *Based on 26% 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)	Six Months Ended June 30, 2018	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statements of Earnings**
Unrealized gains (losses) on available-for-sale securities	$ (2)	Other-than-temporary impairment losses realized
	(24)	Other gains (losses)
	(26)	Total before tax
	7	Tax (expense) or benefit [1]
	$ (19)	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	$ (8)	Acquisition and operating expenses [2]
Prior service (cost) credit	0	Acquisition and operating expenses [2]
	3	Tax (expense) or benefit [1]
	$ (5)	Net of tax
Total reclassifications for the period	$ (24)	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 June 30, 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 June 30, 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 June 30, 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 June 30, 2019 .

	Stock Option Shares (in thousands)	Weighted-Average Remaining Term (in years)	Aggregate Intrinsic Value (in millions)	Weighted-Average Exercise Price Per Share
Outstanding	4,072	4.8	$ 103	$ 29.49
Exercisable	3,740	4.5	97	28.94

The Company received cash from the exercise of stock options in the amount of $30 million during the first six months of 2019, compared with $31 million in the first six months of 2018. The tax benefit realized as a result of stock option exercises and restricted stock releases was $25 million in the first six months of 2019, compared with $14 million in the first six months of 2018.

As of June 30, 2019 , total compensation cost not yet recognized in the Company's financial statements related to restricted stock awards was $61 million , of which $28 million (769 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 1.3 years . There are no other contractual terms covering restricted stock awards once vested.

The following table summarizes restricted stock activity during the six -month period ended June 30 .

(In thousands of shares)	**Shares**	**Weighted-Average Grant-Date Fair Value Per Share**
Restricted stock at December 31, 2018	3,407	$ 36.52
Granted in 2019	989	49.34
Canceled in 2019	(23)	39.44
Vested in 2019	(1,811)	32.54
Restricted stock at June 30, 2019	2,562	$ 44.25

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 $7 million for both of the three-month periods and $12 million and $13 million for the six-month periods ended June 30, 2019 and 2018 , respectively. Total net periodic cost includes the following components:

	Three Months Ended June 30,					
	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
(In millions)	**2019**	2018	**2019**	2018	**2019**	2018
Components of net periodic benefit cost:						
Service cost	**$ 5**	$ 5	**$ 6**	$ 7	**$ 0**	$ 0
Interest cost	**2**	1	**9**	8	**1**	1
Expected return on plan assets	**(1)**	(1)	**(7)**	(6)	**0**	0
Amortization of net actuarial loss	**1**	0	**2**	4	**0**	0
Net periodic (benefit) cost	**$ 7**	$ 5	**$ 10**	$ 13	**$ 1**	$ 1

	Six Months Ended June 30,					
	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
(In millions)	**2019**	2018	**2019**	2018	**2019**	2018
Components of net periodic benefit cost:						
Service cost	**$ 10**	$ 10	**$ 12**	$ 14	**$ 0**	$ 0
Interest cost	**3**	3	**18**	17	**1**	1
Expected return on plan assets	**(3)**	(3)	**(14)**	(13)	**0**	0
Amortization of net actuarial loss	**2**	0	**5**	8	**0**	0
Net periodic (benefit) cost	**$ 12**	$ 10	**$ 21**	$ 26	**$ 1**	$ 1

During the six months ended June 30, 2019 , Aflac Japan contributed approximately $17 million (using the weighted-average yen/dollar exchange rate for the six -month period ending June 30, 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 June 30, 2019 , the agreement has a remaining term of four years and an aggregate remaining cost of 6.6 billion yen ($61 million using the June 30, 2019 , exchange rate).

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

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

Guaranty Fund Assessments

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

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

Guaranty fund assessments for the six-month period ended June 30, 2019 were immaterial.

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

FORWARD-LOOKING INFORMATION

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

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

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

- difficult conditions in global capital markets and the economy
- exposure to significant interest rate risk
- concentration of business in Japan
- foreign currency fluctuations in the yen/dollar exchange rate
- limited availability of acceptable yen-denominated investments
- U.S. tax audit risk related to conversion of the Japan branch to a subsidiary
- deviations in actual experience from pricing and reserving assumptions
- ability to continue to develop and implement improvements in information technology systems
- competitive environment and ability to anticipate and respond to market trends
- ability to protect the Aflac brand and the Company's reputation
- ability to attract and retain qualified sales associates, brokers, employees, and distribution partners
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems
- failure to comply with restrictions on patient privacy and information security
- extensive regulation and changes in law or regulation by governmental authorities
- tax rates applicable to the Company may change
- defaults and credit downgrades of investments
- decline in creditworthiness of other financial institutions
- significant valuation judgments in determination of amount of impairments taken on the Company's investments
- subsidiaries' ability to pay dividends to the Parent Company
- decreases in the Company's financial strength or debt ratings
- inherent limitations to risk management policies and procedures
- concentration of the Company's investments in any particular single-issuer or sector
- differing judgments applied to investment valuations
- ability to effectively manage key executive succession
- catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, war or other military action, terrorism or other acts of violence, and damage incidental to such events
- changes in accounting standards
- increased expenses and reduced profitability resulting from changes in assumptions for pension and other postretirement benefit plans
- level and outcome of litigation
- allegations or determinations of worker misclassification in the United States

MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three- and six -month periods ended June 30, 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). In this MD&A, amounts may not foot due to rounding. 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 June 30, 2019 was 107.79 , or 3.0% stronger than 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 June 30, 2019 was 109.94 , or .7% weaker than the weighted-average yen/dollar exchange rate of 109.14 for the same period in 2018. The weighted-average yen/dollar exchange rate for the six -month period ended June 30, 2019 was 110.09 , or 1.3% weaker than the weighted-average yen/dollar exchange rate of 108.61 for the same period in 2018.

Total revenues were $5.5 billion in the second quarter of 2019 , compared with $5.6 billion in the second quarter of 2018 . Net earnings were $817 million , or $1.09 per diluted share in the second quarter of 2019 , compared with $832 million , or $1.07 per diluted share, in the second quarter of 2018 .

Total revenues were $11.2 billion in the first six months of 2019 , compared with $11.1 billion in the first six months of 2018 . Net earnings were $1.7 billion , or $2.32 per diluted share in the first six months of 2019 , compared with $1.6 billion , or $1.98 per diluted share, in the first six months of 2018 .

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

Results in the second quarter of 2019 included pretax net realized investment losses of $66 million , compared with net realized investment gains of $3 million in the the second quarter of 2018 . Net investment losses in the the second quarter of 2019 included $2 million of other-than-temporary impairment losses and changes in loan loss reserves and $78 million in net losses from derivatives and foreign currency gains or losses. The Company reported net losses on equity securities of $11 million in the the second quarter of 2019 .

Results in the first six months of 2019 included pretax net realized investment gains of $5 million , compared with net realized investment losses of $131 million in the first six months of 2018 . Net investment gains in the first six months of 2019 included $4 million of other-than-temporary impairment losses and changes in loan loss reserves and $80 million in net losses from derivatives and foreign currency gains or losses. The Company reported net gains on equity securities of $47 million in the first six months of 2019 .

In the first six months of 2019 , the Company repurchased 17.2 million shares of its common stock for $847 million under its share repurchase program.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification ™ (ASC). The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that the Company deems to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 95% of the Company's assets and 81% of its liabilities are reported as of June 30, 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 six months ended June 30, 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.

The Company 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 the Company'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		In Millions		Per Diluted Share	
	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Net earnings	**$ 817**	$ 832	**$ 1.09**	$ 1.07	**$ 1,745**	$ 1,550	**$ 2.32**	$ 1.98
Items impacting net earnings:								
Realized investment (gains) losses [2],[3],[4],[5]	**33**	(35)	**.04**	(.04)	**(70)**	63	**(.09)**	.08
Other and non-recurring (income) loss	**0**	41	**.00**	.05	**1**	70	**.00**	.09
Income tax (benefit) expense on items excluded from adjusted earnings	**(5)**	(4)	**(.01)**	(.01)	**18**	(28)	**.02**	(.04)
Adjusted earnings	**846**	835	**1.13**	1.07	**1,695**	1,655	**2.25**	2.12
Current period foreign currency impact [6]	**4**	N/A	**.01**	N/A	**13**	N/A	**.02**	N/A
Adjusted earnings excluding current period foreign currency impact [7]	**$ 851**	$ 835	**$ 1.14**	$ 1.07	**$ 1,708**	$ 1,655	**$ 2.27**	$ 2.12

[1] *Amounts may not foot due to rounding.*

[2] *Amortized hedge costs of $62 and $55 for the three-month periods and $124 and $110 for the six -month periods ended June 30, 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 $7 for the three-month periods and $40 and $9 for the six -moth periods ended June 30, 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 period and $(14) for the six -month period ended June 30, 2019 , and an immaterial amount for the three- and six-month periods 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 for the three-month periods and $33 for the six -month periods ended June 30, 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 interest expense.*

[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.

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 variable interest entities (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 for 2019 and $41 million for the three-month period and $70 million for the six -month period ended June 30, 2018 .

Foreign Currency Translation

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

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

Income Taxes

The Company's combined U.S. and Japanese effective income tax rate on pretax earnings was 26.3% for the three-month period ended June 30, 2019 , compared with 26.4% for the same period in 2018 . The Company's combined U.S. and Japanese effective income tax rate on pretax earnings was 25.8% for the six -month period ended June 30, 2019 , compared with 26.7% 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 that would be collected over a 12-month period assuming the policies remain in force for that entire period. 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

The Company 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 June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Net premium income	**$ 3,172**	$ 3,227	**$ 6,352**	$ 6,490
Net investment income:				
Yen-denominated investment income	**311**	326	**628**	657
U.S. dollar-denominated investment income	**360**	335	**715**	647
Net investment income	**671**	661	**1,343**	1,304
Amortized hedge costs related to certain foreign currency exposure management strategies	**62**	55	**124**	110
Net investment income, less amortized hedge costs	**609**	606	**1,219**	1,194
Other income (loss)	**11**	11	**22**	22
Total adjusted revenues	**3,792**	3,844	**7,593**	7,706
Benefits and claims, net	**2,185**	2,237	**4,384**	4,530
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**177**	180	**359**	348
Insurance commissions	**179**	194	**362**	383
Insurance and other expenses	**420**	397	**822**	791
Total adjusted expenses	**776**	771	**1,543**	1,522
Total benefits and adjusted expenses	**2,961**	3,008	**5,927**	6,052
Pretax adjusted earnings	**$ 831**	$ 836	**$ 1,666**	$ 1,654
Weighted-average yen/dollar exchange rate	**109.94**	109.14	**110.09**	108.61

	In Dollars				In Yen			
Percentage change over previous period:	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Net premium income	**(1.7)%**	.2%	**(2.1)%**	1.2%	**(.9)%**	(1.7)%	**(.9)%**	(2.2)%
Net investment income, less amortized hedge costs	**.5**	8.8	**2.1**	7.1	**.8**	6.4	**3.1**	3.2
Total adjusted revenues	**(1.4)**	1.5	**(1.5)**	2.1	**(.7)**	(.5)	**(.3)**	(1.4)
Pretax adjusted earnings	**(.6)**	5.7	**.7**	6.0	**(.1)**	3.6	**1.9**	2.2

In the three- and six -month periods ended June 30, 2019 , Aflac Japan's net premium income decreased, in yen terms, primarily due to an anticipated decrease in first sector premium as savings products reached premium paid-up status. Net investment income, net of amortized hedge costs, increased primarily due to increased investments in U.S. dollar-denominated floating rate assets and higher variable investment income.

Annualized premiums in force decreased 2.0% to 1.51 trillion yen as of June 30, 2019 , compared with 1.54 trillion yen as of June 30, 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 $14.0 billion at June 30, 2019 , compared with $13.9 billion a year ago.

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

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

Aflac Japan Percentage Changes Over Previous Period
(Yen Operating Results)
For the Periods Ended June 30 ,

	Including Foreign Currency Changes				Excluding Foreign Currency Changes [1]			
	Three Months		Six Months		Three Months		Six Months	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Net investment income, less amortized hedge costs	**.8 %**	6.4 %	**3.1 %**	3.2 %	**.4 %**	7.5 %	**2.3 %**	5.0 %
Total adjusted revenues	**(.7)**	(.5)	**(.3)**	(1.4)	**(.7)**	(.3)	**(.4)**	(1.1)
Pretax adjusted earnings	**(.1)**	3.6	**1.9**	2.2	**(.4)**	4.3	**1.3**	3.5

[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 June 30,		Six Months Ended June 30,	
Ratios to total adjusted revenues:	**2019**	2018	**2019**	2018
Benefits and claims, net	**57.7 %**	58.2 %	**57.7 %**	58.8 %
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**4.7**	4.7	**4.7**	4.5
Insurance commissions	**4.7**	5.0	**4.8**	5.0
Insurance and other expenses	**11.0**	10.3	**10.8**	10.3
Total adjusted expenses	**20.5**	20.0	**20.3**	19.7
Pretax adjusted earnings	**21.9**	21.8	**21.9**	21.5
Ratios to total premiums:				
Benefits and claims, net	**68.9 %**	69.3 %	**69.0 %**	69.8 %
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**5.6**	5.6	**5.7**	5.4

In the three- and six -month periods ended June 30, 2019 , the benefit ratio decreased, compared with the same respective periods 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 claims trends for the Company's third sector products in Japan. In the three- and six -month periods ended June 30, 2019 , the adjusted expense ratio increased due to lower premium income mainly from paid-up first sector 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- and six -month periods ended June 30, 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 June 30 .

	In Dollars				In Yen			
	Three Months		Six Months		Three Months		Six Months	
(In millions of dollars and billions of yen)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
New annualized premium sales	**$ 218**	$ 265	**$ 388**	$ 443	**23.9**	29.0	**42.7**	48.1
Increase (decrease) over prior period	**(17.9)%**	16.1%	**(12.4)%**	4.7%	**(17.6)%**	14.0%	**(11.4)%**	1.4%

The following table details the contributions to Aflac Japan's new annualized premium sales by major insurance product for the periods ended June 30 .

	Three Months		Six Months	
	2019	2018	**2019**	2018
Cancer	**65.3%**	72.2%	**62.6%**	65.5%
Medical	**26.5**	21.3	**28.0**	26.4
Income support	**1.0**	1.3	**1.2**	1.7
Ordinary life:				
WAYS	**.4**	.5	**.5**	.6
Child endowment	**.2**	.3	**.2**	.3
Other ordinary life [(1)]	**6.1**	4.1	**6.9**	5.0
Other	**.5**	.3	**.6**	.5
Total	**100.0%**	100.0%	**100.0%**	100.0%

[(1)] Includes term and whole life

The foundation of Aflac Japan's product portfolio has been, and continues to be, third sector products, which include cancer, medical and income support insurance products. 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.

Sales of protection-type first sector and third sector products on a yen basis decreased 17.3% in the second quarter of 2019 , compared with the same period in 2018 . Comparable results reflect a strong second quarter 2018 driven by the launch of Aflac Japan's refreshed cancer product.

Independent corporate agencies and individual agencies contributed 39.2% of total new annualized premium sales for Aflac Japan in the second quarter of 2019 , compared with 38.2% for the same period in 2018 . Affiliated corporate agencies, which include Japan Post, contributed 57.8% of total new annualized premium sales in the second quarter of 2019 , compared with 58.3% in the second 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 June 30, 2019 , Aflac Japan recruited 13 new sales agencies. At June 30, 2019 , Aflac Japan was represented by more than 9,400 sales agencies, with more than 109,000 licensed sales associates employed by those agencies.

At June 30, 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 3.0% of new annualized premium sales in the second quarter of 2019 for Aflac Japan, compared with 3.5% during the second quarter of 2018 .

Strategic Alliance with Japan Post Holdings

On December 19, 2018, the Parent Company and Aflac Japan entered into a Basic Agreement with Japan Post Holdings Co., Ltd., a Japanese corporation (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.

On February 28, 2019, the Parent Company entered a Shareholders Agreement with Japan Post Holdings, J&A Alliance Holdings Corporation, a Delaware corporation, solely in its capacity as trustee of J&A Alliance Trust, a New York voting trust (Trust), and General Incorporated Association J&A Alliance, a Japanese general incorporated association. Pursuant to the terms of the Shareholders Agreement, the Trust will use commercially reasonable efforts to acquire, through open market or private block purchases in the United States, beneficial ownership of approximately 7% of the outstanding shares of the Parent Company's outstanding common stock within a period of 12 months following the date the Trust begins acquiring such stock. On May 7, 2019, a press release issued by Japan Post Holdings announced that purchases of shares of the Parent Company's common stock commenced on April 29, 2019 through the Trust and that it planned to complete such purchases within Japan Post's fiscal year 2019 (which ends March 31, 2020).

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 June 30, 2019	2018	Six Months Ended June 30, 2019	2018
Yen-denominated:				
Fixed maturity securities:				
Japan government and agencies	**$ 0**	$ 212	**$ 583**	$ 3,399
Private placements	**469**	388	**893**	550
Other fixed maturity securities	**107**	234	**356**	484
Equity securities	**12**	8	**121**	106
Total yen-denominated	**$ 588**	$ 842	**$ 1,953**	$ 4,539
U.S. dollar-denominated:				
Fixed maturity securities:				
Other fixed maturity securities	**$ 854**	$ 998	**$ 1,522**	$ 1,038
Infrastructure debt	**10**	0	**10**	0
Bank loans	**0**	193	**0**	373
Equity securities	**2**	39	**29**	80
Commercial mortgage and other loans:				
Transitional real estate loans	**347**	579	**670**	2,149
Commercial mortgage loans	**38**	0	**38**	13
Middle market loans	**313**	161	**688**	278
Other investments	**32**	45	**73**	172
Total dollar-denominated	**$ 1,596**	$ 2,015	**$ 3,030**	$ 4,103
Total Aflac Japan purchases	**$ 2,184**	$ 2,857	**$ 4,983**	$ 8,642

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 June 30 .

	Three Months 2019	2018	Six Months 2019	2018
Total purchases for the period (in millions) [1]	**$ 2,152**	$ 2,812	**$ 4,910**	$ 8,470
New money yield [1], [2]	**3.77 %**	3.55 %	**3.50 %**	2.88 %
Return on average invested assets [3]	**2.28**	2.30	**2.31**	2.29
Portfolio book yield, including U.S. dollar-denominated investments, end of period [1]	**2.59 %**	2.59 %	**2.59 %**	2.59 %

[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- and six -month periods ended June 30, 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

The Company 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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Net premium income	**$ 1,459**	$ 1,426	**$ 2,920**	$ 2,853
Net investment income	**180**	182	**357**	357
Other income	**2**	2	**4**	4
Total adjusted revenues	**1,641**	1,610	**3,281**	3,214
Benefits and claims	**732**	744	**1,452**	1,441
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**131**	123	**290**	269
Insurance commissions	**150**	145	**299**	292
Insurance and other expenses	**290**	258	**579**	535
Total adjusted expenses	**571**	526	**1,168**	1,096
Total benefits and adjusted expenses	**1,303**	1,270	**2,620**	2,537
Pretax adjusted earnings	**$ 338**	$ 340	**$ 661**	$ 677
Percentage change over previous period:				
Net premium income	**2.3 %**	2.7 %	**2.3 %**	2.7 %
Net investment income	**(1.1)**	1.1	**.0**	(.3)
Total adjusted revenues	**1.9**	2.5	**2.1**	2.4
Pretax adjusted earnings	**(.6)**	3.0	**(2.4)**	5.8

Annualized premiums in force increased 2.3% to $6.2 billion at June 30, 2019 , compared with $6.0 billion at June 30, 2018 .

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Ratios to total adjusted revenues:	**2019**	2018	**2019**	2018
Benefits and claims	**44.6 %**	46.2 %	**44.3 %**	44.8 %
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**8.0**	7.6	**8.8**	8.4
Insurance commissions	**9.1**	9.0	**9.1**	9.1
Insurance and other expenses	**17.7**	16.0	**17.7**	16.6
Total adjusted expenses	**34.8**	32.7	**35.6**	34.1
Pretax adjusted earnin *gs*	**20.6**	21.1	**20.1**	21.1
Ratios to total premiums:				
Benefits and claims	**50.2 %**	52.2 %	**49.7 %**	50.5 %
Adjusted expenses:				
Amortization of deferred policy acquisition costs	**9.0**	8.6	**9.9**	9.4

For the three- and six -month periods ended June 30, 2019 , the benefit ratio decreased compared with the same periods in 2018. The adjusted expense ratio increased for the three- and six -month periods ended June 30, 2019 , when

compared to the same periods in 2018, primarily due to anticipated spending increases reflecting ongoing investments in the U.S. platform, distribution, and customer experience. The pretax adjusted profit margin declined in the three- and six - month periods, when compared to the same periods in 2018, due to higher expense ratios, offset somewhat by lower benefit 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 June 30 .

	Three Months		Six Months	
(In millions)	**2019**	2018	**2019**	2018
New annualized premium sales	**$ 362**	$ 370	**$ 702**	$ 705
Increase (decrease) over prior period	**(2.0) %**	3.9 %	**(.3) %**	2.3 %

The following table details the contributions to Aflac's U.S. new annualized premium sales by major insurance product category for the periods ended June 30 .

	Three Months		Six Months	
	2019	2018	**2019**	2018
Accident	**28.7 %**	29.5 %	**28.7 %**	29.4 %
Short-term disability	**23.8**	23.5	**23.7**	23.3
Critical care [(1)]	**19.9**	20.8	**20.4**	21.4
Hospital indemnity	**16.0**	15.1	**15.6**	15.0
Dental/vision	**5.2**	5.4	**5.1**	5.4
Life	**6.4**	5.7	**6.5**	5.5
Total	**100.0 %**	100.0 %	**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 4.8% ; short-term disability sales decreased 1.2% ; critical care insurance sales (including cancer insurance) decreased 6.7% ; and hospital indemnity insurance sales increased 3.8% in the second 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 second 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 Pay [SM] 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.

In July 2019, the Company entered into an agreement to acquire Argus Holdings, LLC and its subsidiary Argus Dental & Vision, Inc., a benefits management organization and national network dental and vision company. This transaction represents a commitment of $75 million in capital at closing and an additional $21 million in consideration paid over three years based on achieving certain performance targets. The transaction is subject to regulatory approval and other closing conditions. Tampa, Florida will serve as the home for the Aflac U.S. Network Dental and Vision platform. This acquisition is expected to provide opportunities for sales growth, improved account penetration and distribution productivity.

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 Cuts and Jobs Act (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, although an extension to September 1, 2021 is expected for covered entities with an aggregate average notional amount below $50 billion. 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 FIO has also engaged with the supervisory colleges to monitor financial stability and identify regulatory gaps for large national and internationally active insurers. The President and Congress have stated proposals to reform or repeal certain provisions of the Dodd-Frank Act, some of which have been implemented. The Company cannot predict with any degree of certainty what impact, if any, such proposals 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Fixed maturity securities:				
Other fixed maturity securities	**$ 279**	$ 560	**$ 874**	$ 679
Infrastructure debt	**14**	80	**74**	96
Equity securities [1]	**11**	26	**27**	49
Commercial mortgage and other loans:				
Transitional real estate loans	**94**	98	**142**	170
Commercial mortgage loans	**44**	55	**69**	55
Middle market loans	**27**	44	**56**	75
Other investments	**4**	4	**8**	26
Total Aflac U.S. Purchases	**$ 473**	$ 867	**$ 1,250**	$ 1,150

[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 June 30 .

	Three Months		Six Months	
	2019	2018	**2019**	2018
Total purchases for period (in millions) [1]	**$ 469**	$ 863	**$ 1,242**	$ 1,124
New money yield [1], [2]	**4.45 %**	4.21 %	**4.47 %**	4.33 %
Return on average invested assets [3]	**5.05**	5.14	**5.07**	5.09
Portfolio book yield, end of period [1]	**5.43 %**	5.53 %	**5.43 %**	5.53 %

[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 increase in the Aflac U.S. new money yield for the three- and six -month periods ended June 30, 2019 was primarily due to increased allocations to higher yielding asset classes. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on the Company's investments.

CORPORATE AND OTHER

The Company 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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2019**	2018	**2019**	2018
Premium income	**$ 50**	$ 53	**$ 100**	$ 107
Net investment income	**20**	20	**42**	39
Amortized hedge income related to certain foreign currency management strategies	**20**	7	**40**	9
Net investment income, including amortized hedge income	**40**	27	**82**	48
Other income	**5**	5	**8**	9
Total adjusted revenues	**95**	85	**190**	164
Benefits and claims, net	**48**	50	**95**	102
Adjusted expenses:				
Interest expense	**33**	29	**66**	59
Other adjusted expenses	**40**	45	**74**	88
Total adjusted expenses	**73**	74	**140**	147
Total benefits and adjusted expenses	**121**	124	**235**	249
Pretax adjusted earnings	**$ (26)**	$ (38)	**$ (45)**	$ (84)

Net investment income benefited from the Company’s corporate yen hedging program in the three- and six -month periods ended June 30, 2019 and 2018 , respectively. See the Hedging Activities subsection of this MD&A for further information on the Parent Company's foreign currency hedge program.

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 made 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 operations.

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.	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
Available for sale, fixed maturity securities, at fair value	**$ 77,144**	$ 69,409	**$ 13,822**	$ 12,132
Held to maturity, fixed maturity securities, at amortized cost	**31,007**	30,318	**0**	0
Equity securities	**868**	806	**156**	137
Commercial mortgage and other loans:				
Transitional real estate loans	**3,838**	3,621	**735**	756
Commercial mortgage loans	**793**	763	**367**	301
Middle market loans	**1,602**	1,144	**287**	334
Other investments:				
Policy loans	**232**	219	**14**	13
Short-term investments [(1)]	**383**	0	**293**	141
Limited partnerships	**415**	333	**46**	37
Other	**0**	0	**33**	26
Total investments	**116,282**	106,613	**15,753**	13,877
Cash and cash equivalents	**1,541**	1,779	**453**	641
Total investments and cash [(2)]	**$ 117,823**	$ 108,392	**$ 16,206**	$ 14,518

[(1)] Includes securities lending collateral

[(2)] Excludes investments and cash held by the Parent Company and other business segments of $2,568 in 2019 and $3,333 in 2018

Cash and cash equivalents totaled $3.0 billion , or 2.2% of total investments and cash, as of June 30, 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

	June 30, 2019		December 31, 2018	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**1.0%**	**.9%**	1.0%	.9%
AA	**3.9**	**4.0**	3.9	4.0
A	**68.8**	**70.6**	67.9	69.9
BBB	**22.8**	**21.4**	23.2	21.6
BB or lower	**3.5**	**3.1**	4.0	3.6
Total	**100.0%**	**100.0%**	100.0%	100.0%

As of June 30, 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 June 30, 2019 .

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
Diamond Offshore Drilling Inc.	B	$ 145	$ 82	$ (63)
AXA	BBB	300	268	(32)
Baker Hughes Inc.	A	124	107	(17)
Transocean Inc.	CCC	72	57	(15)
Kommunal Landspensjonskasse (KLP)	BBB	139	125	(14)
National Oilwell Varco Inc.	BBB	85	73	(12)
Time Warner Cable Inc.	BBB	122	111	(11)
Tyco Electronics Group SA	A	107	96	(11)
Intesa Sanpaolo Spa	BBB	145	135	(10)
Teva Pharmaceutical LLC	BB	67	58	(9)

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

	June 30, 2019			
(In millions)	Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Investcorp Capital Limited	$ 393	$ 393	$ 442	$ 49
Republic of South Africa	371	371	382	11
KLM Royal Dutch Airlines	278	205	238	33
Barclays Bank PLC	186	115	155	40
Republic of Tunisia	186	109	117	8
Telecom Italia SpA	186	186	228	42
Transnet	139	139	140	1
Diamond Offshore Drilling Inc.	124	145	82	(63)
IKB Deutsche Industriebank AG	121	51	96	45
Arconic Inc.	100	86	104	18
Other Issuers	663	620	644	24
Subtotal [1]	2,747	2,420	2,628	208
Senior secured bank loans	830	864	822	(42)
High yield corporate bonds	623	627	634	7
Middle market loans, net of reserves [2]	1,916	1,889	1,888	(1)
Grand Total	$ 6,116	$ 5,800	$ 5,972	$ 172

[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.

	June 30, 2019	
(In millions)	Amortized Cost	% of Total
Government and agencies	**$ 54,960**	**49.0%**
Municipalities	**2,559**	**2.3**
Mortgage- and asset-backed securities	**399**	**.3**
Public utilities	**8,568**	**7.6**
Electric	6,598	5.8
Natural Gas	308	.3
Other	741	.7
Utility/Energy	921	.8
Sovereign and Supranational	**2,207**	**1.9**
Banks/financial institutions	**9,984**	**8.9**
Banking	5,920	5.3
Insurance	1,910	1.7
Other	2,154	1.9
Other corporate	**33,525**	**30.0**
Basic Industry	3,585	3.2
Capital Goods	3,123	2.8
Communications	4,051	3.6
Consumer Cyclical	3,382	3.0
Consumer Non-Cyclical	6,267	5.6
Energy	4,707	4.2
Other	1,304	1.2
Technology	3,120	2.8
Transportation	3,986	3.6
Total fixed maturity securities	**$ 112,202**	**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)	June 30, 2019 Amortized Cost	June 30, 2019 Fair Value	December 31, 2018 Amortized Cost	December 31, 2018 Fair Value
Publicly issued securities:				
Fixed maturity securities	**$ 91,665**	**$ 107,577**	$ 83,482	$ 93,255
Equity securities	**1,079**	**1,079**	936	936
Total publicly issued	**92,744**	**108,656**	84,418	94,191
Privately issued securities: [1]				
Fixed maturity securities	**20,537** [2]	**23,893** [2]	23,692	26,362
Equity securities	**8**	**8**	51	51
Total privately issued	**20,545**	**23,901**	23,743	26,413
Total investment securities	**$ 113,289**	**$ 132,557**	$ 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)	June 30, 2019	December 31, 2018
Privately issued reverse-dual currency securities	**$ 5,273**	$ 5,120
Publicly issued collateral structured as reverse-dual currency securities	**1,706**	1,657
Total reverse-dual currency securities	**$ 6,979**	$ 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

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).

- 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.

	June 30, 2019		December 31, 2018	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Available-for-sale securities:				
Fixed maturity securities (excluding bank loans)	**$ 17,912**	**$ 18,674**	$ 17,101	$ 17,003
Fixed maturity securities - bank loans (floating rate)	**1,094**	**1,039**	1,296	1,238
Equity securities	**205**	**205**	177	177
Commercial mortgage and other loans:				
Transitional real estate loans (floating rate)	**3,838**	**3,851**	3,621	3,625
Commercial mortgage loans	**793**	**802**	763	736
Middle market loans (floating rate)	**1,602**	**1,605**	1,144	1,146
Other investments	**415**	**415**	333	333
Total U.S. Dollar Program	**25,859**	**26,591**	24,435	24,258
Available-for-sale securities:				
Fixed maturity securities - economically converted to yen	**1,729**	**2,525**	1,679	2,269
Total U.S. dollar-denominated investments in Aflac Japan	**$ 27,588**	**$ 29,116**	$ 26,114	$ 26,527

U.S. Dollar Program includes all U.S. dollar-denominated investments in Aflac Japan other than the investments in certain consolidated VIEs where the instrument is economically converted to yen as a result of a derivative in the consolidated variable interest entity. As of June 30, 2019 , Aflac Japan had $9.1 billion outstanding notional amounts of foreign currency forwards and $11.9 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 $17.5 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 $11 million and $35 million for the three-month periods and $23 million and $36 million for the six -month periods ended June 30, 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 $1.9 billion as of June 30, 2019 , compared with $1.8 billion as of December 31, 2018 , 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- and six -month periods ended June 30, 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 was $20 million and $7 million for the three-month periods and $40 million and $9 million for the six -month periods ended June 30, 2019 and 2018 , 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 June 30 .

Amortized Hedge Costs/Income Metrics [1]

	Three Months		Six Months	
	2019	2018	**2019**	2018
Aflac Japan:				
FX forward (sell USD, buy yen) notional at end of period (in billions) [2]	**$9.1**	$9.9	**$9.1**	$9.9
Weighted average remaining tenor (in months) [3]	**11.2**	19.8	**11.2**	19.8
Amortized hedge costs for period (in millions)	**$(62)**	$(55)	**$(124)**	$(110)
Parent Company:				
FX forward (buy USD, sell yen) notional at end of period (in billions) [2]	**$3.0**	$1.3	**$3.0**	$1.3
Weighted average remaining tenor (in months) [3]	**10.6**	9.9	**10.6**	9.9
Amortized hedge income for period (in millions)	**$20**	$7	**$40**	$9

[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)	June 30, 2019	December 31, 2018	% Change
Aflac Japan	**$ 6,623**	$ 6,384	3.7% [1]
Aflac U.S.	**3,505**	3,491	.4
Total	**$ 10,128**	$ 9,875	2.6%

[1] *Aflac Japan's deferred policy acquisition costs increased .8% in yen during the six months ended June 30, 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)	June 30, 2019	December 31, 2018	% Change
Aflac Japan	**$ 96,421**	$ 92,791	3.9% [1]
Aflac U.S.	**11,141**	10,981	1.5
Other	**212**	183	15.8
Intercompany eliminations [2]	**(785)**	(767)	2.3
Total	**$ 106,989**	$ 103,188	3.7%

[1] *Aflac Japan's policy liabilities increased .9% in yen during the six months ended June 30, 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 $6.2 billion at June 30, 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.

In April 2019, ALIJ issued 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds 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.

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 six -month periods ended June 30, 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 June 30, 2019 and 2018, were immaterial.

As of June 30, 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 June 30, 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 six -month periods ending June 30 .

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.	**$ 1,612**	$ 258
Management fees paid by Aflac Japan and Aflac U.S.	**74**	98

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 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 June 30, 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 six months of 2019, Aflac U.S. borrowed and repaid $88 million under this program. As of June 30, 2019 , Aflac U.S. had outstanding borrowings of $484 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 June 30, 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 June 30, 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 six -month periods ended June 30 .

(In millions)	**2019**	2018
Operating activities	**$ 2,357**	$ 2,807
Investing activities	**(2,727)**	(1,443)
Financing activities	**(978)**	(988)
Exchange effect on cash and cash equivalents	**30**	(20)
Net change in cash and cash equivalents	**$ (1,318)**	$ 356

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 $978 million in the first six months of 2019 , compared with consolidated cash used by financing activities of $988 million for the same period of 2018 .

In April 2019, ALIJ issued 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds 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.

See the preceding discussion in this Capital Resources and Liquidity section of MD&A for details and any outstanding balances as of June 30, 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 June 30, 2019 .

Cash returned to shareholders through dividends and treasury stock purchases was $1.2 billion during the six -month period ended June 30, 2019 , compared with $1.0 billion during the six -month period ended June 30, 2018 .

The following tables present a summary of treasury stock activity during the six -month periods ended June 30 .

Treasury Stock Purchased

(In millions of dollars and thousands of shares)	**2019**	2018
Treasury stock purchases	**$ 847**	$ 601
Number of shares purchased:		
Share repurchase program	**17,179**	13,441
Other	**574**	328
Total shares purchased	**17,753**	13,769

Treasury Stock Issued

(In millions of dollars and thousands of shares)	2019	2018
Stock issued from treasury:		
Cash financing	**$ 26**	$ 12
Noncash financing	**27**	15
Total stock issued from treasury	**$ 53**	$ 27
Number of shares issued	**1,428**	832

During the first six months of 2019 , the Company repurchased 17.2 million shares of its common stock for $847 million as part of its share repurchase program. As of June 30, 2019 , a remaining balance of 51.9 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 second quarter of 2019 , compared with $.26 per share in the second quarter of 2018 . The following table presents the dividend activity for the six -month periods ended June 30 .

(In millions)	2019	2018
Dividends paid in cash	**$ 389**	$ 396
Dividends through issuance of treasury shares	**14**	8
Total dividends to shareholders	**$ 403**	$ 404

In July 2019 , the board of directors declared the third quarter cash dividend of $.27 per share, an increase of 3.8% compared with the same period in 2018 . The dividend is payable on September 3, 2019 to shareholders of record at the close of business on August 21, 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 June 30, 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 June 30, 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 six -month periods ended June 30 .

Aflac Japan Remittances

(In millions of dollars and billions of yen)	**2019**	2018
Aflac Japan management fees paid to Parent Company	**$ 60**	$ 40
Expenses allocated to Aflac Japan (in dollars)	**3**	8
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in dollars)	**1,362**	312
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in yen)	**147.6**	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. Further, the Company's references to website URLs are intended to be inactive textual references only.

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 second 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 1A. Risk Factors

The following should be read in conjunction with and supplements and amends the risk factors that may affect the Company's business or operations described under "Risk Factors" in Part I, Item 1A. of the Company's 2018 Annual Report on Form 10-K for the year ended December 31, 2018.

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

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

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

The Company's sales could be adversely affected if its sales networks deteriorate or if the Company does not adequately provide support, training and education for its existing network. In the United States, competition exists for sales associates and brokers with demonstrated ability. In Japan, the Company's sales results are dependent upon its relationship with sales associates and other distribution partners, including its alliance partner, Japan Post, which in recent periods has accounted for approximately 25% of Aflac Japan's third sector sales. The Company has become aware of news reports and other public comments regarding improper sales practices relating to products offered by Japan Post

Insurance Co., Ltd., an affiliate of Japan Post Holdings. The Japan Post Group has voluntarily undertaken to refrain from actively offering Japan Post Insurance products to customers for a temporary period and is evaluating other corrective measures. It is uncertain what effect, if any, these developments will have on the Company's sales of cancer insurance in Japan, results of operations, or financial condition.

The Company competes with other insurers and financial institutions primarily on the basis of its products, compensation, support services and financial rating. The Company's inability to attract and retain qualified sales associates, brokers and other distribution partners, including its alliance partners in Japan, could have a material adverse effect on the Company's sales, results of operations and financial condition.

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

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

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

Issuer Purchases of Equity Securities

During the first six 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
April 1 - April 30	2,177,000		49.21	2,177,000	56,633,404
May 1 - May 31	2,813,277		50.99	2,812,850	53,820,554
June 1 - June 30	1,964,259		54.44	1,952,000	51,868,554
Total	17,753,183	(1)	$ 49.28	17,179,333	51,868,554

(1) *During the first six months of 2019 , 573,850 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.
15	-	Letter from KPMG LLP regarding unaudited interim financial information.
31.1	-	Certification of CEO dated July 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 July 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 July 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

July 26, 2019

/s/ ***Frederick J. Crawford***

(Frederick J. Crawford)

Executive Vice President,
Chief Financial Officer

July 26, 2019

/s/ ***June Howard***

(June Howard)

Senior Vice President, Financial Services; Chief Accounting Officer

EXHIBIT 15

July 26, 2019

Aflac Incorporated
Columbus, Georgia

Re: Registration Statement No. 333-219784, and 333-227244 on Form S-3; 333-135327, 333-161269, 333-202781, 333-158969, 333-200570, 333-115105, and 333-219888 on Form S-8

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated July 26, 2019 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP
Atlanta, Georgia

EXHIBIT 31.1

Certification of Chief Executive Officer

I, Daniel P. Amos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aflac Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2019

/s/ *Daniel P. Amos*

Daniel P. Amos

Chairman and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer

I, Frederick J. Crawford, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aflac Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2019

/s/ Frederick J. Crawford

Frederick J. Crawford

Executive Vice President, Chief Financial Officer

EXHIBIT 32

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Aflac Incorporated (the "Company") for the quarterly period ended June 30, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Daniel P. Amos, as Chief Executive Officer of the Company, and Frederick J. Crawford, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *Daniel P. Amos*

Name:	Daniel P. Amos
Title:	Chief Executive Officer
Date:	July 26, 2019

/s/ *Frederick J. Crawford*

Name:	Frederick J. Crawford
Title:	Chief Financial Officer
Date:	July 26, 2019