AFLAC INC
Form 10-Q
May 04, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-07434
Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

706.323.3431
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes þ No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	April 25, 2018
Common Stock, $.10 Par Value	774,167,054

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2018
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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 March 31, 2018, and 2017, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Aflac Incorporated:

Results of Review of Interim Financial Information

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of March 31, 2018, the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for the three-month periods ended March 31, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

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

Basis for Review Results

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

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

/s/ KPMG LLP

Atlanta, Georgia
May 3, 2018

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

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

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

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

	Three Months Ended March 31,	
(In millions - Unaudited)	2018	2017
Net earnings	$717	$592
Other comprehensive income (loss) before income taxes:		
Unrealized foreign currency translation gains (losses) during period	824	375
Unrealized gains (losses) on fixed maturity securities: [1]		
Unrealized holding gains (losses) on fixed maturity securities during period	(1,931)	(526)
Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings	(2)	16
Unrealized gains (losses) on derivatives during period	6	2
Pension liability adjustment during period	(3)	(2)
Total other comprehensive income (loss) before income taxes	(1,106)	(135)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(763)	(137)
Other comprehensive income (loss), net of income taxes	(343)	2
Total comprehensive income (loss)	$374	$594

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

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

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

[(1)] Includes perpetual securities, see Notes 1 and 3 of the Notes to the Consolidated Financial Statements
[(2)] Includes $3,994 in 2018 and $2,341 in 2017 of loan receivables and limited partnerships from consolidated variable interest entities
[(3)] Includes $241 in 2018 and $151 in 2017 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

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

(4) Includes $86 in 2018 and $128 in 2017 of derivatives from consolidated variable interest entities
(5) See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018 related to financial instruments.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

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

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

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

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

Noncash interest	21	15
Impairment losses included in realized investment losses	7	10
Noncash financing activities:		
Capital lease obligations	1	2
Treasury stock issued for:		
Associate stock bonus	5	6
Shareholder dividend reinvestment	8	7
Share-based compensation grants	2	1

See the accompanying Notes to the Consolidated Financial Statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). The conversion of Aflac Japan from a branch to a legal subsidiary was completed on April 1, 2018 (see Note 14), after which date the Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan). American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. The Company's insurance operations in the United States and Japan service the two markets for the Company's insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 71% and 69% of the Company's total revenues in the three-month periods ended March 31, 2018 and 2017, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 85% at March 31, 2018, compared with 83% at December 31, 2017.

Basis of Presentation

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

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

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

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

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

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

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

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

Accounting Pronouncements Pending Adoption

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

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

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

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment: In January 2017, the FASB issued amendments simplifying the subsequent measurement of goodwill. An entity, under this update, is no longer required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, the entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments are effective for public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a significant impact on its financial position, results of operations, or disclosures.

Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments: In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for credit losses in order to reflect the amount expected to be collected on the financial asset(s). The measurement of expected credit losses is amended by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform about a credit loss. Credit losses on available-for-sale debt securities will continue to be measured in a manner similar to current U.S. GAAP; however, the amendments require that credit losses be presented as an allowance rather than as a write-down. Other amendments include changes to the balance sheet presentation and interest income recognition of purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (PCD financial assets).

The amendments are effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may early adopt this guidance as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments will be adopted following a modified-retrospective approach resulting in a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. Two exceptions to this adoption method are for PCD financial assets and debt securities for which other-than-temporary impairment (OTTI) will have been recognized before the effective date. Loans purchased with credit deterioration accounted for under current U.S. GAAP as "purchased credit impaired" (PCI) financial assets will be classified as PCD financial assets at transition and PCD guidance will be applied prospectively. Debt securities that have experienced OTTI before the effective date will follow a prospective adoption method which allows an entity to maintain the same amortized cost basis before and after the effective date.

The Company has identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, loan and loan receivables and reinsurance recoverables (See Notes 3 and 7 for current balances of instruments in scope). The Company is continuing its progress towards updating its credit loss projection models and accounting systems in order to comply with the required changes in measurement of credit losses. The Company currently expects loans and loan receivables and held-to-maturity fixed maturity securities to be the asset classes most significantly impacted upon adoption of the guidance. The Company continues to evaluate the impact of adoption of this guidance on its financial position, results of operations, and disclosures.

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

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

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

2. BUSINESS SEGMENT INFORMATION

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

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

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

[1] Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $55 and $52 for the three-month periods ended March 31, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing segment operations.
[2] Amortized hedge costs in Aflac Japan were offset by derivatives entered into as part of corporate activities and resulted in a benefit of $2 for the three-month period ended March 31, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in net investment income when analyzing operations.

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

[1] Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $55 and $52 for the three-month periods ended March 31, 2018, and 2017, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from pretax adjusted earnings when analyzing segment operations.
[2] Amortized hedge costs in Aflac Japan were offset by derivatives entered into as part of corporate activities and resulted in a benefit of $2 for the three-month period ended March 31, 2018 which has been reclassified from realized investment gains (losses) and reported as an increase in pretax adjusted earnings when analyzing operations.

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

Assets were as follows:

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

3. INVESTMENTS

Investment Holdings

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

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

[1] Includes perpetual securities ($1,506 at amortized cost and $1,774 at fair value)

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

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

(1) Includes perpetual securities ($71 at fair value)

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

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

(In millions)	December 31, 2017 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	$21,331	$ 5,160	$ 0	$26,491
Municipalities	357	105	0	462
Mortgage- and asset-backed securities	26	1	0	27
Public utilities	3,300	398		