Aflac Re Bermuda Ltd.

Financial Statements

For the year ended December 31, 2023 and for the period June 6, 2022 (date of incorporation) through December 31, 2022

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Aflac Re Bermuda Ltd.

Opinion

We have audited the financial statements of Aflac Re Bermuda Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of earnings, comprehensive income (loss), changes in shareholder's equity, and cash flows for the year ended December 31, 2023 and for the period from June 6, 2022 to December 31, 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the year ended December 31, 2023 and for the period from June 6, 2022 to December 31, 2022 in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 19, 2024

Aflac Re Bermuda Ltd.
Statements of Earnings
For the year ended December 31, 2023 and for the period
June 6, 2022 (date of incorporation) through December 31, 2022

(In thousands)	**2023**	2022
Revenues:		
Net earned premiums	**$ 258,086**	$ 952
Net investment income	**87,182**	1,863
Net investment gains (losses)	**(71,407)**	(3,425)
Other income (loss)	**93**	0
Total revenues (loss)	**273,954**	(610)
Benefits and expenses:		
Benefits and claims, excluding reserve remeasurement	**185,443**	1,054
Reserve remeasurement (gains) losses	**(3,146)**	0
Total benefits and claims, net	**182,297**	1,054
Acquisition and operating expenses:		
Insurance and other expenses	**72,674**	1,879
Total acquisition and operating expenses	**72,674**	1,879
Total benefits and expenses	**254,971**	2,933
Earnings (loss) before income taxes	**18,983**	(3,543)
Income tax expense (benefit):		
Current	**65,680**	908
Deferred	**(61,693)**	(1,652)
Income taxes	**3,987**	(744)
Net earnings (loss)	**$ 14,996**	$ (2,799)

See the accompanying Notes to the Financial Statements.

Aflac Re Bermuda Ltd.
Statements of Comprehensive Income (Loss)
For the year ended December 31, 2023 and for the period
June 6, 2022 (date of incorporation) through December 31, 2022

(In thousands)		2023		2022
Net earnings (loss)	**$**	**14,996**	$	(2,799)
Other comprehensive income (loss) before income taxes:				
Unrealized holding gains (losses) on fixed-maturity securities		**19,253**		991
Reclassification adjustment for (gains) losses on fixed-maturity securities included in net income		**13,450**		0
Effect of changes in discount rate assumptions during the period		**(45,632)**		129
Total other comprehensive income (loss) before income taxes		**(12,929)**		1,120
Income tax expense (benefit) related to items of other comprehensive income (loss)		**(2,714)**		208
Other comprehensive income (loss), net of income taxes		**(10,215)**		912
Total comprehensive income (loss)	**$**	**4,781**	$	(1,887)

See the accompanying Notes to the Financial Statements.

Aflac Re Bermuda Ltd.
Balance Sheets
For the year ended December 31, 2023 and for the period
June 6, 2022 (date of incorporation) through December 31, 2022

(In thousands)		**2023**		2022
Assets:				
Investments and cash:				
Fixed-maturity securities available-for-sale, at fair value (no allowance for credit losses in 2023 and 2022, amortized cost $3,650,641 in 2023 and $37,060 in 2022)	**$**	**3,684,335**	$	38,051
Cash and cash equivalents		**448,576**		197,182
Total investments and cash		**4,132,911**		235,233
Receivables		**125,560**		520
Accrued investment income		**33,142**		560
Cost of Reinsurance		**403,914**		0
Property and equipment, at cost less accumulated depreciation		**1,227**		0
Income taxes		**30,722**		536
Total assets	**$**	**4,727,476**	$	236,849
Liabilities and Shareholder's Equity:				
Liabilities:				
Policy liabilities:				
Future policy benefits	**$**	**4,129,542**	$	41,175
Unearned premiums		**16,015**		0
Total policy liabilities		**4,145,557**		41,175
Notes payable and lease obligations		**1,176**		0
Other		**141,349**		1,061
Total liabilities		**4,288,082**		42,236
Commitments and contingent liabilities (Note 11)				
Shareholder's Equity:				
Common stock of $1 par value. Authorized, 250,000 shares; issued and outstanding, 250,000 shares		**250**		250
Additional paid-in capital		**436,250**		196,250
Retained earnings (deficit)		**12,197**		(2,799)
Accumulated other comprehensive income (loss):				
Unrealized gains (losses) on fixed-maturity securities		**26,618**		783
Effect of changes in discount rate assumptions		**(35,921)**		129
Total shareholder's equity		**439,394**		194,613
Total liabilities and shareholder's equity	**$**	**4,727,476**	$	236,849

See the accompanying Notes to the Financial Statements.

Aflac Re Bermuda Ltd.
Statements of Changes in Shareholder's Equity
For the year ended December 31, 2023 and for the period
June 6, 2022 (date of incorporation) through December 31, 2022

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance at June 6, 2022 (date of incorporation)	$ 0	$ 0	$ 0	$ 0	$ 0
Common stock issued	250	0	0	0	250
Capital contributions from Parent Company	0	196,250	0	0	196,250
Net earnings (loss)	0	0	(2,799)	0	(2,799)
Unrealized gains (losses) on fixed-maturity securities, net of income taxes	0	0	0	783	783
Effect of changes in discount rate assumptions during the period, net of income taxes	0	0	0	129	129
Balance at December 31, 2022	250	196,250	(2,799)	912	194,613
Net earnings (loss)	0	0	14,996	0	14,996
Capital Contributions from Parent Company	0	240,000	0	0	240,000
Unrealized gains (losses) on fixed-maturity securities, net of income taxes	0	0	0	25,835	25,835
Effect of changes in discount rate assumptions during the period, net of income taxes	0	0	0	(36,050)	(36,050)
Balance at December 31, 2023	**$ 250**	**$ 436,250**	**$ 12,197**	**$ (9,303)**	**$ 439,394**

See the accompanying Notes to the Financial Statements.

Aflac Re Bermuda Ltd.
Statements of Cash Flows
For the year ended December 31, 2023 and for the period
June 6, 2022 (date of incorporation) through December 31, 2022

(In thousands)	**2023**	2022
Cash flows from operating activities:		
Net earnings (loss)	**$ 14,996**	$ (2,799)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Change in receivables and advance premiums	**(158,350)**	(520)
Change in accrued investment income	**(32,582)**	(560)
Increase in policy liabilities	**124,209**	4,239
Change in income tax liabilities	**(27,471)**	(744)
Net realized (gains) losses	**71,407**	0
Other, net	**13,422**	1,066
Net cash provided (used) by operating activities	**5,631**	682
Cash flows from investing activities:		
Proceeds from investments sold, matured, or repaid:		
Available-for-sale fixed-maturity securities	**106,477**	0
Cost of investments acquired:		
Available-for-sale fixed-maturity securities	**(100,860)**	0
Net cash provided (used) by investing activities	**5,617**	0
Cash flows from financing activities:		
Common stock issued	**0**	250
Capital contribution received from Parent Company	**240,000**	196,250
Net cash provided (used) by financing activities	**240,000**	196,500
Effect of exchange rate changes on cash and cash equivalents	**146**	0
Net change in cash and cash equivalents	**251,394**	197,182
Cash and cash equivalents, beginning of period	**197,182**	0
Cash and cash equivalents, end of period	**448,576**	197,182
Supplemental disclosures of cash flow information:		
Noncash investing activities:		
Available-for-sale fixed-maturity securities received as consideration for reserve liabilities assumed	**$ 3,620,353**	$ 37,009

See the accompanying Notes to the Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Re Bermuda Ltd., (Aflac Re or the Company) is a wholly-owned subsidiary of American Family Life Assurance Company of Columbus (Aflac or the Parent Company), a United States of America (U.S.) life insurance company domiciled in Nebraska. The Parent Company is a wholly-owned subsidiary of Aflac Incorporated (Aflac Inc. or the Ultimate Parent Company), a U.S. corporation. Aflac Inc. and its subsidiaries' principle business is supplemental health and life insurance products with the goal to provide customers the best value in supplemental insurance products in the U.S. and Japan. Aflac Inc.'s insurance business is marketed and administered primarily by Aflac Life Insurance Japan Ltd. (ALIJ) in Japan and Aflac in the U.S.

The Company was incorporated as a Bermuda exempted company on June 6, 2022 and licensed as a Class C insurer, limited to internal reinsurance business, by the Bermuda Monetary Authority (BMA), under the Bermuda Insurance Act of 1978 (the Act), on August 25, 2022.

The Company was principally formed to provide reinsurance solutions to Aflac Inc.'s Japan and U.S. insurance subsidiaries. During 2022 and 2023, the Company entered into multiple reinsurance agreements with ALIJ whereby the Company assumed on a coinsurance basis certain Japanese yen-denominated (yen-denominated) in-force blocks of cancer insurance policies. Effective on December 31, 2023, the Company also reinsured, through a novation agreement with an unaffiliated reinsurer, on a coinsurance basis certain ALIJ's yen-denominated in force blocks of hospitalization benefits of medical insurance policies.

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 Financial Statements, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification (ASC). The Company's financial statements have been prepared for years ended December 31, 2023 and 2022, to include the full year of 2023 and the period from June 6, 2022 (date of incorporation) to December 31, 2022 (years ended December 31).

The preparation of financial statements in accordance with U.S. GAAP requires the Company to make estimates when recording transactions resulting from business operations, based on information currently available. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from management's estimates and assumptions. The most significant items in the Company's balance sheet that involve a significant degree of accounting estimates and actuarial determinations subject to changes in the future are: (i) valuation of investments, (ii) estimation of liabilities for future policy benefits, and (iii) income taxes. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, interest rates, mortality, morbidity and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised and reflected in operating results. Although some variability is inherent in these estimates, the Company believes the amounts provided are reasonable and reflective of management's best estimates.

Significant Accounting Policies

Foreign Currency Transactions

The Company is the reinsurer under reinsurance treaties that are denominated in foreign currencies. For transactions denominated in foreign currency, income and expenses are recorded at the average exchange rate for the period, while assets and liabilities are recorded using the spot exchange rate in effect at the end of the reporting period. Generally, foreign exchange gains and losses that result from the remeasurement process are reported as a component of net investment gains (losses) in net earnings. Changes in the fair value of foreign currency denominated available-for-sale fixed-maturity securities due to changes in foreign currency exchange rates are reported in other comprehensive income (OCI).

Insurance Revenue and Expense Recognition

All of the Company's assumed reinsurance contracts are classified as long-duration contracts consistent with the accounting classification of the underlying policies, because the contract provisions generally cannot be changed or canceled during the contract period. Premiums are recognized as earned premiums over the premium-paying periods when due. When earned premiums are reported, the related amounts of benefits and expenses are charged against such revenues. This association is accomplished by means of annual increases or decreases to the liability for future policy benefits (LFPB) and the deferral and subsequent amortization of policy acquisition costs. Advance premiums are deferred and recognized when due over the regularly scheduled premium payment period.

Benefit expense is bifurcated between benefits and claims and reserve remeasurement (gains) losses. The net premium ratio (NPR) is used to measure benefit expense and is calculated as the ratio of the present value of actual and future expected benefits and expenses to the present value of actual and future expected gross premiums. A revised NPR is calculated as of the beginning of each reporting period using updated future cash flow expectations.

Reserve remeasurement (gains) losses represent the difference between two reserve measures both calculated as of the beginning of the current reporting period using the same locked-in discount rates. One reserve measure uses the NPR as of the end of the prior reporting period, and the second uses the revised NPR. Benefits and claims represent the difference in the liability balance calculated as of the beginning of the current reporting period and the end of the current reporting period both using the revised NPR and the locked-in discount rates. The locked-in interest accretion rate utilized for accretion of interest expense on insurance reserves is the original discount rate used at contract issue date.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased.

Investments

Investments in fixed-maturity debt securities are classified as available-for-sale (AFS) and are carried at fair value. The difference between fair value and amortized cost is recorded as an unrealized gain or loss, net of deferred income taxes, as part of OCI and is also included in accumulated comprehensive income (AOCI). Amortized cost of debt securities is based on the Company's purchase price adjusted for accretion of discount, or amortization of premium, and recognition of impairment charges, if any, and equals the face or par value at maturity or the call date, if applicable. Interest on AFS fixed-maturity securities is reported as interest income, which is a component of net investment income in the statement of earnings, when earned and is adjusted for amortization of any premium or discount.

The Company uses the specific identification method to determine gains or losses resulting from securities transactions. Realized gains and losses are recorded in net investment gains (losses) in the statement of earnings. Securities transactions are accounted for based on fair values as of the trade date of the transaction. Securities transactions with affiliates are accounted for based on fair values as of the transfer date.

Credit Losses

For AFS fixed-maturity securities, the Company evaluates estimated credit losses only when the fair value of the AFS fixed-maturity security is below its amortized cost basis. Credit loss changes are recorded as a component of net investment gains (losses) in the statements of earnings.

The Company has elected not to measure an allowance on accrued investment income for all asset types, because the uncollectible accrued investment income is written off in a timely manner. The Company writes off accrued investment income when it is more than ninety days past due by reducing interest income, which is a component of net investment income in the statement of earnings.

Derivatives and Hedging

Freestanding derivative instruments consist of foreign currency forward contracts that are included in other assets or other liabilities line items in the Company's balance sheet. The Company does not use derivatives for trading purposes, but rather as an economic hedge against foreign currency risk. Accordingly, freestanding derivatives are not designated in accounting hedge relationships.

See Note 4 for a discussion on how the Company determines the fair value of its derivatives. Any accruals on derivatives are typically recorded in derivative assets or derivative liabilities and are included in the other liabilities line item in the Company's balance sheet. Changes in the estimated fair value of derivatives are reported within net investment gains (losses). The fluctuations in estimated fair value of derivatives that have not been designated for hedge accounting can result in volatility in net earnings.

The Company receives and pledges cash or other securities as collateral on open derivative positions. Cash received as collateral is reported as an asset with a corresponding liability for the return of the collateral. Cash pledged as collateral is recorded as a reduction to cash, and a corresponding receivable is recognized for the return of the cash collateral. The Company generally can repledge or resell collateral obtained from counterparties, although the Company does not typically exercise such rights. Securities received as collateral are not recognized unless the Company was to exercise its right to sell that collateral or exercise remedies on that collateral upon a counterparty default. Securities that the Company has pledged as collateral continue to be carried as investment assets on its balance sheet.

It is the Company's policy to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement, which provides the Company with the legal right of offset.

Policy Liabilities

For long-duration reinsurance contracts, the Company calculates an integrated reserve that represents all payments under the reinsurance contract including future expected claims and unpaid policy claims and related expenses. The LFPB is measured using the net level premium method.

All existing policies at the time of entering into a reinsurance contract are included in reinsurance contract inception-year annual cohorts based on product type. Contracts assumed through reinsurance that are issued subsequent to entering into the reinsurance agreement are grouped into annual calendar-year cohorts based on the direct policy’s issue date and product type.

The LFPB is determined as the present value of expected future policy benefits to be paid to policyholders and certain related expenses less the present value of expected future net premiums receivable under the Company’s reinsurance contracts, where expected future net premiums receivable are future gross premiums receivable under the contract multiplied by the NPR.

Future policy benefits are calculated using assumptions and estimates including mortality, morbidity, termination (also referred to as lapses), expense, and discount rates. The assumptions and estimates that the Company uses depend on its judgment regarding the likelihood of future events and are inherently uncertain.

Cash flow assumptions (mortality, morbidity, and termination) are established at policy inception and are evaluated each quarter to determine if an update is needed. To facilitate a more detailed review of cash flow assumptions, experience studies are performed annually during the third quarter. Changes in cash flow assumptions are the result of applying the updated best-estimate assumptions as of the beginning of the reporting period and are recognized in reserve remeasurement (gains) losses in the statement of earnings. Expense assumptions are established at policy inception and determined for each issue-year cohort as a percentage of paid claims. These expense assumptions are locked-in and remain unchanged over the term of the insurance policy. Actual experience is reflected in the calculation of future policy benefits each quarter, and changes in the liability due to actual experience are recognized in reserve remeasurement (gains) losses in the statement of earnings.

Discount rates used to calculate net premiums are locked in at policy inception and represent the basis to recognize interest expense in the statement of earnings. Discount rates used to measure the carrying value of the LFPB in the balance sheet are updated each reporting period, and the difference between the liability balances calculated using the locked-in discount rates and the updated discount rates is recognized in AOCI.

The Company's discount rate methodology incorporates constructing a discount rate curve for discounting cash flows used to calculate the LFPBs, reflective of the characteristics of the reinsurance liabilities, such as currency and tenor. Discount rates comprising each curve are determined by reference to upper-medium grade (low credit risk) fixed-income instrument yields that reflect the duration characteristics of the corresponding reinsurance liabilities. The Company uses for these yields single-A rated fixed income instruments with credit ratings based on international rating standards. Where only local ratings are available, the Company selects the fixed-income instruments with local ratings that are equivalent to a single-A rating based on international rating standards. The methodology is designed to prioritize observable inputs based on market data available in the local debt markets where the respective policies were issued in the currency in which the policies are denominated. For the discount rates applicable to tenors for which the single-A debt market is not liquid or there is little or no observable market data, the Company uses various estimation techniques consistent with the fair value guidance in ASC 820, which include, but are not limited to: (i) for tenors where there is less observable market data and/or the observable market data is available for similar instruments, estimating tenor-specific single-A credit spreads and applying them to risk-free government rates; (ii) for tenors where there is very limited or no observable single-A or similar market data, interpolation and extrapolation techniques.

The locked-in discount rate used for the computation of interest accretion on LFPBs is determined separately for each issue-year cohort as a single discount rate, calculated as the weighted-average of monthly upper-medium grade (low credit risk) fixed-income instrument forward curves in the calendar year, determined using the methodology described above. The single discount rate for each issue-year cohort is determined by solving for a rate that produces an equivalent NPR to the forward curve and will remain unchanged after the calendar year of issue.

For internal replacements of reinsured policies that are determined to be substantially changed, policy liabilities related to the original reinsured policy that was replaced are immediately released, and policy liabilities are established for the new reinsured contract. The policy reserves are evaluated based on the new reinsured policy features, and changes are recognized at the date of contract change/modification. For internal replacements of reinsured policies that are substantially unchanged, no changes to the reserves are recognized. For modifications that are not integrated with the base policy, new coverage is recognized as a separately issued contract within the current cohort.

Income Taxes

The Company has elected, pursuant to Section 953(d) of the U.S. Internal Revenue Code of 1986, to operate subject to U.S. federal income tax laws. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which the temporary differences are expected to reverse. The Company records deferred tax assets for tax positions taken based on its assessment of whether the tax position is more likely than not to be sustained based upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

The Company files a consolidated U.S. federal income tax return with the Ultimate Parent Company and other affiliated entities. Income taxes are allocated to each subsidiary based on the taxes that each entity would pay if it filed a separate federal income tax return, pursuant to a board-of-directors approved tax allocation agreement.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

ASU 2018-12 Financial Services - Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts, as clarified and amended by:
ASU 2019-09 Financial Services - Insurance: Effective Date
ASU 2020-11 Financial Services - Insurance: Effective Date and Early Application

In August 2018, the FASB issued amendments that significantly changed how insurers and reinsurers account for long-duration contracts. The amendments changed prior 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 new guidance is effective for financial statements issued for the period beginning January 1, 2023, but the Company early adopted the standard on October 1, 2022 (Adoption Date), in conjunction with the reinsurance transaction with ALIJ described in Note 7 (October 1, 2022 Transaction). The Company applied the Significant Accounting Policies noted above in accordance with the new guidance to all reinsurance transactions entered into subsequent to the Adoption Date.

See Note 6 for expanded disclosures for future policy benefits required as a result of the amended guidance.

Accounting Pronouncements Pending Adoption

ASU 2023-09 Income Taxes (Topic 740) – Improvements to Income Tax Disclosures

In December 2023, the FASB issued amendments that require enhanced income tax disclosures including (1) qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures.

The amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company’s financial position or results of operations. The Company is evaluating the impact of adoption on its disclosures.

There are no other accounting pronouncements pending adoption that are relevant or would have an impact on the Company’s financial statements.

2. INVESTMENTS

Net Investment Income

The components of net investment income for the years ended December 31 were as follows:

(In thousands)	2023	2022
Fixed-maturity securities	$ 76,809	$ 106
Cash and cash equivalents	12,201	1,757
Gross investment income	89,010	1,863
Less investment expenses	(1,828)	0
Net investment income	$ 87,182	$ 1,863

Investment Holdings

The amortized cost and fair value for the Company's investments in fixed-maturity securities are shown in the following tables.

	2023				
(In thousands)	**Amortized Cost**	**Allowance for Credit Losses**	**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	**$ 924,182**	**$ 0**	**$ 31,484**	**$ 39,026**	**$ 916,640**
Banks/financial institutions	**26,532**	**0**	**2,249**	**0**	**28,781**
Other corporate	**73,638**	**0**	**7,551**	**0**	**81,189**
Total yen-denominated	**1,024,352**	**0**	**41,284**	**39,026**	**1,026,610**
U.S. dollar-denominated:					
Municipalities	**132,698**	**0**	**4,660**	**951**	**136,407**
Public utilities	**358,914**	**0**	**6,592**	**8,010**	**357,496**
Banks/financial institutions	**143,927**	**0**	**3,809**	**1,557**	**146,179**
Other corporate	**1,990,750**	**0**	**50,785**	**23,892**	**2,017,643**
Total U.S. dollar-denominated	**2,626,289**	**0**	**65,846**	**34,410**	**2,657,725**
Total securities available-for-sale	**$3,650,641**	**$ 0**	**$ 107,130**	**$ 73,436**	**$3,684,335**

	2022				
(In thousands)	**Amortized Cost**	**Allowance for Credit Losses**	**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	$ 37,060	$ 0	$ 991	$ 0	$ 38,051
Total yen-denominated	37,060	0	991	0	38,051
Total securities available-for-sale	$ 37,060	$ 0	$ 991	$ 0	$ 38,051

Contractual and Economic Maturities

The contractual and economic maturities of the Company's investments in fixed-maturity securities at December 31, 2023, were as follows:

(In thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due after one year through five years	$ 3,124	$ 3,203
Due after five years through 10 years	468,711	486,222
Due after 10 years	3,178,806	3,194,910
Total fixed-maturity securities available-for-sale	$ 3,650,641	$ 3,684,335

Economic maturities are used for certain debt instruments with no stated maturity where the expected maturity date is based on the combination of features in the financial instrument such as the right to call or prepay obligations or changes in coupon rates.

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 factors 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 shareholder's equity as of December 31 were as follows:

	2023			2022		
(In thousands)	**Credit Rating**	**Amortized Cost**	**Fair Value**	Credit Rating	Amortized Cost	Fair Value
Japan National Government[1]	**A+**	**$ 924,182**	**$ 916,640**	A+	$ 37,060	$38,051
Illinois Tool Works Inc	**A+**	**53,070**	**54,080**	—	0	0
Cisco Systems Inc	**A+**	**52,630**	**52,935**	—	0	0
Merck & Co Inc	**A+**	**52,506**	**53,201**	—	0	0
Medtronic Inc	**A-**	**52,495**	**52,887**	—	0	0
Progress Energy Florida	**A**	**52,299**	**52,873**	—	0	0
Deere & Co	**A**	**52,167**	**52,314**	—	0	0
Home Depot Inc	**A**	**52,112**	**52,874**	—	0	0
Wal-Mart Stores Inc	**AA**	**51,941**	**52,983**	—	0	0
Mars Incorporated	**A+**	**51,912**	**52,355**	—	0	0
Pepsico Inc	**A+**	**51,900**	**52,448**	—	0	0
Microsoft Corporation	**AAA**	**51,081**	**52,111**	—	0	0
Union Pacific Corporation	**A-**	**47,585**	**48,397**	—	0	0
Public Service Electric And Gas Co	**A**	**45,469**	**45,093**	—	0	0
Thermo Fisher Scientific Inc	**A-**	**44,929**	**46,726**	—	0	0
Nestle Holdings Inc.	**AA-**	**44,726**	**45,113**	—	0	0
Atmos Energy Corporation	**A-**	**44,318**	**45,639**	—	0	0
Praxair Inc	**A**	**44,214**	**44,405**	—	0	0

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

Net Investment Gains and Losses

Information regarding pretax net investment gains and losses as reported on the Company's statements of earnings for the years ended December 31 follows:

(In thousands)		2023		2022
Net investment gains (losses):				
Sales and redemptions:				
Fixed maturity securities available for sale:				
Gross losses from sales	**$**	**(13,450)**	$	0
Total sales and redemptions		**(13,450)**		0
Derivatives and other:				
Derivative gains (losses)		**(114,205)**		0
Foreign currency gains (losses)		**56,248**		(3,425)
Total derivatives and other		**(57,957)**		(3,425)
Total net investment gains (losses)	**$**	**(71,407)**	$	(3,425)

Unrealized Investment Gains and Losses

Information regarding changes in unrealized gains and losses from investments, net of taxes, recorded in AOCI for the years ended December 31 follows:

(In thousands)		2023		2022
Changes in unrealized gains (losses):				
Fixed-maturity securities, available-for-sale	**$**	**32,703**	$	783
Total change in unrealized gains (losses)	**$**	**32,703**	$	783

Effect on Shareholder's Equity

The net effect on shareholder's equity of unrealized gains and losses from fixed-maturity securities at December 31 was as follows:

(In thousands)		2023		2022
Unrealized gains (losses) on securities available-for-sale	**$**	**33,694**	$	991
Deferred income taxes		**(7,076)**		(208)
Shareholder's equity, unrealized gains (losses) on fixed-maturity securities	**$**	**26,618**	$	783

Gross Unrealized Loss Aging

The following tables show the fair values and gross unrealized losses of the Company's available-for-sale investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31.

	2023					
	Total		Less than 12 months		12 months or longer	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity securities available-for-sale:						
Japan government and agencies:						
Yen-denominated	**366,799**	**39,026**	**366,799**	**39,026**	**0**	**0**
Municipalities:						
U.S. dollar-denominated	**26,599**	**951**	**26,599**	**951**	**0**	**0**
Public utilities:						
U.S. dollar-denominated	**228,202**	**8,010**	**228,202**	**8,010**	**0**	**0**
Banks/financial institutions:						
U.S. dollar-denominated	**45,064**	**1,557**	**45,064**	**1,557**	**0**	**0**
Other corporate:						
U.S. dollar-denominated	**962,747**	**23,892**	**962,747**	**23,892**	**0**	**0**
Total	**$ 1,629,411**	**$ 73,436**	**$ 1,629,411**	**$ 73,436**	**$ 0**	**$ 0**

At December 31, 2022, the Company did not have any available-for-sale investments in an unrealized loss position.

Analysis of Securities in Unrealized Loss Positions

The unrealized losses on the Company's available-for-sale 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 of its available-for-sale securities with significant declines in fair value, the Company performs detailed analyses to identify whether the drivers of the declines are due to general market drivers, such as the recent rise in interest rates, or due to credit-related factors. Identifying the drivers of the declines in fair value helps to align and allocate the Company‘s resources to perform the review of the securities with real credit-related concerns that could impact ultimate collection of principal and interest. For any significant declines in fair value determined to be non-interest rate or market related, the Company performs a more focused review of the related issuers' specific 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 available-for-sale securities are expected to diminish as investments near maturity. Based on its credit analysis, the Company believes that the issuers of its available-for-sale investments in the sectors shown in the table above have the ability to service their obligations to the Company, and the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity.

However, from time to time the Company identifies certain available-for-sale securities where the amortized cost basis exceeds the present value of the cash flows expected to be collected due to credit related factors and as a result, a credit allowance will be estimated. Based on an evaluation of its securities currently in an unrealized loss position, the Company has determined that those securities should not have a credit loss allowance as of December 31, 2023. Refer to the *Allowance for Credit Losses* section below for additional information.

Allowance for Credit Losses

An investment in an AFS security may be impaired if the fair value falls below amortized cost. The Company regularly reviews its available-for-sale portfolio for declines in fair value. The Company's debt impairment model focuses on the ultimate collection of the cash flows from its investments and whether the Company has the intent to sell or if it is more likely than not that the Company would be required to sell the security prior to recovery of its amortized cost. The determination of the amount of impairments under this model is based upon the Company's periodic evaluation and assessment of known and inherent risks associated with the respective securities. Such evaluations and assessments are revised as conditions change and new information becomes available.

When determining the Company's intent to sell a security prior to recovery of its fair value to amortized cost, the Company evaluates facts and circumstances such as, but not limited to, future cash flow needs, decisions to reposition its security portfolio, and risk profile of individual investment holdings. The Company performs ongoing analyses of its liquidity needs, which includes cash flow testing of its policy liabilities, debt maturities, projected dividend payments, and other cash flow and liquidity needs.

The Company's methodology for estimating credit losses for available-for-sale securities utilizes the discounted cash flow model, based on past events, current market conditions and future economic conditions, as well as industry analysis and credit ratings of the fixed-maturity securities. In addition, the Company evaluates the specific issuer's probability of default and expected recovery of its position in the event of default based on the underlying financial condition and assets of the borrower as well as seniority and/or security of other debt holders in the issuer when developing management's best estimate of expected cash flows.

3. DERIVATIVE INSTRUMENTS

The Company's freestanding derivative financial instrument consisted of foreign currency forward contracts entered into with the Ultimate Parent Company to economically manage currency mismatch between its assets which are mostly in US dollar, and its liabilities which are in Japanese yen (yen), in order to support Aflac Re Bermuda Solvency Capital Ratio (BSCR). These derivatives are not designated in accounting hedge relationships.

The Company did not have any derivative instruments as of December 31, 2022.

Derivative Balance Sheet Classification

As of December 31, the Company held $114 million of foreign currency forward contracts recorded as a component of other liabilities on the Company's balance sheet with a gross notional of $8,431 million. 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.

Impact of Derivatives and Hedging Instruments

The Company reported $114 million in net investment loss for the year ended 2023 from its foreign currency forwards. The Company did not engage in derivative transactions for the prior year ended December 31, 2022.

Credit Risk Assumed through Derivatives

As of December 31, 2023, all of the Company's derivative agreement counterparties were investment grade.

The Company engages in over-the-counter (OTC) bilateral derivative transactions directly with affiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentations. Beginning in 2023, the Company also entered into ISDA agreements with unaffiliated third parties. No trades have been executed under the ISDA agreements with unaffiliated third parties. The ISDA agreement with the Ultimate Parent Company also includes Credit Support Annexes (CSAs) provisions, which provide for two-way collateral postings if the exposure is in excess of $250 million. ISDA agreements with unaffiliated third parties include CSA provisions, which generally provide for two-way collateral postings at the first dollar exposure. The Company mitigates the risk that unaffiliated third-party 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, all derivative transactions have provisions that give the counterparty the right to terminate the transaction upon a downgrade of the Ultimate Parent Company's financial strength rating, as the Ultimate Parent Company serves as the Company's guarantor. 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.

Collateral posted by the Company to third parties for derivative transactions can generally be repledged or resold by the 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

The Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts in the event of default or upon the occurrence of certain termination events. Collateral support agreements with the master netting arrangements provide that the Company will receive or pledge financial collateral with the Ultimate Parent Company if the exposure is in excess of $250 million.

The following table presents recognized derivative instruments that are offset in the Balance Sheets pursuant to an enforceable master netting arrangement or similar agreement.

Offsetting of Financial Assets and Liabilities

	2023				
(In thousands)	Gross Amount of Recognized Financial Instrument	Gross Amount Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	Financial Instrument / Collateral	Net Amount
Offsetting Financial Assets:					
Derivatives	$ 150,000	$ (150,000)	$ 0	$ 0	$ 0
Total assets	**$ 150,000**	**$ (150,000)**	**$ 0**	**$ 0**	**$ 0**
Offsetting of Financial Liabilities					
Derivatives	$ 264,000	$ (150,000)	$ 114,000	$ 0	$ 114,000
Total Liabilities	**$ 264,000**	**$ (150,000)**	**$ 114,000**	**$ 0**	**$ 114,000**

For additional information on the Company's financial instruments, see Notes 1, 2 and 4.

4. 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 table presents the fair value hierarchy levels of the Company's assets and liabilities that are measured and carried at fair value on a recurring basis as of December 31.

	2023			
(In thousands)	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	**$ 916,640**	**$ 0**	**$ 0**	**$ 916,640**
Municipalities	**0**	**136,407**	**0**	**136,407**
Public utilities	**0**	**357,496**	**0**	**357,496**
Banks/financial institutions	**0**	**174,960**	**0**	**174,960**
Other corporate	**0**	**2,098,832**	**0**	**2,098,832**
Total fixed-maturity securities	**916,640**	**2,767,695**	**0**	**3,684,335**
Cash and cash equivalents	**448,576**	**0**	**0**	**448,576**
Other assets:				
Foreign currency forwards	**0**	**150,000**	**0**	**150,000**
Total assets	**$1,365,216**	**$2,917,695**	**$ 0**	**$4,282,911**
Liabilities:				
Other liabilities:				
Foreign currency forwards	**$ 0**	**$ 264,000**	**$ 0**	**$ 264,000**
Total liabilities	**$ 0**	**$ 264,000**	**$ 0**	**$ 264,000**

	2022			
(In thousands)	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	$ 38,051	$ 0	$ 0	$ 38,051
Total fixed-maturity securities	38,051	0	0	38,051
Cash and cash equivalents	197,182	0	0	197,182
Total assets	$ 235,233	0	0	$ 235,233

As of December 31, 2023 and 2022, the Company did not have any assets or liabilities valued by Level 3 inputs.

Fair Value of Financial Instruments

Fixed-maturity securities

The fair values of the Company's fixed-maturity securities are generally based on prices provided by third-party pricing vendors, in-house valuations and non-binding price quotes the Company obtains from outside brokers. 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. 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 table presents the pricing sources for the fair values of the Company's fixed-maturity securities at December 31.

	2023			
(In thousands)	**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	**$ 916,640**	**$ 0**	**$ 0**	**$ 916,640**
Total government and agencies	**916,640**	**0**	**0**	**916,640**
Municipalities:				
Third party pricing vendor	**0**	**114,899**	**0**	**114,899**
Broker/other	**0**	**21,508**	**0**	**21,508**
Total municipalities	**0**	**136,407**	**0**	**136,407**
Public utilities:				
Third party pricing vendor	**0**	**357,496**	**0**	**357,496**
Total public utilities	**0**	**357,496**	**0**	**357,496**
Banks/financial institutions:				
Third party pricing vendor	**0**	**154,223**	**0**	**154,223**
Broker/other	**0**	**20,737**	**0**	**20,737**
Total banks/financial institutions	**0**	**174,960**	**0**	**174,960**
Other corporate:				
Third party pricing vendor	**0**	**1,550,844**	**0**	**1,550,844**
Broker/other	**0**	**547,988**	**0**	**547,988**
Total other corporate	**0**	**2,098,832**	**0**	**2,098,832**
Total equity securities	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Total securities available-for-sale	**$ 916,640**	**$ 2,767,695**	**$ 0**	**$ 3,684,335**

	2022			
(In thousands)	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	$ 38,051	$ 0	$ 0	$ 38,051
Total government and agencies	38,051	0	0	38,051
Total securities available-for-sale	$ 38,051	$ 0	$ 0	$ 38,051

Derivatives

The Company uses derivative instruments to manage the risk associated with its yen denominated insurance liabilities. 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 Company uses present value techniques to value non-option based derivatives. Key inputs are as follows:

Instrument Type	Level 2
Foreign currency exchange rate derivatives - (forwards)	Foreign currency forward rates Foreign currency spot rates Foreign currency volatility

The fair values of the foreign currency forwards are based on observable market inputs, therefore they are classified as Level 2.

5. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the years ended December 31 were as follows:

(In thousands)		**2023**		2022
Current	**$**	**65,680**	$	908
Deferred		**(61,693)**		(1,652)
Total income tax expense (benefit)	**$**	**3,987**	$	(744)

The Company has made an election under US IRC Section 953(d) to be treated as an US taxpayer and a 21% statutory income tax rate is be applied to adjusted financial statement income. The Corporate Income Tax Act 2023 (CIT) was enacted on December 27, 2023 by the government of Bermuda. Effective for fiscal years beginning on or after January 1, 2025, a 15% statutory income tax rate will be applied to adjusted financial statement income. However, the Company does not expect a material impact due to the availability of foreign tax credits.

In August 2022, the Inflation Reduction Act of 2022 (IRA) was signed into U.S. law. Effective January 1, 2023, the law imposed a 15% corporate alternative minimum tax rate. The Company does not anticipate any impacts from the new corporate minimum tax rate since its current tax rate is above the 15% minimum rate.

The annual provision for federal income tax in these financial statements differs from the annual amounts of income tax expense reported in the Company's income tax returns. Certain significant revenues and expenses are appropriately reported in different years with respect to the financial statements and tax returns.

Total income tax expense (benefit) for the years ended December 31 was allocated as follows:

(In thousands)	2023	2022
Statements of earnings	$ 3,987	$ (744)
Other comprehensive income (loss):		
Unrealized gains (losses) on fixed-maturity securities:		
Unrealized holding gains (losses) on fixed-maturity securities during period	4,043	208
Reclassification adjustment for (gains) losses on fixed maturity securities included in net earnings	2,825	0
Effect of changes in discount rate assumptions during period	(9,582)	0
Total income tax expense (benefit) related to items of other comprehensive income (loss)	(2,714)	208
Total income taxes	$ 1,273	$ (536)

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities at December 31 were as follows:

(In thousands)	2023	2022
Deferred income tax assets:		
Deferred policy acquisition costs	$ 72,386	$ 712
Policy benefit reserves	9,807	1,061
Total deferred income tax assets	82,193	1,773
Deferred income tax liabilities:		
Policy and contract claims	0	110
Depreciation	9	0
Anticipatory foreign tax credit	1,940	0
Other basis differences in investments	14,393	219
Total deferred income tax liabilities	16,342	329
Net deferred income tax asset	65,851	1,444
Current income tax asset (liability)	(35,129)	(908)
Total income tax recoverable (liability)	$ 30,722	$ 536

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Based upon a review of the Company's anticipated future taxable income, and including all other available evidence, both positive and negative, the Company's management has concluded that, notwithstanding the items noted above, it is more likely than not that all other deferred tax assets will be realized.

At December 31, 2023, there were no material uncertain tax positions for which the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company has entered into a Tax Allocation Agreement with Aflac Inc. and other eligible members of the consolidated federal income tax return of the Ultimate Parent Company. Under the agreement, the federal income tax liability of the consolidated group is allocated among participating members based on the member's tax liability as if the member had filed a separate federal income tax return. The member's tax liability is settled with the Ultimate Parent Company at the time when the Ultimate Parent Company is required to make estimated federal income tax payments, payments related to the filing of the federal income tax return extension, and payments related to the filing of the federal income tax return.

6. POLICY LIABILITIES

Future Policy Benefits

The liability for future policy benefits is determined as the present value of expected future policy benefits to be paid by the Company on the reinsured policies and certain related expenses less the present value of expected future net premiums receivable under the Company's reinsurance contracts. Future net premiums receivable are future gross premiums receivable under the contract multiplied by the NPR.

The following tables present changes in the present value of expected future net premiums and the present value of expected future policy benefits disaggregated by product type for the years ended December 31.

	2023	
(In thousands)	**Cancer**	**Medical and Other Health**
Present value of expected future net premiums:		
Beginning of period balance	**$ 24,476**	**$ 0**
Beginning balance at original discount rate	**23,836**	**0**
Effect of changes in cash flow assumptions	**187,387**	**0**
Effect of actual variances from expected experience	**(196,135)**	**0**
Adjusted beginning of period balance	**15,088**	**0**
Issuances	**2,378,619**	**1,193,829**
Interest accrual	**28,849**	**0**
Net premium collected [(1)]	**(109,846)**	**0**
Foreign currency remeasurement	**(26,349)**	**0**
Other	**(1)**	**0**
Ending balance at original discount rate	**2,286,360**	**1,193,829**
Effect of changes in discount rate assumptions	**82,725**	**0**
Balance at December 31, 2023	**$ 2,369,085**	**$ 1,193,829**
Present value of expected future policy benefits:		
Beginning of period balance	**$ 62,136**	**$ 0**
Beginning balance at original discount rate	**61,631**	**0**
Effect of changes in cash flow assumptions	**188,723**	**0**
Effect of actual variances from expected experience	**(200,617)**	**0**
Adjusted beginning of period balance	**49,737**	**0**
Issuances	**6,345,899**	**1,217,382**
Interest accrual	**80,019**	**0**
Benefit payments	**(149,957)**	**0**
Foreign currency remeasurement	**(63,793)**	**0**
Other	**0**	**0**
Ending balance at original discount rate	**6,261,905**	**1,217,382**
Effect of changes in discount rate assumptions	**128,229**	**0**
Balance at December 31, 2023	**6,390,134**	**1,217,382**
Net liability for future policy benefits	**4,021,049**	**23,553**
Less: reinsurance recoverable	**0**	**0**
Net liability for future policy benefits after reinsurance recoverable	**$ 4,021,049**	**$ 23,553**

[(1)] *Net premiums collected represent the portion of gross premiums collected from policyholders that is used to fund expected future benefit payments*

		2022	
(In thousands)		Cancer	Medical and Other Health
Present value of expected future net premiums:			
Beginning of period balance	$	0	—
Beginning balance at original discount rate		0	—
Effect of changes in cash flow assumptions		0	—
Effect of actual variances from expected experience		0	—
Adjusted beginning of period balance		0	—
Issuances		22,725	—
Interest accrual		92	—
Net premium collected [1]		(522)	—
Foreign currency remeasurement		1,541	—
Other		0	—
Ending balance at original discount rate		23,836	—
Effect of changes in discount rate assumptions		640	—
Balance at December 31, 2022	$	24,476	—
Present value of expected future policy benefits:			
Beginning of period balance	$	0	—
Beginning balance at original discount rate		0	—
Effect of changes in cash flow assumptions		0	—
Effect of actual variances from expected experience		0	—
Adjusted beginning of period balance		0	—
Issuances		57,873	—
Interest accrual		240	—
Benefit payments		(465)	—
Foreign currency remeasurement		3,983	—
Other		0	—
Ending balance at original discount rate		61,631	—
Effect of changes in discount rate assumptions		505	—
Balance at December 31, 2022		62,136	—
Net liability for future policy benefits		37,660	—
Less: reinsurance recoverable		0	—
Net liability for future policy benefits after reinsurance recoverable	$	37,660	—

[1] *Net premiums collected represent the portion of gross premiums collected from policyholders that is used to fund expected future benefit payments*

The following tables present the weighted-average interest rates and weighted-average liability duration (calculated using the original discount rate) disaggregated by product types as of December 31.

	2023	
	Cancer	**Medical and Other Health**[(2)]
Weighted-average interest, original discount rate [(1)]	**2.10 %**	—
Weighted-average interest, current discount rate [(1)]	**1.80 %**	—
Weighted-average liability duration (years)	**12.5**	—

[(1)] The weighted-average interest rates are calculated using the reserve balances as the weights. No adjustments were made to observable market information

[(2)] Values were not calculated due to the timing of the novation agreement, which was effective December 31, 2023.

	2022	
	Cancer	**Medical and Other Health**
Weighted-average interest, original discount rate [(1)]	1.68 %	—
Weighted-average interest, current discount rate [(1)]	1.68 %	—
Weighted-average liability duration (years)	13.4	—

[(1)] The weighted-average interest rates are calculated using the reserve balances as the weights. No adjustments were made to observable market information

The following table presents a reconciliation of the disaggregated rollforwards above to the ending future policy benefits presented in the balance sheets as of December 31. The deferred reinsurance gain liability is presented with the liability for future policy benefits in the balance sheets and has been included as a reconciling item in the table below.

(In thousands)	**2023**	2022
Balances included in future policy benefits rollforward:		
Cancer	**$ 4,021,049**	$ 37,660
Medical and other health	**23,553**	—
Deferred reinsurance gain liability	**84,940**	3,515
Total	**$ 4,129,542**	$ 41,175

The table above includes unpaid policy claims reserves of $0.0 million and $0.6 million at December 31, 2023 and 2022, respectively, which are reported together with the LFPB as an integrated reserve in the balance sheets.

Discount rates are determined using upper-medium grade (low-credit-risk) fixed-income instrument yields that reflect the duration characteristics of the liability. Locked-in discount rates of each reinsurance transaction use the upper-medium grade (low-credit-risk) fixed-income instrument yields as of the inception date and solve for a single rate that produces an equivalent net premium ratio to that when using the forward curve, and remain unchanged.

Discount rates are updated each reporting period and require estimation techniques (e.g., interpolation, extrapolation) for determination of points on the curve for which there is limited or no observable market data. The Company constructs a current discount rate curve for discounting cash flows used to calculate liabilities for future policy benefits, reflective of the characteristics of the corresponding reinsurance liabilities, such as currency and tenor.

The Company's reinsurance liabilities for the insurance policies assumed from ALIJ are denominated in yen. A significant portion of policies are characterized by tenors exceeding the availability of liquid market data in Japan for a single-A rated (as a proxy for upper-medium grade) corporate yen-denominated debt. The discount rate curve is designed to prioritize the observable inputs where available, while past the last liquid point, the data is derived based on estimation techniques consistent with the fair value guidance in ASC 820. The discount curve utilizes liquid market indices tracking publicly traded yen-denominated single-A corporate debt for the initial 10-year tenor. For the bonds within these market indices where only local ratings are available, the Company prioritizes the bonds with local ratings that are equivalent to a single-A rating based on international rating standards.

For the discount rates applicable to tenors for which the Japan single-A debt market is not liquid but there is sufficient observable market data and/or the observable market data is available for similar instruments (between 10 and 30 years), the Company estimates tenor-specific single-A credit spreads and applies them to risk-free government rates. Lastly, for the tenors where there is limited or no observable single-A or similar market data or risk-free government rates (beyond 30 years), the discount curve is derived by extrapolation of risk-free rates beyond their last liquid point following the Smith-Wilson method and grading of the estimated forward credit spread anchored by the ultimate forward rate. The ultimate forward rate is based on the economic value-based solvency regime, which is consistent with the International Association of Insurance Supervisors (IAIS) Insurance Capital Standards (ICS) (which is expected to be introduced in Japan in 2025), and is adjusted for credit and inflation components.

For the years ended December 31, 2023, and 2022, the Company recognized approximately $(45.6) million and $0.1 million, respectively, in OCI due to changes in the future policy benefits estimate from updating the discount rate assumptions. There were no changes to the methods used to determine the discount rates during the years ended December 31, 2023, and 2022.

Mortality rate assumptions are based on industry tables and adjusted for the Company's actual or expected experience where credible or appropriate. These assumptions typically vary by age, gender, and other demographic characteristics such as smoking status.

Morbidity assumptions are based on the Company's internal data and consider emerging experience. These assumptions are reflective of the coverage and benefits provided and generally vary by age, gender, duration, and any other material policyholder characteristics. In cases where a calendar-year trend is significant, future cash flow projections may include a trend adjustment.

Lapse assumptions are set based on actual or expected experience. These lapse and total termination rate assumptions vary by line of business and with policyholder characteristics such as duration. Policy provisions, such as reaching premium paid up status, are taken into account when setting assumptions.

In 2023, the variance of actual experience from expected experience was primarily due to favorable variances in morbidity assumptions as compared to actual experience. As the Company started assuming business on October 1, 2022, there were no changes to actual experience from expected experience in 2022.

In 2023, the Company's annual assumption review process resulted in immaterial changes to its morbidity and termination assumptions. As the Company started assuming business on October 1, 2022, an annual review of assumptions was not completed in 2022, as there were no indicators that assumptions had changed as of December 31, 2022. Therefore, no reserve remeasurement (gain) loss has been recognized in the statement of earnings for the period ended December 31, 2022. There were no changes to the inputs or methods used in measuring the LFPB during the years ended December 31, 2023 and 2022.

The following table summarizes the amount of net earned premiums recognized in the statements of earnings disaggregated by product type for the years ended December 31.

(In thousands)	**2023**	2022
Net earned premiums:		
Cancer	**$ 258,086**	$ 952
Total	**$ 258,086**	$ 952

The following table summarizes the amount of interest expense related to insurance contracts recognized in total benefits and claims, net in the statements of earnings disaggregated by product type for the years ended December 31.

(In thousands)	2023	2022
Interest expense:		
Cancer	**$ 51,170**	$ 144
Total	**$ 51,170**	$ 144

The following tables summarize the amount of undiscounted expected future gross premiums and expected future policy benefits and expenses and discounted (discounted at the current period discount rate) expected future gross premiums and expected future policy benefits and expenses disaggregated by product type as of December 31. Future gross premiums represent the expected amount of future premiums to be received. Benefits and expenses are generally greater in the later years of a policy, which may result in future gross premiums lower than future benefit and expense payments.

	2023		2022	
(In thousands)	**Gross Premiums**	**Benefits and Expenses**	Gross Premiums	Benefits and Expenses
Undiscounted expected future gross premiums and expected future policy benefits and expenses:				
Cancer	**$ 5,679,643**	**$ 8,045,614**	$ 56,456	$ 76,290
Medical and other health	**2,287,248**	**1,907,233**	—	—
Total	**$ 7,966,891**	**$ 9,952,847**	$ 56,456	$ 76,290

	2023		2022	
(In thousands)	**Gross Premiums**	**Benefits and Expenses**	Gross Premiums	Benefits and Expenses
Discounted expected future gross premiums and expected future policy benefits and expenses:				
Cancer	**$ 4,744,650**	**$ 6,390,134**	$ 48,291	$ 61,995
Medical and other health	**1,865,321**	**1,322,720**	—	—
Total	**$ 6,609,971**	**$ 7,712,854**	$ 48,291	$ 61,995

Loss expense as a result of net premium ratio capping for the years ended December 31, 2023 and 2022 was immaterial.

See Note 1 for additional information on policy liabilities.

7. REINSURANCE

The Company's primary business strategy is to periodically enter into reinsurance transactions with affiliated companies to reinsure long-term insurance 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. For fixed quota-share coinsurance, 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.

Effective December 31, 2023 the Company reinsured through a novation agreement with an unaffiliated reinsurer 41.65% fixed quota-share block of certain ALIJ’s in force blocks of hospitalization benefits of medical insurance policies denominated in yen. Pursuant to the terms of the reinsurance agreement, the Company pays ALIJ an expense allowance which is determined as a fixed portion of collected premiums. Settlements are made quarterly with ALIJ, and all settlements are denominated in yen. As part of this transaction, the Company received assets of approximately $106 million and assumed IBNR reserves of approximately $24 million.

Effective October 1, 2023, the Company entered into a reinsurance agreement with ALIJ, whereby the Company assumed a 30% fixed quota-share block of certain in force cancer business denominated in yen. Pursuant to the terms of the reinsurance agreement, the Company pays ALIJ an expense allowance which is determined as a fixed portion of collected premiums. Settlements are made quarterly with ALIJ and all settlements are denominated in yen. As part of this transaction, the Company received assets of approximately $1.7 billion and assumed reserves of approximately $1.9 billion.

Effective January 1, 2023, the Company entered into a reinsurance agreement with ALIJ, whereby the Company assumed a 28% fixed quota-share block of certain in force cancer business denominated in yen. Pursuant to the terms of the reinsurance agreement, the Company pays ALIJ an expense allowance which is determined as a fixed portion of collected premiums. Settlements are made quarterly with ALIJ and all settlements are denominated in yen. As part of this transaction, the Company received assets of approximately $1.9 billion and assumed reserves of approximately $2.1 billion.

Effective October 1, 2022, the Company entered into a reinsurance agreement with ALIJ, whereby the Company assumed a 0.5% fixed quota-share block of certain in force cancer business denominated in yen. Pursuant to the terms of the reinsurance agreement, the Company pays ALIJ an expense allowance which is determined as a fixed portion of collected premiums. Settlements are made quarterly with ALIJ and all settlements are denominated in yen. As part of this transaction, the Company received assets of approximately $37.0 million and assumed reserves of approximately $33.9 million.

The Company recognizes either a deferred reinsurance gain liability when the consideration received exceeds the recorded reserves, or a cost of reinsurance when the recorded reserves exceeds consideration received, for each of the reinsurance agreements it has entered into. Both the deferred reinsurance gain and the cost of reinsurance are amortized into earnings, as a component of benefits and expenses in the Company's statements of earnings, over the expected premium period based on annualized premiums. The remaining unamortized balance of deferred reinsurance gain liability is $84.9 million and $3.5 million, as December 31, 2023, and 2022, respectively, and is included in future policy benefits in the Company's balance sheets. The remaining unamortized balance of cost of reinsurance is $404 million as of December 31, 2023 and is included in the Company's balance sheet. There was no unamortized balance of cost of reinsurance at December 31, 2022. The cost of reinsurance asset balance is considered recoverable and is assessed for recoverability on a regular basis.

The following table shows the significant impacts in the Company's financial statements from the effects of assumed reinsurance for the years ended December 31.

(In thousands)	**2023**	2022
Direct earned premiums	**$ 0**	$ 0
Assumed from other companies	**258,086**	952
Net earned premiums	**$ 258,086**	$ 952
Total direct benefits and claims	**$ 0**	$ 0
Assumed from other companies	**185,443**	1,054
Total benefits and claims, excluding reserve remeasurement	**$ 185,443**	$ 1,054
Assumed reserve remeasurement gains (losses)	**$ (3,146)**	$ 0
Total benefits and claims, net	**$ 182,297**	$ 1,054

Foreign Exchange Remeasurement Impacts

During the year ended December 31, 2023, the yen weakened relative to U.S. dollar by approximately 6.4% causing assumed reserves to decrease by approximately 1.1%, which resulted in a foreign exchange remeasurement gain of approximately $90.0 million reported in net investment gains (losses) in the statements of earnings. From October 1, 2022 to December 31, 2022, the yen strengthened relative to U.S. dollar by approximately 8.4% causing assumed reserves to increase by approximately 9.4%, which resulted in a foreign exchange remeasurement loss of approximately $3.2 million reported in net investment gains (losses) in the statements of earnings. See Note 1 for more information on foreign currency transactions.

8. NOTES PAYABLE

In 2023, the Company and the Ultimate Parent Company entered a bilateral intercompany credit agreement. A summary of these lines of credit, which renew automatically unless terminated, as of December 31, 2023 follows:

Borrower(s)	Type	Term	Expiration Date	Capacity	Amount Outstanding	Interest Rate on Borrowed Amount	Maturity Period	Commitment Fee	Business Purpose
Aflac Inc.[1],[2]	uncommitted revolving	364 days	January 2, 2024	$400 million	$0 million	Three-month term SOFR plus a 10 basis point SOFR adjustment and an additional 97 basis points per annum for U.S. dollar denominated borrowings or three-month TIBOR plus 97 basis points per annum for Japanese yen denominated borrowings	No later than January 3, 2024	None	General corporate purposes
Aflac Re[1],[2]	uncommitted revolving	364 days	January 2, 2024	$400 million	$0 million	Three-month term SOFR plus a 10 basis point SOFR adjustment and an additional 68 basis points per annum for U.S. dollar denominated borrowings or three-month TIBOR plus 68 basis points per annum for Japanese yen denominated borrowings	No later than January 3, 2024	None	General corporate purposes

[1] *Intercompany credit agreement*
[2] *Renewed in January 2024 with an expiration date of January 2, 2025*

The Company was in compliance with all of the covenants of its notes payable and lines of credit at December 31, 2023. No events of default or defaults occurred during 2023 and 2022

9. SHAREHOLDERS' EQUITY

Common Stock

At December 31, 2023, the Company had 250,000 shares of common stock authorized, issued and outstanding. All outstanding shares of common stock are 100% owned by Aflac, a wholly-owned subsidiary of Aflac Inc.

Accumulated Other Comprehensive Income

OCI refers to unrealized items that are not yet recognized in the statement of earnings for the current reporting period. AOCI represents the accumulation of OCI components and is reported separately in the balance sheet.

The table below is a reconciliation of AOCI by component for the period ended December 31.

Changes in Accumulated Other Comprehensive Income

2023			
(In thousands)	**Unrealized Gains (Losses) on Fixed Maturity Securities**	**Effect of changes in discount rate assumptions**	**Total**
Balance at January 1, 2023	**$ 783**	**$ 129**	**$ 912**
Other comprehensive income (loss) before reclassification	**15,210**	**(36,050)**	**(20,840)**
Amounts reclassified from accumulated other comprehensive income (loss)	**10,625**	**0**	**10,625**
Net current-period other comprehensive income (loss)	**25,835**	**(36,050)**	**(10,215)**
Balance at December 31, 2023	**$ 26,618**	**$ (35,921)**	**$ (9,303)**

All amounts in the table above are net of tax.

2022			
(In thousands)	Unrealized Gains (Losses) on Fixed Maturity Securities	Effect of changes in discount rate assumptions	Total
Balance at June 6, 2022	$ 0	$ 0	$ 0
Other comprehensive income (loss) before reclassification	783	129	912
Amounts reclassified from accumulated other comprehensive income (loss)	0	0	0
Net current-period other comprehensive income (loss)	783	129	912
Balance at December 31, 2022	$ 783	$ 129	$ 912

All amounts in the table above are net of tax.

Reclassifications Out of Accumulated Other Comprehensive Income

(In thousands)	2023	
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	**$ (13,450)**	Net investment gains (losses)
	2,825	Tax (expense) or benefit[1]
	$ (10,625)	Net of tax

[1] *Based on 21% tax rate*

The Company did not have any reclassifications out of AOCI for the period ended December 31, 2022.

10. RELATED PARTIES

The Company's principal business operations are reinsurance transactions with affiliates. See Note 7 for more information on reinsurance transactions. All outstanding shares of the Company are owned by the Parent Company. The Company received an initial capital contribution from the Parent Company of $197 million during 2022. The Company received a capital contribution of $240 million during 2023. The Company did not pay any dividends during 2023 or 2022.

The following details the amounts due from or due to related parties at December 31.

(In thousands)	**December 31, 2023**		December 31, 2022	
	Receivables	**Payables**	**Receivables**	**Payables**
Parent Company	**$ 10**	**$ 302**	$ 0	$ 15
Other Affiliates	**45**	**825**	0	837
Total	**$ 55**	**$ 1,127**	$ 0	$ 852

The Company entered into a Master Intercompany Services and Facilities Agreement with Aflac Inc. for certain services. The services fee is an expense-based allocation that includes a small intercompany profit charge. Total services fees expense was $2.0 million and $1.4 million for the years ended December 31, 2023 and 2022 respectively.

The Company entered into a Master Intercompany Services and Facilities Agreement with Aflac for personnel services, use of facilities and managerial expertise. The services fee is an expense-based allocation that includes a small intercompany profit charge. For the years ended December 31, 2023, and 2022 no expenses have been incurred.

The Company entered into an Investment Advisory Agreement with Aflac Asset Management, LLC (AAM), an affiliate. The Company pays AAM a quarterly services fee for assets under management. For the year ended December 31, 2023, the Company incurred $1.8 million in service fees. In 2022 the amount of service fees the Company incurred was immaterial.

The Company entered into a Capital Maintenance Agreement (CMA) with Aflac to ensure that the Company is able to meet all regulatory minimum capital levels in the amount of at least 130% of Aflac Re's enhanced capital requirement as calculated under the Act. The Company provides Aflac Inc. the calculation of its enhanced capital requirement on a quarterly basis to determine if additional capital contributions are necessary. If a capital contribution is needed, the Ultimate Parent Company will make a capital contribution to the Parent Company, which will in turn make a capital contribution to Aflac Re. The total amount of capital contributions are not to exceed $250 million during the entire period the CMA is in effect.

The Company made net tax payments to the Ultimate Parent Company of $31.5 million for the year ended December 31, 2023 related to the Tax Allocation Agreement as described in Note 5. The Company did not make any net tax payments in 2022.

11. COMMITMENTS AND CONTINGENCIES

The Company may be subject to litigation that could occur in the normal course of business. The final results of any litigation cannot be predicted with certainty. There are inherent uncertainties in determining the potential impact to the Company's financial statements from litigation or other regulatory matters.

12. STATUTORY REQUIREMENTS

Aflac Re is licensed by the BMA as a long-term insurer and is subject to the Bermuda Insurance Act of 1978 (Bermuda Insurance Act). Aflac Re is required to file an annual return for its Bermuda Solvency Capital Requirement (BSCR) which utilizes an Economic Balance Sheet (EBS) framework to determine Aflac Re’s Enhanced Capital Requirement (ECR). Aflac Re is also subject to a Minimum Margin of Solvency (MMS) related to its statutory financial statements. The MMS is equal to the greater of $500,000, 1.5% of the total statutory assets, or 25% of ECR.

Under the EBS framework, Aflac Re is required to value assets equal to U.S. GAAP fair values, and insurance reserves are valued using technical provisions which consist of a best estimate liability plus a risk margin. The best estimate liability can be calculated by applying the standard approach or, with regulatory approval, the scenario-based approach. The standard approach uses discount rates for insurance reserves as prescribed by the BMA. The scenario-based approach uses a discount rate based on the yield of eligible assets owned by the insurer as determined using a series of prescribed stress scenarios. At December 31, 2023 and 2022, Aflac Re was in compliance with the ECR and MMS requirements.

At December 31, 2023, and 2022, the Company's ECR ratio was 537% and 5,040%, respectively.

Under the Act, the Company is prohibited from paying dividends in an amount that exceeds 25% of the prior year's statutory capital and surplus without Board approval and an affidavit that is signed by at least two Directors and the Company's Principal Representative. Aflac Re is not permitted to pay any dividends that would cause the Company to fail to meet its minimum capital requirements. The Company did not pay any dividends for years ended December 31, 2023 and 2022.