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AFLAC INC

Form 10-Q

August 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

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

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(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. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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). ☒ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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

Class

July 27, 2015

Common Stock, \$.10 Par Value

430,694,102

Aflac Incorporated and Subsidiaries  
 Quarterly Report on Form 10-Q  
 For the Quarter Ended June 30, 2015  
 Table of Contents

	Page
<b>PART I. <u>FINANCIAL INFORMATION:</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Review by Independent Registered Public Accounting Firm</u>	1
<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Consolidated Statements of Earnings</u> Three Months Ended June 30, 2015, and 2014 Six Months Ended June 30, 2015 and 2014	3
<u>Consolidated Statements of Comprehensive Income (Loss)</u> Three Months Ended June 30, 2015, and 2014 Six Months Ended June 30, 2015 and 2014	4
<u>Consolidated Balance Sheets</u> June 30, 2015 and December 31, 2014	5
<u>Consolidated Statements of Shareholders' Equity</u> Six Months Ended June 30, 2015, and 2014	7
<u>Consolidated Statements of Cash Flows</u> Six Months Ended June 30, 2015, and 2014	8
<u>Notes to the Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	66
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	102
Item 4. <u>Controls and Procedures</u>	102
<b>PART II. <u>OTHER INFORMATION:</u></b>	103
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	103
Item 6. <u>Exhibits</u>	104
Items other than those listed above are omitted because they are not required or are not applicable.	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The June 30, 2015, and 2014, 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.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of June 30, 2015, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2015, and 2014, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of 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 Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2014, 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 26, 2015, 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, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia  
August 4, 2015

Aflac Incorporated and Subsidiaries  
Consolidated Statements of Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except for share and per-share amounts - Unaudited)	2015	2014	2015	2014
Revenues:				
Net premiums, principally supplemental health insurance	\$4,364	\$4,888	\$8,796	\$9,742
Net investment income	777	843	1,559	1,670
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	0	(28 )	(6 )	(31 )
Sales and redemptions	92	97	160	138
Derivative and other gains (losses)	35	33	(14 )	(51 )
Total realized investment gains (losses)	127	102	140	56
Other income	19	5	18	10
Total revenues	5,287	5,838	10,513	11,478
Benefits and expenses:				
Benefits and claims, net	2,937	3,293	5,889	6,513
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	255	276	532	570
Insurance commissions	325	369	655	735
Insurance expenses	550	537	1,080	1,071
Interest expense	74	81	157	161
Other expenses	272 <sup>(1)</sup>	44	313 <sup>(1)</sup>	86
Total acquisition and operating expenses	1,476	1,307	2,737	2,623
Total benefits and expenses	4,413	4,600	8,626	9,136
Earnings before income taxes	874	1,238	1,887	2,342
Income taxes	301	428	651	800
Net earnings	\$573	\$810	\$1,236	\$1,542
Net earnings per share:				
Basic	\$1.33	\$1.79	\$2.84	\$3.40
Diluted	1.32	1.78	2.83	3.38
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	431,672	452,559	434,473	453,639
Diluted	434,257	455,380	437,077	456,534
Cash dividends per share	\$.39	\$.37	\$.78	\$.74

<sup>(1)</sup> Includes expense of \$230 for the make-whole payment associated with the early extinguishment of debt  
See the accompanying Notes to the Consolidated Financial Statements.

## Aflac Incorporated and Subsidiaries

## Consolidated Statements of Comprehensive Income (Loss)

(In millions - Unaudited)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net earnings	\$573	\$810	\$1,236	\$1,542
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	(170 )	502	(161 )	445
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	(2,458 )	1,482	(1,865 )	2,881
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	(68 )	11	(118 )	9
Unrealized gains (losses) on derivatives during period	2	2	(2 )	1
Pension liability adjustment during period	1	0	1	(1 )
Total other comprehensive income (loss) before income taxes	(2,693 )	1,997	(2,145 )	3,335
Income tax expense (benefit) related to items of other comprehensive income (loss)	(868 )	698	(673 )	1,166
Other comprehensive income (loss), net of income taxes	(1,825 )	1,299	(1,472 )	2,169
Total comprehensive income (loss)	\$(1,252 )	\$2,109	\$(236 )	\$3,711
See the accompanying Notes to the Consolidated Financial Statements.				

Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets

(In millions)	June 30, 2015 (Unaudited)	December 31, 2014
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost \$55,684 in 2015 and \$55,365 in 2014)	\$60,002	\$61,407
Fixed maturities - consolidated variable interest entities (amortized cost \$3,446 in 2015 and \$3,020 in 2014)	4,440	4,166
Perpetual securities (amortized cost \$1,812 in 2015 and \$2,035 in 2014)	1,942	2,240
Perpetual securities - consolidated variable interest entities (amortized cost \$281 in 2015 and \$405 in 2014)	272	429
Equity securities (cost \$19 in 2015 and 2014)	29	28
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value \$36,285 in 2015 and \$38,413 in 2014)	33,211	34,159
Fixed maturities - consolidated variable interest entities (fair value \$80 in 2015 and \$84 in 2014)	82	83
Other investments	199	171
Cash and cash equivalents	3,103	4,658
Total investments and cash	103,280	107,341
Receivables	839	842
Accrued investment income	759	762
Deferred policy acquisition costs	8,278	8,273
Property and equipment, at cost less accumulated depreciation	422	429
Other <sup>(1)</sup>	2,003	2,120
Total assets	\$115,581	\$119,767

<sup>(1)</sup> Includes \$100 in 2015 and \$106 in 2014 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)	June 30, 2015 (Unaudited)	December 31, 2014
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	\$66,701	\$65,646
Unpaid policy claims	3,695	3,630
Unearned premiums	8,102	8,626
Other policyholders' funds	6,083	6,031
Total policy liabilities	84,581	83,933
Income taxes	4,697	5,293
Payables for return of cash collateral on loaned securities	1,023	2,193
Notes payable	5,425	5,282
Other <sup>(2)</sup>	2,837	4,719
Commitments and contingent liabilities (Note 11)		
Total liabilities	98,563	101,420
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2015 and 2014; issued 669,066 shares in 2015 and 668,132 shares in 2014	67	67
Additional paid-in capital	1,772	1,711
Retained earnings	23,052	22,156
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(2,725 )	(2,541 )
Unrealized gains (losses) on investment securities	3,384	4,672
Unrealized gains (losses) on derivatives	(27 )	(26 )
Pension liability adjustment	(125 )	(126 )
Treasury stock, at average cost	(8,380 )	(7,566 )
Total shareholders' equity	17,018	18,347
Total liabilities and shareholders' equity	\$115,581	\$119,767

<sup>(2)</sup> Includes \$322 in 2015 and \$318 in 2014 of derivatives from consolidated variable interest entities  
See the accompanying Notes to the Consolidated Financial Statements.



Aflac Incorporated and Subsidiaries  
Consolidated Statements of Shareholders' Equity

(In millions - Unaudited)	Six Months Ended	
	June 30, 2015	2014
Common stock:		
Balance, beginning of period	\$67	\$67
Balance, end of period	67	67
Additional paid-in capital:		
Balance, beginning of period	1,711	1,644
Exercise of stock options	24	14
Share-based compensation	17	17
Gain (loss) on treasury stock reissued	20	23
Balance, end of period	1,772	1,698
Retained earnings:		
Balance, beginning of period	22,156	19,885
Net earnings	1,236	1,542
Dividends to shareholders	(340 )	(338 )
Balance, end of period	23,052	21,089
Accumulated other comprehensive income (loss):		
Balance, beginning of period	1,979	(563 )
Unrealized foreign currency translation gains (losses) during period, net of income taxes	(184 )	289
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments	(1,288 )	1,880
Unrealized gains (losses) on derivatives during period, net of income taxes	(1 )	1
Pension liability adjustment during period, net of income taxes	1	(1 )
Balance, end of period	507	1,606
Treasury stock:		
Balance, beginning of period	(7,566 )	(6,413 )
Purchases of treasury stock	(848 )	(522 )
Cost of shares issued	34	33
Balance, end of period	(8,380 )	(6,902 )
Total shareholders' equity	\$17,018	\$17,558
See the accompanying Notes to the Consolidated Financial Statements.		

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Aflac Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
(In millions - Unaudited)	2015	2014
Cash flows from operating activities:		
Net earnings	\$1,236	\$1,542
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	1	24
Increase in deferred policy acquisition costs	(87 )	(85 )
Increase in policy liabilities	1,714	1,632
Change in income tax liabilities	130	(83 )
Realized investment (gains) losses	(140 )	(56 )
Other, net	249 <sup>(1)</sup>	158
Net cash provided (used) by operating activities	3,103	3,132
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	1,410	1,536
Fixed maturities matured or called	518	330
Perpetual securities sold	0	60
Perpetual securities matured or called	348	0
Equity securities sold	1	0
Securities held to maturity:		
Fixed maturities matured or called	420	4,759
Costs of investments acquired:		
Available-for-sale fixed maturities acquired	(3,004 )	(7,000 )
Other investments, net	(31 )	141
Settlement of derivatives, net	(2,200 )	(246 )
Cash received (pledged or returned) as collateral, net	(1,001 )	(3,058 )
Other, net	(27 )	(116 )
Net cash provided (used) by investing activities	(3,566 )	(3,594 )
Cash flows from financing activities:		
Purchases of treasury stock	(848 )	(522 )
Proceeds from borrowings	998	0
Principal payments under debt obligations	(850 )	0
Dividends paid to shareholders	(328 )	(324 )
Change in investment-type contracts, net	147	1,023
Treasury stock reissued	20	21
Other, net	(226 ) <sup>(1)</sup>	3
Net cash provided (used) by financing activities	(1,087 )	201
Effect of exchange rate changes on cash and cash equivalents	(5 )	(30 )
Net change in cash and cash equivalents	(1,555 )	(291 )
Cash and cash equivalents, beginning of period	4,658	2,543
Cash and cash equivalents, end of period	\$3,103	\$2,252
Supplemental disclosures of cash flow information:		
Income taxes paid	\$527	\$873
Interest paid	127	121
Noncash interest	30	39
Impairment losses included in realized investment losses	6	31

Noncash financing activities:

Capital lease obligations	1	0
Treasury stock issued for:		
Associate stock bonus	18	18
Shareholder dividend reinvestment	12	14
Share-based compensation grants	4	3

<sup>(1)</sup> Operating activities excludes and financing activities includes a cash outflow of \$230 for the make-whole payment associated with the early extinguishment of debt

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), which operates in the United States (Aflac U.S.) and as a branch 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. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 70% and 75% of the Company's total revenues in the six-month periods ended June 30, 2015, and 2014, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 83% at June 30, 2015, compared with 82% at December 31, 2014.

Basis of Presentation

We prepare our 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 GAAP issued by the FASB are derived from the FASB Accounting Standards Codification<sup>TM</sup> (ASC). The preparation of financial statements in conformity with GAAP requires us to make estimates when recording transactions resulting from business operations based on currently available information. The most significant items on our balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments, deferred policy acquisition costs, 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, we believe the amounts provided are adequate.

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of June 30, 2015 and December 31, 2014, the consolidated statements of earnings and comprehensive income (loss) for the three- and six-month periods ended June 30, 2015, and 2014, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2015 and 2014. 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 our annual report to shareholders for the year ended December 31, 2014.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Income Statement - Extraordinary and Unusual Items - Simplifying income statement presentation by eliminating the concept of extraordinary items: In January 2015, the FASB issued updated guidance that eliminates from GAAP the concept of extraordinary items. Although the amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this updated guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided

that the guidance is applied from the beginning of the fiscal year of adoption. We adopted this guidance as of January 1, 2015. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

**Transfers and Servicing, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures:** In June 2014, the FASB issued updated guidance for repurchase agreement and security lending transactions to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to be accounted for as secured borrowings, consistent with the accounting for other repurchase agreements. The amendments also require new disclosures to increase transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. We adopted accounting changes for the new guidance as of January 1, 2015, and adopted the required disclosures as of April 1, 2015. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

#### Accounting Pronouncements Pending Adoption

**Financial Services - Insurance - Disclosures about Short-Duration Contracts:** In May 2015, the FASB issued updated guidance requiring enhanced disclosures by all insurance entities that issue short-duration contracts. The amendments require insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. In addition, the amendments require insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for unpaid claims and claim adjustment expenses. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities and expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. The amendments are effective for public business entities for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early application of the amendments is permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations, however we are evaluating whether the adoption of this guidance will have an impact on our disclosures.

**Fair Value Measurement - Disclosures for investments in certain entities that calculate net asset value per share (or its equivalent):** In May 2015, the FASB issued updated guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments should be applied retrospectively to all periods presented whereby an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

**Interest - Imputation of Interest - Simplifying the presentation of debt issuance costs:** In April 2015, the FASB issued updated guidance to simplify presentation of debt issuance costs. The updated guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The amendment is effective for annual periods and interim periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

Consolidation - Amendments to the consolidation analysis: In February 2015, the FASB issued updated guidance that affects evaluation of whether limited partnerships and similar legal entities (limited liability corporations and securitization structures, etc.) are variable interest entities (VIEs), evaluation of whether fees paid to a decision maker or a service provider are a variable interest, and evaluation of the effect of fee arrangements and the effect of related parties on the determination of the primary beneficiary under the VIE model for consolidation. The updated guidance eliminates the presumption that a general partner should consolidate a limited partnership. Limited partnership and similar legal entities that provide partners with either substantive kick-out rights or substantive participating rights (representing the partners' controlling financial interest in the entity) over the general partner will now be evaluated under the voting interest model rather than the VIE model for consolidation. In regard to the fees paid to a decision maker or a service provider, the updated guidance eliminates three of the six criteria that an entity's decision makers or service providers must meet for

them to conclude that the fees do not represent a variable interest in that entity and, thus, should be excluded from the assessment for determining the primary beneficiary. Finally, in situations where no single party has a controlling financial interest in a VIE, the related party relationships under common control should be considered in their entirety in determining whether that common control group has a controlling financial interest in the VIE. However, if substantially all of the activities of the VIE are conducted on behalf of a single variable interest holder (excluding the decision maker) in a related party group that has the characteristics of a primary beneficiary, that single variable interest holder must consolidate the VIE as the primary beneficiary. The amendments in the updated guidance are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early application is permitted, including adoption in an interim period. We are evaluating whether the adoption of this guidance will have an impact on our financial position, results of operations or disclosures.

**Derivatives and Hedging - Determining whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or equity:** In November 2014, the FASB issued guidance to clarify how to evaluate the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The guidance also clarifies that an entity should assess the substance of the relevant terms and features when considering how to weight those terms and features. The guidance is effective for annual periods and interim periods beginning after December 15, 2015. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

**Presentation of Financial Statements - Going Concern - Disclosure of uncertainties about an entity's ability to continue as a going concern:** In August 2014, the FASB issued this amendment that provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendment is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

**Compensation - Stock Compensation - Accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period:** In June 2014, the FASB issued this amendment that provides guidance on certain share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

**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 amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to our business.

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2014.

## 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 not included in Aflac Japan or Aflac U.S. are included in the "Other business segments" category.

We do not allocate corporate overhead expenses to business segments. We evaluate and manage our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings includes interest cash flows associated with notes payable and excludes the following items from net earnings on an after-tax basis: realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities), nonrecurring items and other non-operating income (loss). We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues:				
Aflac Japan:				
Net earned premiums	\$2,978	\$3,578	\$6,056	\$7,138
Net investment income	605	680	1,218	1,343
Other income	7	8	15	17
Total Aflac Japan	3,590	4,266	7,289	8,498
Aflac U.S.:				
Net earned premiums	1,331	1,311	2,670	2,605
Net investment income	168	161	334	322
Other income	2	1	5	1
Total Aflac U.S.	1,501	1,473	3,009	2,928
Other business segments	65	10	91	20
Total business segment revenues	5,156	5,749	10,389	11,446
Realized investment gains (losses) <sup>(1)</sup>	104	92	100	36
Corporate	71	74	169	152
Intercompany eliminations	(50 )	(66 )	(133 )	(136 )
Other non-operating income (loss)	6	(11 )	(12 )	(20 )
Total revenues	\$5,287	\$5,838	\$10,513	\$11,478

<sup>(1)</sup> Excluding a gain of \$23 and \$10 for the three-month periods and \$40 and \$20 for the six-month periods ended June 30, 2015, and 2014, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

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(In millions)	Three Months Ended		Six Months Ended	
	June 30,	2014	June 30,	2014
2015			2015	
Pretax earnings:				
Aflac Japan	\$757	\$927	\$1,576	\$1,860
Aflac U.S.	293	300	578	603
Other business segments	3	0	4	0
Total business segment pretax operating earnings	1,053	1,227	2,158	2,463
Interest expense, noninsurance operations	(38 )	(51 )	(87 )	(101 )
Corporate and eliminations	(20 )	(19 )	(41 )	(36 )
Pretax operating earnings	995	1,157	2,030	2,326
Realized investment gains (losses) <sup>(1)</sup>	104	92	100	36
Other non-operating income (loss)	(225 )	(11 )	(243 )	(20 )
Total earnings before income taxes	\$874	\$1,238	\$1,887	\$2,342
Income taxes applicable to pretax operating earnings	\$344	\$400	\$701	\$795
Effect of foreign currency translation on operating earnings	(59 )	(13 )	(117 )	(61 )

<sup>(1)</sup> Excluding a gain of \$23 and \$10 for the three-month periods and \$40 and \$20 for the six-month periods ended June 30, 2015, and 2014, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

Assets were as follows:

(In millions)	June 30,	December 31,
	2015	2014
Assets:		
Aflac Japan	\$95,739	\$98,525
Aflac U.S.	17,951	18,383
Other business segments	157	128
Total business segment assets	113,847	117,036
Corporate	23,307	24,636
Intercompany eliminations	(21,573 )	(21,905 )
Total assets	\$115,581	\$119,767

### 3. INVESTMENTS

#### Investment Holdings

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

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(In millions)	June 30, 2015 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$16,315	\$1,289	\$6	\$17,598
Municipalities	86	5	0	91
Mortgage- and asset-backed securities	329	29	0	358
Public utilities	1,581	225	3	1,803
Sovereign and supranational	779	210	0	989
Banks/financial institutions	2,642	282	184	2,740
Other corporate	3,286	453	26	3,713
Total yen-denominated	25,018	2,493	219	27,292
Dollar-denominated:				
U.S. government and agencies	108	11	0	119
Municipalities	924	150	10	1,064
Mortgage- and asset-backed securities	209	30	0	239
Public utilities	5,331	760	118	5,973
Sovereign and supranational	338	110	0	448
Banks/financial institutions	2,954	715	20	3,649
Other corporate	24,248	2,192	782	25,658
Total dollar-denominated	34,112	3,968	930	37,150
Total fixed maturities	59,130	6,461	1,149	64,442
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	1,802	156	110	1,848
Other corporate	180	23	0	203
Dollar-denominated:				
Banks/financial institutions	111	52	0	163
Total perpetual securities	2,093	231	110	2,214
Equity securities	19	10	0	29
Total securities available for sale	\$61,242	\$6,702	\$1,259	\$66,685

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(In millions)	June 30, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$19,708	\$2,541	\$0	\$22,249
Municipalities	339	58	0	397
Mortgage- and asset-backed securities	39	2	0	41
Public utilities	3,209	158	72	3,295
Sovereign and supranational	2,516	193	21	2,688
Banks/financial institutions	4,528	143	121	4,550
Other corporate	2,954	225	34	3,145
Total yen-denominated	33,293	3,320	248	36,365
Total securities held to maturity	\$33,293	\$3,320	\$248	\$36,365
(In millions)	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$17,341	\$1,740	\$0	\$19,081
Municipalities	88	9	0	97
Mortgage- and asset-backed securities	351	35	0	386
Public utilities	1,691	226	5	1,912
Sovereign and supranational	799	163	0	962
Banks/financial institutions	2,752	325	189	2,888
Other corporate	3,479	531	48	3,962
Total yen-denominated	26,501	3,029	242	29,288
Dollar-denominated:				
U.S. government and agencies	100	17	0	117
Municipalities	961	201	2	1,160
Mortgage- and asset-backed securities	185	31	0	216
Public utilities	5,061	960	36	5,985
Sovereign and supranational	343	111	0	454
Banks/financial institutions	2,943	775	8	3,710
Other corporate	22,291	2,682	330	24,643
Total dollar-denominated	31,884	4,777	376	36,285
Total fixed maturities	58,385	7,806	618	65,573
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	2,132	223	92	2,263
Other corporate	183	48	0	231
Dollar-denominated:				
Banks/financial institutions	125	50	0	175
Total perpetual securities	2,440	321	92	2,669
Equity securities	19	9	0	28
Total securities available for sale	\$60,844	\$8,136	\$710	\$68,270



(In millions)	December 31, 2014			Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$20,023	\$3,195	\$0	\$23,218
Municipalities	346	71	0	417
Mortgage- and asset-backed securities	43	3	0	46
Public utilities	3,342	281	20	3,603
Sovereign and supranational	2,556	272	14	2,814
Banks/financial institutions	4,932	231	78	5,085
Other corporate	3,000	326	12	3,314
Total yen-denominated	34,242	4,379	124	38,497
Total securities held to maturity	\$34,242	\$4,379	\$124	\$38,497

The methods of determining the fair values of our investments in fixed-maturity securities, perpetual securities and equity securities are described in Note 5.

During the first and second quarters of 2015, we did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

During the second quarter of 2014, we reclassified one investment from the held-to-maturity category to the available-for-sale category as a result of the issuer being downgraded to below investment grade. At the time of transfer, the security had an amortized cost of \$128 million and an unrealized loss of \$28 million. During the first quarter of 2014, we reclassified one investment from the held-to-maturity category to the available-for-sale category as a result of the issuer being downgraded to below investment grade. At the time of transfer, the security had an amortized cost of \$63 million and an unrealized loss of \$8 million.

#### Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at June 30, 2015, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$232	\$259	\$77	\$79
Due after one year through five years	2,137	2,547	645	736
Due after five years through 10 years	11,191	11,613	1,787	1,873
Due after 10 years	33,030	36,366	9,126	9,991
Mortgage- and asset-backed securities	380	431	36	44
Total fixed maturities available for sale	\$46,970	\$51,216	\$11,671	\$12,723
Held to maturity:				
Due in one year or less	\$271	\$278	\$0	\$0
Due after one year through five years	1,430	1,529	0	0
Due after five years through 10 years	1,866	2,003	0	0
Due after 10 years	29,687	32,514	0	0
Mortgage- and asset-backed securities	39	41	0	0
Total fixed maturities held to maturity	\$33,293	\$36,365	\$0	\$0





At June 30, 2015, the Parent Company and other business segments had portfolios of available-for-sale fixed-maturity securities totaling \$489 million at amortized cost and \$503 million at fair value, which is not included in the table above.

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

The majority of our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuer's equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates for the securities. Although perpetual securities have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term interest rate after some period of time. The instruments are generally callable by the issuer at the time of changing from a fixed coupon rate to a new variable rate of interest, which is determined by the combination of some market index plus a fixed amount of basis points. The net effect is to create an expected maturity date for the instrument. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at June 30, 2015, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$237	\$219	\$5	\$5
Due after one year through five years	500	531	0	0
Due after 10 years	1,312	1,402	39	57
Total perpetual securities available for sale	\$2,049	\$2,152	\$44	\$62

#### Investment Concentrations

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

#### Banks and Financial Institutions

One of our largest investment sector concentrations as of June 30, 2015, was banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy.

Our total investments in the bank and financial institution sector, including those classified as perpetual securities, were as follows:

	June 30, 2015 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	December 31, 2014 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio
Fixed maturities:				
Amortized cost	\$10,124	11 %	\$10,627	11 %
Fair value	10,939	11	11,683	11
Perpetual securities:				
Upper Tier II:				
Amortized cost	\$1,351	1 %	\$1,554	2 %
Fair value	1,421	1	1,645	1
Tier I:				
Amortized cost	562	1	703	1
Fair value	590	1	793	1
Total:				
Amortized cost	\$12,037	13 %	\$12,884	14 %
Fair value	12,950	13	14,121	13

#### Realized Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Realized investment gains (losses) on securities:				
Fixed maturities:				
Available for sale:				
Gross gains from sales	\$55	\$92	\$104	\$127
Gross losses from sales	0	0	0	(1 )
Net gains (losses) from redemptions	7	4	26	11
Other-than-temporary impairment losses	0	(28 )	(6 )	(31 )
Held to maturity:				
Net gains (losses) from redemptions	0	1	0	1
Total fixed maturities	62	69	124	107
Perpetual securities:				
Available for sale:				
Net gains (losses) from redemptions	30	0	30	0
Total perpetual securities	30	0	30	0
Derivatives and other:				
Derivative gains (losses)	35	33	(14 )	(50 )
Other	0	0	0	(1 )
Total derivatives and other	35	33	(14 )	(51 )
Total realized investment gains (losses)	\$127	\$102	\$140	\$56

## Other-than-temporary Impairment

The fair values of our debt and perpetual security investments fluctuate based on changes in interest rates, foreign exchange, and credit spreads in the global financial markets. Fair values can also be heavily influenced by the values of the assets of the issuer and expected ultimate recovery values upon default, bankruptcy or other financial restructuring. Credit spreads are most impacted by the general credit environment and global market liquidity. Interest rates are driven by numerous factors including, but not limited to, supply and demand, governmental monetary actions, expectations of inflation and economic growth. We believe that fluctuations in the fair values of our investment securities related to general changes in the level of credit spreads or interest rates have little bearing on underlying credit quality of the issuer, and whether our investment is ultimately recoverable. Generally, we consider such declines in fair values to be temporary even in situations where an investment remains in an unrealized loss position for a year or more.

However, in the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads or interest rates. In this event, we consider such a decline in the investment's fair value, to the extent it is below the investment's cost or amortized cost, to be an other-than-temporary impairment of the investment and reduce the book value of the investment to its fair value.

In addition to the usual investment risk associated with a debt instrument, our perpetual security holdings are largely issued by banks that are integral to the financial markets of the sovereign country of the issuer. As a result of the issuer's position within the economy of the sovereign country, our perpetual securities may be subject to a higher risk of nationalization of their issuers in connection with capital injections from an issuer's sovereign government. We cannot be assured that such capital support will extend to all levels of an issuer's capital structure. In addition, certain governments or regulators may consider imposing interest and principal payment restrictions on issuers of hybrid securities to preserve cash and preserve the issuer's capital. Beyond the cash flow impact that additional deferrals would have on our portfolio, such deferrals could result in ratings downgrades of the affected securities, which in turn could result in a reduction of fair value of the securities and increase our regulatory capital requirements. We consider these factors in our credit review process.

When determining our intention to sell a security prior to recovery of its fair value to amortized cost, we evaluate facts and circumstances such as, but not limited to, future cash flow needs, decisions to reposition our security portfolio, and risk profile of individual investment holdings. We perform ongoing analyses of our liquidity needs, which includes cash flow testing of our policy liabilities, debt maturities, projected dividend payments and other cash flow and liquidity needs. Our cash flow testing includes extensive duration analysis of our investment portfolio and policy liabilities. Based on our analyses, we have concluded that we have sufficient excess cash flows to meet our liquidity needs without selling any of our investments prior to their maturity.

The following table details our pretax other-than-temporary impairment losses by investment category that resulted from our impairment evaluation process.

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Corporate bonds	\$0	\$28	\$2	\$31
Bank/financial institution bonds	0	0	4	0
Total other-than-temporary impairment losses realized <sup>(1)</sup>	\$0	\$28	\$6	\$31

<sup>(1)</sup> Includes an immaterial amount and \$28 for the three-month periods and \$6 and \$31 for the six-month periods ended June 30, 2015 and 2014, respectively, from change in intent to sell securities



## Unrealized Investment Gains and Losses

## Effect on Shareholders' Equity

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

(In millions)	June 30, 2015	December 31, 2014
Unrealized gains (losses) on securities available for sale	\$5,443	\$7,426
Deferred income taxes	(2,059 )	(2,754 )
Shareholders' equity, unrealized gains (losses) on investment securities	\$3,384	\$4,672

## Gross Unrealized Loss Aging

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

(In millions)	June 30, 2015		Less than 12 months		12 months or longer	
	Total Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
Japan government and agencies:						
Yen-denominated	\$494	\$6	\$494	\$6	\$0	\$0
Municipalities:						
Dollar-denominated	92	10	77	9	15	1
Public utilities:						
Dollar-denominated	2,033	118	1,657	90	376	28
Yen-denominated	1,429	75	1,110	43	319	32
Sovereign and supranational:						
Yen-denominated	346	21	159	4	187	17
Banks/financial institutions:						
Dollar-denominated	347	20	345	20	2	0
Yen-denominated	3,063	305	1,872	47	1,191	258
Other corporate:						
Dollar-denominated	12,187	782	9,933	531	2,254	251
Yen-denominated	1,075	60	387	5	688	55
Total fixed maturities	21,066	1,397	16,034	755	5,032	642
Perpetual securities:						
Yen-denominated	751	110	184	12	567	98
Total perpetual securities	751	110	184	12	567	98
Total	\$21,817	\$1,507	\$16,218	\$767	\$5,599	\$740

(In millions)	December 31, 2014		Less than 12 months		12 months or longer	
	Total Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
Municipalities:						
Dollar-denominated	\$75	\$2	\$53	\$1	\$22	\$1
Public utilities:						
Dollar-denominated	1,001	36	164	7	837	29
Yen-denominated	805	25	98	1	707	24
Sovereign and supranational:						
Yen-denominated	359	14	0	0	359	14
Banks/financial institutions:						
Dollar-denominated	205	8	53	5	152	3
Yen-denominated	1,828	267	166	0	1,662	267
Other corporate:						
Dollar-denominated	8,072	330	1,901	62	6,171	268
Yen-denominated	1,151	60	122	2	1,029	58
Total fixed maturities	13,496	742	2,557	78	10,939	664
Perpetual securities:						
Yen-denominated	783	92	194	5	589	87
Total perpetual securities	783	92	194	5	589	87
Total	\$14,279	\$834	\$2,751	\$83	\$11,528	\$751

#### Analysis of Securities in Unrealized Loss Positions

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

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

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The following table provides more information on our unrealized loss positions.

(In millions)	June 30, 2015			December 31, 2014		
	Investments in an Unrealized Loss Position	Gross Unrealized Losses	Gross Unrealized Losses that are Investment Grade	Investments in an Unrealized Loss Position	Gross Unrealized Losses	Gross Unrealized Losses that are Investment Grade
Fixed Maturities:						
Public utilities	16 %	13 %	99 %	13 %	7 %	100 %
Sovereign and supranational	3	2	100	3	2	100
Banks/financial institutions	16	22	45	14	33	31
Other corporate	61	56	94	65	47	88
Total fixed maturities	96 %	93 %		95 %	89 %	
Perpetual securities	4	7	100	5	11	100
Total	100 %	100 %		100 %	100 %	

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

#### Perpetual Securities

The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly-rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer's capital structure and the regulatory jurisdiction of the issuer.

Details of our holdings of perpetual securities were as follows:

#### Perpetual Securities

(In millions)	Credit Rating	June 30, 2015			December 31, 2014		
		Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Upper Tier II:							
	A	\$60	\$89	\$29	\$61	\$87	\$26
	BBB	1,130	1,107	(23 )	1,330	1,333	3
	BB or lower	161	225	64	163	225	62
Total Upper Tier II		1,351	1,421	70	1,554	1,645	91
Tier I:							
	BBB	511	516	5	519	556	37
	BB or lower	51	74	23	184	237	53
Total Tier I		562	590	28	703	793	90
Other subordinated - non-banks:							
	BB or lower	180	203	23	183	231	48
Total		\$2,093	\$2,214	\$121	\$2,440	\$2,669	\$229

Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses are expected to diminish. Based on our credit analysis, we believe that the issuers of our investments in these sectors have the ability to service their obligations to us.



## Variable Interest Entities (VIEs)

As a condition to our involvement or investment in a VIE, we enter into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of our investment or our beneficial interest in the VIE.

Our involvement with all of the VIEs in which we have an interest is passive in nature, and we are not the arranger of these entities. We have not been involved in establishing these entities, except as it relates to our review and evaluation of the structure of these VIEs in the normal course of our investment decision-making process. Further, we are not, nor have we been, required to purchase any securities issued in the future by these VIEs.

Our ownership interest in the VIEs is limited to holding the obligations issued by them. All of the VIEs in which we invest are static with respect to funding and have no ongoing forms of funding after the initial funding date. We have no direct or contingent obligations to fund the limited activities of these VIEs, nor do we have any direct or indirect financial guarantees related to the limited activities of these VIEs. We have not provided any assistance or any other type of financing support to any of the VIEs we invest in, nor do we have any intention to do so in the future. The weighted-average lives of our notes are very similar to the underlying collateral held by these VIEs where applicable.

Our risk of loss related to our interests in any of our VIEs is limited to our investment in the debt securities issued by them.

## VIEs - Consolidated

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

## Investments in Consolidated Variable Interest Entities

(In millions)	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	\$3,446	\$4,440	\$3,020	\$4,166
Perpetual securities, available for sale	281	272	405	429
Fixed maturities, held to maturity	82	80	83	84
Other assets	100	100	106	106
Total assets of consolidated VIEs	\$3,909	\$4,892	\$3,614	\$4,785
Liabilities:				
Other liabilities	\$322	\$322	\$318	\$318
Total liabilities of consolidated VIEs	\$322	\$322	\$318	\$318

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we have the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. We also participate in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding debt and perpetual securities and foreign currency and/or credit default swaps (CDSs), as appropriate, and utilizing the cash flows from these securities to service our investment. Neither we nor any of our creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, we are not a direct counterparty to the swap contracts and have no control over them. Our loss exposure to these VIEs is limited to our original investment. Our consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of our investment in senior secured bank loans through unit trust structures, the underlying collateral assets and funding of our consolidated VIEs are generally static in nature and the underlying collateral and the reference corporate entities covered by any CDS contracts were all investment grade at the time of issuance.



We are exposed to credit losses within any consolidated collateralized debt obligations (CDOs) that could result in principal losses to our investments. We have mitigated our risk of credit loss through the structure of the VIE, which contractually requires the subordinated tranches within these VIEs to absorb the majority of the expected losses from the underlying credit default swaps. We currently own only senior mezzanine CDO tranches. Based on our statistical analysis models and the current subordination levels in our CDOs, each of these VIEs can sustain a reasonable number of defaults in the underlying reference entities in the CDSs with no loss to our investment.

#### VIEs-Not Consolidated

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

#### Investments in Variable Interest Entities Not Consolidated

(In millions)	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	\$5,880	\$6,627	\$6,104	\$6,937
Perpetual securities, available for sale	291	293	324	330
Fixed maturities, held to maturity	2,441	2,583	2,564	2,829
Total investments in VIEs not consolidated	\$8,612	\$9,503	\$8,992	\$10,096

The VIEs that we are not required to consolidate are investments that are in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents or sponsors. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We do not have the power to direct the activities that most significantly impact the entity's economic performance, nor do we have (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. These VIE investments comprise securities from 181 separate issuers with an average credit rating of BBB+.

#### Loan Receivables

We invest in middle market loans through participation rights that are accounted for as loan receivables and recorded at fair value on the acquisition date. Since we have the intent and ability to hold these loan receivables for the foreseeable future or until they mature, they are considered held-for-investment and are carried on our balance sheet at adjusted amortized cost in the Other Investments line on our Consolidated Balance Sheets. The adjusted amortized cost of the loan receivables reflects allowances for expected incurred losses estimated based on past events and current economic conditions as of each reporting date. As of June 30, 2015, our investment in these loan receivables was \$26 million, while the associated allowance for expected losses was immaterial.

#### Securities Lending and Pledged Securities

We lend fixed-maturity securities to financial institutions in short-term security-lending transactions. These short-term security-lending arrangements increase investment income with minimal risk. Our security lending policy requires that the fair value of the securities and/or unrestricted cash received as collateral be 102% or more of the fair value of the loaned securities. These securities continue to be carried as investment assets on our balance sheet during the terms of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral.



Details of our securities lending activities were as follows:

Securities Lending Transactions Accounted for as Secured Borrowings  
June 30, 2015

Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous <sup>(1)</sup>	Up to 30 days	Total
Securities lending transactions:			
Japan government and agencies	\$188	\$448	\$636
Public utilities	73	0	73
Sovereign and supranational	3	0	3
Banks/financial institutions	14	0	14
Other corporate	297	0	297
Total borrowings	\$575	\$448	\$1,023
Gross amount of recognized liabilities for securities lending transactions			\$1,023
Amounts related to agreements not included in offsetting disclosure in Note 4			\$0

<sup>(1)</sup> These securities are pledged as collateral under our U.S. securities lending program and can be called at our discretion; therefore, they are classified as Overnight and Continuous.

Securities Lending Transactions Accounted for as Secured Borrowings  
December 31, 2014

Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous <sup>(1)</sup>	Up to 30 days	Total
Securities lending transactions:			
Japan government and agencies	\$0	\$1,720	\$1,720
Public utilities	80	0	80
Sovereign and supranational	1	0	1
Banks/financial institutions	64	0	64
Other corporate	328	0	328
Total borrowings	\$473	\$1,720	\$2,193
Gross amount of recognized liabilities for securities lending transactions			\$2,193
Amounts related to agreements not included in offsetting disclosure in Note 4			\$0

<sup>(1)</sup> These securities are pledged as collateral under our U.S. securities lending program and can be called at our discretion; therefore, they are classified as Overnight and Continuous.

We did not have any repurchase agreements or repurchase-to-maturity transactions outstanding as of June 30, 2015 and December 31, 2014.

Certain fixed-maturity securities have been pledged as collateral as part of derivative transactions. For additional information regarding pledged securities related to derivative transactions, see Note 4.

#### 4.DERIVATIVE INSTRUMENTS

Our freestanding derivative financial instruments consist of: (1) foreign currency swaps and credit default swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary; (2) foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated securities in Aflac Japan's portfolio; (3) foreign currency forwards used to hedge certain portions of forecasted cash flows denominated in yen; (4) swaps associated with our notes payable, consisting of cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and our subordinated debentures; and (5) options on interest rate swaps (or interest rate swaptions) and futures used to hedge interest rate risk for certain available-for-sale securities. We do not use derivative financial instruments for trading purposes, nor do we engage in leveraged derivative transactions. Some of our derivatives are designated as cash flow hedges, fair value hedges or net investment hedges; however, other derivatives do not qualify for hedge accounting or we elect not to designate them as an accounting hedge. We utilize a net investment hedge to mitigate foreign exchange exposure resulting from our net investment in Aflac Japan. In addition to designating derivatives as hedging instruments, we have designated our yen-denominated Samurai and Uridashi notes and yen-denominated loans as nonderivative hedging instruments for this net investment hedge.

##### Derivative Types

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

Foreign currency forwards and options with short-term maturities are executed for the Aflac Japan segment in order to hedge the currency risk on the fair value of certain fixed-maturity dollar-denominated securities. In forward transactions, Aflac Japan agrees with another party to buy a fixed amount of yen and sell a corresponding amount of U.S. dollars at a specified future date. Aflac Japan also executes foreign currency option transactions in a collar strategy, where Aflac Japan agrees with another party to simultaneously purchase a fixed amount of U.S. dollar put options and sell U.S. dollar call options. The combination of these two actions results in no net premium being paid (i.e. a costless or zero-cost collar). The foreign currency forwards and options are used in fair value hedging relationships to mitigate the foreign exchange risk associated with dollar-denominated investments supporting yen-denominated liabilities.

Foreign currency forwards are also used to hedge the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agrees with another party to buy a fixed amount of U.S. dollars and sell a corresponding amount of yen at a specified future date.

Our CDS is used to assume credit risk related to an individual security. The only CDS derivative that we have entered into relates to components of an investment in a VIE. This CDS contract entitles the consolidated VIE to receive periodic fees in exchange for an obligation to compensate the derivative counterparties should the reference security issuers experience a credit event, as defined in the contract.

Interest rate swaps involve the periodic exchange of cash flows with other parties, at specified intervals, calculated using agreed upon rates or other financial variables and notional principal amounts. Typically, at the time a swap is entered into, the cash flow streams exchanged by the counterparties are equal in value. No cash or principal payments

are exchanged at the inception of the contract. Interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates. These derivatives are predominantly used to better match cash receipts from assets with cash disbursements required to fund liabilities.

Interest rate swaptions are options on interest rate swaps. Interest rate collars are combinations of two swaption positions and are executed in order to hedge certain dollar-denominated available-for-sale securities that are held in the Aflac Japan segment. We use collars to protect against significant changes in the fair value associated with interest rate changes of our dollar-denominated available-for-sale securities. In order to maximize the efficiency of the collars while minimizing cost, we set the strike price on each collar so that the premium paid for the 'payer leg' is offset by the premium received for having sold the 'receiver leg'.

Periodically, depending on general economic conditions, we may enter into other derivative transactions.

## Credit Risk Assumed through Derivatives

For the foreign currency and credit default swaps associated with our VIE investments for which we are the primary beneficiary, we bear the risk of foreign exchange loss due to counterparty default even though we are not a direct counterparty to those contracts. We are a direct counterparty to the foreign currency swaps that we have entered into in connection with certain of our senior notes, subordinated debentures, and Samurai notes; foreign currency forwards; foreign currency options; and interest rate swaptions, and therefore we are exposed to credit risk in the event of nonperformance by the counterparties in those contracts. The risk of counterparty default for our VIE swaps, foreign currency swaps, certain foreign currency forwards, foreign currency options and interest rate swaptions is mitigated by collateral posting requirements the counterparties to those transactions must meet. As of June 30, 2015, there were 17 counterparties to our derivative agreements, with five comprising 75% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

(In millions)	June 30, 2015			December 31, 2014		
	Notional Amount of Derivatives	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Notional Amount of Derivatives	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Counterparties' credit rating:						
AA	\$2,592	\$220	\$(32 )	\$1,098	\$39	\$(36 )
A	23,277	532	(470 )	22,564	763	(2,387 )
Total	\$25,869	\$752	\$(502 )	\$23,662	\$802	\$(2,423 )

We engage in derivative transactions directly with unaffiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentation. Most of the ISDA agreements also include Credit Support Annex (CSA) provisions, which generally provide for two-way collateral postings, in certain cases at the first dollar of exposure and in other cases once various rating and exposure threshold levels are triggered. We mitigate the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value while generally requiring that collateral be posted at the outset of the transaction or that additional collateral be posted upon the occurrence of certain events or circumstances. In addition, a significant portion of the derivative transactions have provisions that require collateral to be posted upon a downgrade of our long-term debt ratings or give the counterparty the right to terminate the transaction upon a downgrade of Aflac's financial strength rating. The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions, and other factors prevailing at and after the time of the downgrade.

The fair value of collateral posted by us to third parties for derivative transactions of \$176 million at June 30, 2015 and \$1.6 billion at December 31, 2014 consisted entirely of securities. This collateral can generally be replighted or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was \$129 million and \$2.1 billion as of June 30, 2015 and December 31, 2014, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2015, we would not be required to post any additional collateral to these derivative counterparties. Collateral obtained by us from third parties for derivative transactions was \$624 million and \$619 million at June 30, 2015 and December 31, 2014, respectively. We are generally allowed to sell or repledge collateral obtained from our derivative counterparties, although we do not typically exercise such rights.

## Accounting for Derivative Financial Instruments

Freestanding derivatives are carried at estimated fair value in our consolidated balance sheets either as other assets or as other liabilities. See Note 5 for a discussion on how we determine the fair value of our derivatives. Accruals on derivatives are recorded in accrued investment income or within other liabilities in the consolidated balance sheets.



If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are generally reported within derivative and other gains(losses), which is a component of realized 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.

### Hedge Documentation and Effectiveness Testing

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. At the inception of the hedging relationship for hedges we elect to designate for hedge accounting treatment, we formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. We document the designation of each hedge as either (i) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or the hedge of a forecasted transaction ("cash flow hedge"); (ii) a hedge of the estimated fair value of a recognized asset or liability ("fair value hedge"); or (iii) a hedge of a net investment in a foreign operation. The documentation process includes linking derivatives and nonderivatives that are designated as hedges to specific assets or groups of assets or liabilities on the statement of financial position or to specific forecasted transactions and defining the effectiveness and ineffectiveness testing methods to be used. At the hedge's inception and on an ongoing quarterly basis, we also formally assess whether the derivatives that are used in hedging transactions have been, and are expected to continue to be, highly effective in offsetting their designated risk. Hedge effectiveness is assessed using qualitative and quantitative methods.

For assessing hedge effectiveness of cash flow hedges, qualitative methods may include the comparison of critical terms of the derivative to the hedged item, and quantitative methods may include regression or other statistical analysis of changes in cash flows associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships on our VIE cash flow hedge is measured each reporting period using the "Hypothetical Derivative Method." For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings within derivative and other gains (losses). All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

For assessing hedge effectiveness of fair value hedges, qualitative methods may include the comparison of critical terms of the derivative to the hedged item, and quantitative methods may include regression or other statistical analysis of changes in fair value associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the dollar offset method. For derivative instruments that are designated and qualify as fair value hedges, changes in the estimated fair value of the derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in current earnings within derivative and other gains (losses).

For the hedge of our net investment in Aflac Japan, we have designated Parent Company yen-denominated liabilities as non-derivative hedging instruments and have designated certain foreign currency forwards and options as derivative hedging instruments. We make our net investment hedge designation at the beginning of each quarter. For assessing hedge effectiveness of net investment hedges, if the total of the designated Parent Company non-derivative and derivatives notional is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective. If the hedge is effective, the related exchange effect on the yen-denominated liabilities is reported in the unrealized foreign currency component of other comprehensive income. For derivatives designated as net investment hedges, Aflac follows the forward-rate method. According to that method, all changes in fair value, including changes related to the forward-rate component of foreign currency forward contracts and the time value of foreign currency options, are reported in the unrealized foreign currency component of other comprehensive income. Should these designated net investment hedge positions exceed our net investment in Aflac Japan, the foreign exchange effect on the portion that exceeds our investment in Aflac Japan would be recognized in current earnings within derivative and other gains (losses).

### Discontinuance of Hedge Accounting

We discontinue hedge accounting prospectively when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative is de-designated as a hedging instrument; or (3) the derivative expires or is sold, terminated or exercised.

When hedge accounting is discontinued on a cash flow hedge or fair value hedge, the derivative is carried in the consolidated balance sheets at its estimated fair value, with changes in estimated fair value recognized in current

period earnings. For discontinued cash flow hedges, including those where the derivative is sold, terminated or exercised, amounts previously deferred in other comprehensive income (loss) are reclassified into earnings when earnings are impacted by the cash flow of the hedged item.

## Derivative Balance Sheet Classification

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

June 30, 2015

(In millions) Hedge Designation/ Derivative Type	Net Derivatives		Asset Derivatives	Liability Derivatives
	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Foreign currency swaps	\$75	\$(17 )	\$0	\$(17 )
Total cash flow hedges	75	(17 )	0	(17 )
Fair value hedges:				
Foreign currency forwards	12,980	(114 )	54	(168 )
Foreign currency options	1,250	0	0	0
Total fair value hedges	14,230	(114 )	54	(168 )
Net investment hedge:				
Foreign currency forwards	1,997	81	85	(4 )
Total net investment hedge	1,997	81	85	(4 )
Non-qualifying strategies:				
Foreign currency swaps	6,586	300	609	(309 )
Foreign currency forwards	2,899	(1 )	3	(4 )
Credit default swaps	82	1	1	0
Total non-qualifying strategies	9,567	300	613	(313 )
Total derivatives	\$25,869	\$250	\$752	\$(502 )
Balance Sheet Location				
Other assets	\$13,372	\$752	\$752	\$0
Other liabilities	12,497	(502 )	0	(502 )
Total derivatives	\$25,869	\$250	\$752	\$(502 )

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December 31, 2014				
(In millions)	Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Foreign currency swaps	\$75	\$(15 )	\$0	\$(15 )
Total cash flow hedges	75	(15 )	0	(15 )
Fair value hedges:				
Foreign currency forwards	12,388	(1,791 )	0	(1,791 )
Foreign currency options	697	(32 )	0	(32 )
Interest rate swaptions	2,502	(159 )	0	(159 )
Total fair value hedges	15,587	(1,982 )	0	(1,982 )
Net investment hedge:				
Foreign currency forwards	1,307	54	56	(2 )
Total net investment hedge	1,307	54	56	(2 )
Non-qualifying strategies:				
Foreign currency swaps	5,765	443	746	(303 )
Foreign currency forwards	784	(119 )	0	(119 )
Foreign currency options	53	(1 )	0	(1 )
Credit default swaps	83	0	0	0
Interest rate swaptions	8	(1 )	0	(1 )
Total non-qualifying strategies	6,693	322	746	(424 )
Total derivatives	\$23,662	\$(1,621 )	\$802	\$(2,423 )
Balance Sheet Location				
Other assets	\$6,531	\$802	\$802	\$0
Other liabilities	17,131	(2,423 )	0	(2,423 )
Total derivatives	\$23,662	\$(1,621 )	\$802	\$(2,423 )

### Cash Flow Hedges

Certain of our consolidated VIEs have foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, we have designated the derivative as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset ("cash flow" hedge). We expect to continue this hedging activity for a weighted-average period of approximately 11 years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting have been designated as held for other investment purposes ("non-qualifying strategies").

### Fair Value Hedges

We designate and account for certain foreign currency forwards and options as fair value hedges when they meet the requirements for hedge accounting. These foreign currency forwards and options hedge the foreign currency exposure of certain dollar-denominated fixed maturity securities within the investment portfolio of our Aflac Japan segment. We recognize gains and losses on these derivatives and the related hedged items in current earnings within derivative and other gains (losses). The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the assessment of hedge effectiveness. The change in fair value of the foreign currency option related to the time value of the option is excluded from the assessment of hedge effectiveness.

We designate and account for interest rate swaptions as fair value hedges when they meet the requirements for hedge accounting. These interest rate swaptions hedge the interest rate exposure of certain dollar-denominated fixed maturity securities within the investment portfolio of our Aflac Japan segment. We recognize gains and losses on these derivatives and the related hedged items in current earnings within derivative and other gains (losses). The change in the fair value of the interest rate swaptions related to the time value of the option is excluded from the assessment of

hedge effectiveness.

30

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

(In millions)		Hedging Derivatives			Hedged Items	
Hedging Derivatives	Hedged Items	Total Gains (Losses)	Gains (Losses) Excluded from Effectiveness Testing	Gains (Losses) Included in Effectiveness Testing	Gains (Losses)	Ineffectiveness Recognized for Fair Value Hedge
Three Months Ended June 30, 2015:						
Foreign currency forwards	Fixed-maturity securities	\$(267 )	\$(17 )	\$(250 )	\$244	\$(6 )
Foreign currency options	Fixed-maturity securities	(5 )	1	(6 )	6	0
Interest rate swaptions	Fixed-maturity securities	(4 )	0	(4 )	5	1
Six Months Ended June 30, 2015:						
Foreign currency forwards	Fixed-maturity securities	\$(230 )	\$(32 )	\$(198 )	\$205	\$7
Foreign currency options	Fixed-maturity securities	(3 )	4	(7 )	7	0
Interest rate swaptions	Fixed-maturity securities	(95 )	19	(114 )	99	(15 )
Three Months Ended June 30, 2014:						
Foreign currency forwards	Fixed-maturity securities	\$199	\$(25 )	\$224	\$(204 )	\$20
Foreign currency options	Fixed-maturity securities	1	1	0	0	0
Interest rate swaptions	Fixed-maturity securities	(81 )	2	(83 )	90	7
Six Months Ended June 30, 2014:						
Foreign currency forwards	Fixed-maturity securities	\$463	\$(35 )	\$498	\$(473 )	\$25
Foreign currency options	Fixed-maturity securities	1	1	0	0	0
Interest rate swaptions	Fixed-maturity securities	(135 )	(22 )	(113 )	122	9

#### Net Investment Hedge

Our primary exposure to be hedged is our net investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have designated the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans - see Note 7) as nonderivative hedges and designated foreign currency forwards and, in prior periods, options as derivative hedges of the foreign currency exposure of our net investment in Aflac Japan.

We used foreign exchange forwards to economically hedge foreign exchange risk on 30.0 billion yen of profit repatriation received from Aflac Japan in February 2015. As of June 30, 2015, we had entered into foreign exchange forwards as part of an economic hedge on 102.5 billion yen of profit repatriation received in July 2015 and 142.0 billion yen of future profit repatriation.

Our net investment hedge was effective during the three- and six-month periods ended June 30, 2015 and 2014, respectively.



#### Non-qualifying Strategies

For our derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings within derivative and other gains (losses). The amount of gain or loss recognized in earnings for our VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed-maturity or perpetual securities associated with these swaps is recorded through other comprehensive income. We have cross-currency interest rate swap agreements related to our \$400 million senior notes due February 2017, \$550 million senior notes due March 2020, \$350 million senior notes due February 2022, \$700 million senior notes due June 2023, \$750 million senior notes due November 2024, \$450 million senior notes due March 2025, and \$500 million subordinated debentures due September 2052. Changes in the values of these swaps are recorded through current period earnings.

For additional information regarding these swaps, see Note 7 in this report and Note 9 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2014.

## Impact of Derivatives and Hedging Instruments

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

(In millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2015	Other	2014	Other	2015	Other	2014	Other
	Realized Investment Gains (Losses)	Comprehensive Income (Loss) <sup>(1)</sup>	Realized Investment Gains (Losses)	Comprehensive Income (Loss) <sup>(1)</sup>	Realized Investment Gains (Losses)	Comprehensive Income (Loss) <sup>(1)</sup>	Realized Investment Gains (Losses)	Comprehensive Income (Loss) <sup>(1)</sup>
Qualifying hedges:								
Cash flow hedges:								
Foreign currency swaps	\$0	\$2	\$0	\$2	\$0	\$(2 )	\$(1 )	\$1
Total cash flow hedges	0	2	0	2	0	(2 )	(1 )	1
Fair value hedges:								
Foreign currency forwards <sup>(2)</sup>	(23 )	0	(5 )	0	(25 )	0	(10 )	0
Foreign currency options <sup>(2)</sup>	1	0	1	0	4	0	1	0
Interest rate swap options <sup>(2)</sup>	1	0	9	0	4	0	(13 )	0
Total fair value hedges	(21 )	0	5	0	(17 )	0	(22 )	0
Net investment hedge:								
Non-derivative hedging instruments	0	6	0	(11 )	0	5	0	(28 )
Foreign currency forwards	0	32	0	(7 )	0	34	0	(13 )
Foreign currency options	0	0	0	(2 )	0	0	0	(3 )
Total net investment hedge	0	38	0	(20 )	0	39	0	(44 )
Non-qualifying strategies:								
	55	0	24	0	(2 )	0	4	0

Foreign currency swaps								
Foreign currency forwards	(1 )	0	0	0	(1 )	0	0	0
Credit default swaps	0	0	1	0	1	0	3	0
Interest rate swaps	2	0	2	0	5	0	1	0
Futures	0	0	1	0	0	0	(35 )	0
Total non- qualifying strategies	56	0	28	0	3	0	(27 )	0
Total	\$35	\$40	\$33	\$(18)	\$(14)	\$37	\$(50)	\$(43)

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

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

There was no gain or loss reclassified from accumulated other comprehensive income (loss) into earnings related to our designated cash flow hedges and net investment hedge for the three- and six-month periods ended June 30, 2015 and 2014, respectively. As of June 30, 2015, deferred gains and losses on derivative instruments recorded in accumulated

other comprehensive income that are expected to be reclassified to earnings during the next twelve months were immaterial.

#### Offsetting of Financial Instruments and Derivatives

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Parent Company or Aflac and its respective counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements with certain of the master netting arrangements provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached.

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

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

Offsetting of Financial Assets and Derivative Assets  
June 30, 2015

(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet		
				Carrying Value of Financial Instruments	Collateral Received	Net Amount
Derivative assets:						
Foreign currency swaps	\$609	\$0	\$609	\$0	\$(520 )	\$89
Foreign currency forwards	142	0	142	0	(104 )	38
Credit default swaps	1	0	1	0	0	1
Total derivative assets, subject to a master netting arrangement or offsetting arrangement	752	0	752	0	(624 ) <sup>(1)</sup>	128
Securities lending and similar arrangements	1,003	0	1,003	0	(1,003 )	0
Total	\$1,755	\$0	\$1,755	\$0	\$(1,627 )	\$128

<sup>(1)</sup> Consists entirely of cash.  
December 31, 2014

(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet		
				Carrying Value of Financial Instruments	Collateral Received	Net Amount
Derivative assets:						
Foreign currency swaps	\$746	\$0	\$746	\$0	\$(568 )	\$178
Foreign currency forwards	56	0	56	0	(51 )	5
Total derivative assets, subject to a master netting arrangement or offsetting arrangement	802	0	802	0	(619 ) <sup>(1)</sup>	183
Securities lending and similar arrangements	2,149	0	2,149	0	(2,149 )	0
Total	\$2,951	\$0	\$2,951	\$0	\$(2,768)	\$183

<sup>(1)</sup> Consists of \$153 of pledged securities and \$466 of cash.

Offsetting of Financial Liabilities and Derivative Liabilities  
June 30, 2015

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet		Net Amount
				Carrying Value of Financial Instruments	Collateral Pledged	
Derivative liabilities:						
Foreign currency swaps	\$(326 )	\$0	\$(326 )	\$0	\$0	\$(326 )
Foreign currency forwards	(176 )	0	(176 )	0	176	0
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(502 )	0	(502 )	0	176 <sup>(1)</sup>	(326 )
Securities lending and similar arrangements	(1,023 )	0	(1,023 )	1,003	0	(20 )
Total	\$(1,525)	\$0	\$(1,525)	\$1,003	\$176	\$(346 )

<sup>(1)</sup> Consists entirely of pledged securities.

December 31, 2014

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet		Net Amount
				Carrying Value of Financial Instruments	Collateral Pledged	
Derivative liabilities:						
Foreign currency swaps	\$(318 )	\$0	\$(318 )	\$0	\$0	\$(318 )
Foreign currency forwards	(1,912 )	0	(1,912 )	0	1,439	(473 )
Foreign currency options	(33 )	0	(33 )	0	24	(9 )
Interest rate swaptions	(160 )	0	(160 )	0	158	(2 )
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(2,423 )	0	(2,423 )	0	1,621 <sup>(1)</sup>	(802 )
Securities lending and similar arrangements	(2,193 )	0	(2,193 )	2,149	0	(44 )
Total	\$(4,616)	\$0	\$(4,616)	\$2,149	\$1,621	\$(846 )

<sup>(1)</sup> Consists entirely of pledged securities.

For additional information on our financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2014.

## 5. FAIR VALUE MEASUREMENTS

## Fair Value Hierarchy

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

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

(In millions)	June 30, 2015 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 maturities:				
Government and agencies	\$17,177	\$540	\$0	\$17,717
Municipalities	0	1,155	0	1,155
Mortgage- and asset-backed securities	0	383	214	597
Public utilities	0	7,776	0	7,776
Sovereign and supranational	0	1,437	0	1,437
Banks/financial institutions	0	6,364	25	6,389
Other corporate	0	29,371	0	29,371
Total fixed maturities	17,177	47,026	239	64,442
Perpetual securities:				
Banks/financial institutions	0	2,011	0	2,011
Other corporate	0	203	0	203
Total perpetual securities	0	2,214	0	2,214
Equity securities	20	6	3	29
Other assets:				
Foreign currency swaps	0	510	99	609
Foreign currency forwards	0	142	0	142
Credit default swaps	0	0	1	1
Total other assets	0	652	100	752
Other investments	173	0	0	173
Cash and cash equivalents	3,103	0	0	3,103
Total assets	\$20,473	\$49,898	\$342	\$70,713
Liabilities:				
Foreign currency swaps	\$0	\$4	\$322	\$326
Foreign currency forwards	0	176	0	176
Total liabilities	\$0	\$180	\$322	\$502



(In millions)	December 31, 2014			
	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 maturities:				
Government and agencies	\$18,683	\$515	\$0	\$19,198
Municipalities	0	1,257	0	1,257
Mortgage- and asset-backed securities	0	379	223	602
Public utilities	0	7,897	0	7,897
Sovereign and supranational	0	1,416	0	1,416
Banks/financial institutions	0	6,572	26	6,598
Other corporate	0	28,605	0	28,605
Total fixed maturities	18,683	46,641	249	65,573
Perpetual securities:				
Banks/financial institutions	0	2,289	149	2,438
Other corporate	0	231	0	231
Total perpetual securities	0	2,520	149	2,669
Equity securities	19	6	3	28
Other assets:				
Foreign currency swaps	0	640	106	746
Foreign currency forwards	0	56	0	56
Total other assets	0	696	106	802
Other investments	171	0	0	171
Cash and cash equivalents	4,658	0	0	4,658
Total assets	\$23,531	\$49,863	\$507	\$73,901
Liabilities:				
Foreign currency swaps	\$0	\$0	\$318	\$318
Foreign currency forwards	0	1,912	0	1,912
Foreign currency options	0	33	0	33
Interest rate swaptions	0	160	0	160
Total liabilities	\$0	\$2,105	\$318	\$2,423

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

June 30, 2015

(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	\$ 19,708	\$ 22,249	\$ 0	\$ 0	\$ 22,249
Municipalities	339	0	397	0	397
Mortgage and asset-backed securities	39	0	13	28	41
Public utilities	3,209	0	3,295	0	3,295
Sovereign and supranational	2,516	0	2,688	0	2,688
Banks/financial institutions	4,528	0	4,550	0	4,550
Other corporate	2,954	0	3,145	0	3,145
Other investments	26	0	0	26	26
Total assets	\$33,319	\$ 22,249	\$ 14,088	\$ 54	\$ 36,391
<b>Liabilities:</b>					
Other policyholders' funds	\$6,083	\$ 0	\$ 0	\$ 5,962	\$ 5,962
Notes payable (excluding capital leases)	5,412	0	0	5,628	5,628
Total liabilities	\$ 11,495	\$ 0	\$ 0	\$ 11,590	\$ 11,590

(In millions)	December 31, 2014				
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	\$20,023	\$23,218	\$0	\$0	\$23,218
Municipalities	346	0	417	0	417
Mortgage and asset-backed securities	43	0	15	31	46
Public utilities	3,342	0	3,603	0	3,603
Sovereign and supranational	2,556	0	2,814	0	2,814
Banks/financial institutions	4,932	0	5,085	0	5,085
Other corporate	3,000	0	3,314	0	3,314
Total assets	\$34,242	\$23,218	\$15,248	\$31	\$38,497
<b>Liabilities:</b>					
Other policyholders' funds	\$6,031	\$0	\$0	\$5,905	\$5,905
Notes payable (excluding capital leases)	5,268	0	0	5,835	5,835
Total liabilities	\$11,299	\$0	\$0	\$11,740	\$11,740

#### Fair Value of Financial Instruments

U.S. GAAP requires disclosure of the fair value of certain financial instruments including those that are not carried at fair value. The carrying amounts for cash and cash equivalents, other investments, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the nature of these instruments. Liabilities for future policy benefits and unpaid policy claims are not financial instruments as defined by GAAP.

#### Fixed maturities, perpetual securities, and equity securities

We determine the fair values of our fixed maturity securities, perpetual securities, and public and privately issued equity securities using the following approaches or techniques: price quotes and valuations from third party pricing vendors (including quoted market prices readily available from public exchange markets) and non-binding price quotes we obtain from outside brokers.

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

security(ies) of the issuer; 2) issuer-specific CDS spreads; 3) bonds or CDS spreads of comparable issuers with similar characteristics such as rating, geography, or sector; or 4) bond indices that are comparative in rating, industry, maturity and region.

The pricing data and market quotes we obtain from outside sources, including third party pricing services, are reviewed internally for reasonableness. If a fair value appears unreasonable, we will re-examine the inputs and assess the

reasonableness of the pricing data with the vendor. Additionally, we may compare the inputs to relevant market indices and other performance measurements. The output of this analysis is presented to the Company's Valuation and Classifications Subcommittee (VCS). Based on the analysis provided to the VCS, 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. We have performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

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

For the periods presented, we have not adjusted the quotes or prices we obtain from the pricing services and brokers we use.

The following tables present the pricing sources for the fair values of our fixed maturities, perpetual securities, and equity securities.



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(In millions)	June 30, 2015 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 maturities:				
Government and agencies:				
Third party pricing vendor	\$17,177	\$540	\$0	\$17,717
Total government and agencies	17,177	540	0	17,717
Municipalities:				
Third party pricing vendor	0	1,155	0	1,155
Total municipalities	0	1,155	0	1,155
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	383	0	383
Broker/other	0	0	214	214
Total mortgage- and asset-backed securities	0	383	214	597
Public utilities:				
Third party pricing vendor	0	7,776	0	7,776
Total public utilities	0	7,776	0	7,776
Sovereign and supranational:				
Third party pricing vendor	0	1,437	0	1,437
Total sovereign and supranational	0	1,437	0	1,437
Banks/financial institutions:				
Third party pricing vendor	0	6,364	0	6,364
Broker/other	0	0	25	25
Total banks/financial institutions	0	6,364	25	6,389
Other corporate:				
Third party pricing vendor	0	29,371	0	29,371
Total other corporate	0	29,371	0	29,371
Total fixed maturities	17,177	47,026	239	64,442
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	2,011	0	2,011
Total banks/financial institutions	0	2,011	0	2,011
Other corporate:				
Third party pricing vendor	0	203	0	203
Total other corporate	0	203	0	203
Total perpetual securities	0	2,214	0	2,214
Equity securities:				
Third party pricing vendor	20	6	0	26
Broker/other	0	0	3	3
Total equity securities	20	6	3	29
Total securities available for sale	\$17,197			