AFLAC INC
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-07434
Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

706.323.3431
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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). þ 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 þ	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 þ No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	July 28, 2016
Common Stock, $.10 Par Value	409,575,251

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2016
Table of Contents

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, 2016, and 2015, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aflac Incorporated:

We have reviewed the accompanying consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of June 30, 2016, and the related consolidated statements of earnings, and comprehensive income (loss), for the three-month and six-month periods ended June 30, 2016, and 2015, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2016 and 2015. 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, 2015, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2016, 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, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Atlanta, Georgia
August 5, 2016

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)	2016	2015	2016	2015
Revenues:				
Net premiums, principally supplemental health insurance	$4,823	$4,364	$9,425	$8,796
Net investment income	822	777	1,623	1,559
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	(33)	0	(47)	(6)
Sales and redemptions	13	92	104	160
Derivative and other gains (losses)	(167)	35	(171)	(14)
Total realized investment gains (losses)	(187)	127	(114)	140
Other income (loss)	(21)	19	(46)	18
Total revenues	5,437	5,287	10,888	10,513
Benefits and expenses:				
Benefits and claims, net	3,254	2,937	6,279	5,889
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	284	255	576	532
Insurance commissions	345	325	678	655
Insurance expenses	613	550	1,176	1,080
Interest expense	66	74	131	157
Other expenses	41	272 (1)	97	313 (1)
Total acquisition and operating expenses	1,349	1,476	2,658	2,737
Total benefits and expenses	4,603	4,413	8,937	8,626
Earnings before income taxes	834	874	1,951	1,887
Income taxes	286	301	672	651
Net earnings	$548	$573	$1,279	$1,236
Net earnings per share:				
Basic	$1.33	$1.33	$3.08	$2.84
Diluted	1.32	1.32	3.06	2.83
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	411,853	431,672	415,301	434,473
Diluted	414,326	434,257	417,623	437,077
Cash dividends per share	$.41	$.39	$.82	$.78

(1) 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.

3

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

(In millions - Unaudited)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Net earnings	$548	$573	$1,279	$1,236
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	899	(170)	1,588	(161)
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	2,693	(2,458)	5,382	(1,865)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	11	(68)	(66)	(118)
Unrealized gains (losses) on derivatives during period	8	2	11	(2)
Pension liability adjustment during period	(4)	1	(6)	1
Total other comprehensive income (loss) before income taxes	3,607	(2,693)	6,909	(2,145)
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,111	(868)	2,102	(673)
Other comprehensive income (loss), net of income taxes	2,496	(1,825)	4,807	(1,472)
Total comprehensive income (loss)	$3,044	$(1,252)	$6,086	$(236)

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	June 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $65,121 in 2016 and $56,903 in 2015)	$ 74,793	$ 60,795
Fixed maturities - consolidated variable interest entities (amortized cost $4,878 in 2016 and $3,739 in 2015)	5,493	4,554
Perpetual securities (amortized cost $1,649 in 2016 and $1,586 in 2015)	1,635	1,719
Perpetual securities - consolidated variable interest entities (amortized cost $267 in 2016 and $255 in 2015)	197	228
Equity securities (cost $227 in 2016 and $117 in 2015)	256	135
Equity securities - consolidated variable interest entities (cost $1,018 in 2016 and $363 in 2015)	941	363
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $48,796 in 2016 and $37,520 in 2015)	38,346	33,459
Other investments	622	294
Cash and cash equivalents	3,700	4,350
Total investments and cash	125,983	105,897
Receivables	758	705
Accrued investment income	806	768
Deferred policy acquisition costs	9,552	8,511
Property and equipment, at cost less accumulated depreciation	467	427
Other (1)	3,721	1,948
Total assets	$ 141,287	$ 118,256

(1) Includes $177 in 2016 and $102 in 2015 of derivatives from consolidated variable interest entities
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.
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, 2016 (Unaudited)	December 31, 2015
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	$82,611	$ 69,687
Unpaid policy claims	4,261	3,802
Unearned premiums	8,726	7,857
Other policyholders' funds	7,468	6,285
Total policy liabilities	103,066	87,631
Income taxes	6,714	4,340
Payables for return of cash collateral on loaned securities	826	941
Notes payable	5,009	4,971
Other [(2)]	3,122	2,665
Total liabilities	118,737	100,548
Commitments and contingent liabilities (Note 11)		
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2016 and 2015; issued 670,764 shares in 2016 and 669,723 shares in 2015	67	67
Additional paid-in capital	1,905	1,828
Retained earnings	24,944	24,007
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(847)	(2,196)
Unrealized gains (losses) on investment securities	6,441	2,986
Unrealized gains (losses) on derivatives	(19)	(26)
Pension liability adjustment	(143)	(139)
Treasury stock, at average cost	(9,798)	(8,819)
Total shareholders' equity	22,550	17,708
Total liabilities and shareholders' equity	$141,287	$ 118,256

[(2)] Includes $117 in 2016 and $293 in 2015 of derivatives from consolidated variable interest entities
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Six Months Ended June 30,	
(In millions - Unaudited)	2016	2015
Common stock:		
Balance, beginning of period	$67	$67
Balance, end of period	67	67
Additional paid-in capital:		
Balance, beginning of period	1,828	1,711
Exercise of stock options	25	24
Share-based compensation	34	17
Gain (loss) on treasury stock reissued	18	20
Balance, end of period	1,905	1,772
Retained earnings:		
Balance, beginning of period	24,007	22,156
Net earnings	1,279	1,236
Dividends to shareholders	(342)	(340)
Balance, end of period	24,944	23,052
Accumulated other comprehensive income (loss):		
Balance, beginning of period	625	1,979
Unrealized foreign currency translation gains (losses) during period, net of income taxes	1,349	(184)
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments	3,455	(1,288)
Unrealized gains (losses) on derivatives during period, net of income taxes	7	(1)
Pension liability adjustment during period, net of income taxes	(4)	1
Balance, end of period	5,432	507
Treasury stock:		
Balance, beginning of period	(8,819)	(7,566)
Purchases of treasury stock	(1,014)	(848)
Cost of shares issued	35	34
Balance, end of period	(9,798)	(8,380)
Total shareholders' equity	$22,550	$17,018

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net earnings	$1,279	$1,236
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	53	1
Increase in deferred policy acquisition costs	(103)	(87)
Increase in policy liabilities	1,654	1,714
Change in income tax liabilities	(136)	130
Realized investment (gains) losses	114	(140)
Other, net	(7)	249 (1)
Net cash provided (used) by operating activities	2,854	3,103
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	675	1,410
Fixed maturities matured or called	612	518
Perpetual securities matured or called	234	348
Equity securities sold	50	1
Securities held to maturity:		
Fixed maturities matured or called	736	420
Costs of investments acquired:		
Available-for-sale fixed maturities acquired	(3,827)	(3,004)
Equity securities acquired	(691)	0
Other investments, net	(324)	(31)
Settlement of derivatives, net	664	(2,200)
Cash received (pledged or returned) as collateral, net	(525)	(1,001)
Other, net	(33)	(27)
Net cash provided (used) by investing activities	(2,429)	(3,566)
Cash flows from financing activities:		
Purchases of treasury stock	(1,014)	(848)
Proceeds from borrowings	0	998
Principal payments under debt obligations	(1)	(850)
Dividends paid to shareholders	(330)	(328)
Change in investment-type contracts, net	82	147
Treasury stock reissued	19	20
Other, net	(37)	(226) (1)
Net cash provided (used) by financing activities	(1,281)	(1,087)
Effect of exchange rate changes on cash and cash equivalents	206	(5)
Net change in cash and cash equivalents	(650)	(1,555)
Cash and cash equivalents, beginning of period	4,350	4,658
Cash and cash equivalents, end of period	$3,700	$3,103
Supplemental disclosures of cash flow information:		
Income taxes paid	$944	$527
Interest paid	101	127
Noncash interest	30	30
Impairment losses included in realized investment losses	47	6

Noncash financing activities:		
Capital lease obligations	2	1
Treasury stock issued for:		
Associate stock bonus	17	18
Shareholder dividend reinvestment	12	12
Share-based compensation grants	5	4

(1) 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 75% and 70% of the Company's total revenues in the six-month periods ended June 30, 2016, and 2015, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 85% at June 30, 2016, compared with 83% at December 31, 2015.

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 U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with U.S. GAAP requires 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, 2016 and December 31, 2015, the consolidated statements of earnings and comprehensive income (loss) for the three- and six-month periods ended June 30, 2016, and 2015, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2016 and 2015. 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, 2015.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments: In September 2015, the FASB issued guidance requiring that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustments are determined. In the same period's financial statements, the acquirer is required to record income effects of the adjustments as if the accounting had been completed at the acquisition date. The acquirer is also required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. We adopted this guidance as of January 1, 2016. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

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. We adopted this guidance as of January 1, 2016. The adoption of this guidance did not have a significant impact on our financial position, results of operations, or disclosures.

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. In August 2015, the FASB issued updated Securities and Exchange Commission (SEC) Staff guidance pertaining to the presentation of debt issuance costs related to line-of-credit arrangements. The guidance states that an entity may defer and present debt issuance costs as an asset, subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We retrospectively adopted this guidance as of January 1, 2016. The retrospective adoption of this accounting standard resulted in a $40 million reduction to notes payable and other assets as of December 31, 2015, the earliest balance sheet date presented in the period of adoption.

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 over the general partner will now be evaluated under the voting interest model rather than the VIE model for consolidation. 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. We adopted this guidance as of January 1, 2016. The adoption of this guidance impacted our footnote disclosures, but did not have a significant impact on our financial position or results of operations.

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. We adopted this guidance as of January 1, 2016. The adoption of this guidance did 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. 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. 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. We adopted this guidance as of January 1, 2016. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

Accounting Pronouncements Pending Adoption

Financial Instruments - Measurement of Credit Losses on Financial Instruments: In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for credit losses in order to reflect the amount expected to be collected on the financial asset(s). The measurement of expected credit losses is amended by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform about a credit loss. Credit losses on available-for-sale debt securities will continue to be measured in a manner similar to current GAAP. However, the amendments require that credit losses be presented as an allowance rather than as a writedown. Other amendments include changes to the balance sheet presentation and interest income recognition of purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The amendments are effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may early adopt this guidance as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact of adoption of this guidance on our financial position, results of operations and disclosures.

Compensation - Stock Compensation - Improvements to Employee Share-Based Payment Accounting: In March 2016, the FASB issued amendments which simplify several aspects for share-based payment award transactions, including income tax consequences, classification of awards as either liability or equities, and classification on the statement of cash flows. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period. We are currently evaluating the impact of this guidance on our financial position, results of operations or disclosures.

Investments - Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting: In March 2016, the FASB issued amendments which eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. Per the amendments, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our financial position or results of operations.

Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments: In March 2016, the FASB issued amendments which clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on our financial position or results of operations.

Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships: In March 2016, the FASB issued amendments which clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on our financial position or results of operations.

Leases: In January 2016, the FASB issued updated guidance for accounting for leases. Per the amendments, lessees will be required to recognize all leases on the balance sheet, with the exception of short-term leases. A lease liability will be recorded for the obligation of a lessee to make lease payments arising from a lease. A right-of-use asset, will be recorded which represents the lessee's right to use, or to control the use of, a specified asset for a lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact of this guidance on our financial position, results of operations or disclosures.

Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities: In January 2016, the FASB issued guidance to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require that equity investments be measured at fair value with changes recognized in net income; that changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option be recognized in other comprehensive income; and that entities would make the assessment of the ability to realize a deferred tax asset (DTA) related to an available-for-sale (AFS) debt security in combination with the entity's other DTAs. The amendments are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is not permitted, with the exception of the own credit provision if an entity has elected to measure a liability at fair value. We are evaluating whether the adoption of this guidance will have a significant impact on our financial position, results of operations or disclosures.

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. 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.

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.

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. In August 2015, the FASB deferred the effective date for this standard to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Other updates related to the new guidance, which are effective as of the same reporting period, pertain to identifying performance obligations and licensing, and principal versus agent considerations. Early application is not permitted. We are currently evaluating the impact of this guidance on our financial position, results of operations or disclosures.

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to 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, 2015.

2. BUSINESS SEGMENT INFORMATION

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

We do not allocate corporate overhead expenses to business segments. Consistent with U.S. GAAP accounting guidance for segment reporting, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2016	2015	2016	2015
Revenues:				
Aflac Japan:				
Net earned premiums	$3,402	$2,978	$6,581	$6,056
Net investment income	642	605	1,264	1,218
Other income	11	7	19	15
Total Aflac Japan	4,055	3,590	7,864	7,289
Aflac U.S.:				
Net earned premiums	1,362	1,331	2,729	2,670
Net investment income	176	168	350	334
Other income	0	2	3	5
Total Aflac U.S.	1,538	1,501	3,082	3,009
Other business segments	68	65	136	91
Total business segment revenues	5,661	5,156	11,082	10,389
Realized investment gains (losses) [1]	(208)	104	(157)	100
Corporate	69	71	136	169
Intercompany eliminations	(48)	(50)	(93)	(133)
Other non-operating income (loss)	(37)	6	(80)	(12)
Total revenues	$5,437	$5,287	$10,888	$10,513

[1] Excluding a gain of $21 and $23 for the three-month periods and $43 and $40 for the six-month periods ended June 30, 2016, and 2015, 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

13

(In millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Pretax earnings:				
Aflac Japan	$839	$757	$1,677	$1,576
Aflac U.S.	291	293	623	578
Other business segments	5	3	8	4
Total business segment pretax operating earnings	1,135	1,053	2,308	2,158
Interest expense, noninsurance operations	(30)	(38)	(59)	(87)
Corporate and eliminations	(26)	(20)	(61)	(41)
Pretax operating earnings	1,079	995	2,188	2,030
Realized investment gains (losses) [1]	(208)	104	(157)	100
Other non-operating income (loss)	(37)	(225)	(80)	(243)
Total earnings before income taxes	$834	$874	$1,951	$1,887
Income taxes applicable to pretax operating earnings	$372	$344	$755	$701
Effect of foreign currency translation on operating earnings	36	(59)	49	(117)

[1] Excluding a gain of $21 and $23 for the three-month periods and $43 and $40 for the six-month periods ended June 30, 2016, and 2015, 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, 2016	December 31, 2015
Assets:		
Aflac Japan	$120,571	$97,646
Aflac U.S.	19,712	18,537
Other business segments	248	188
Total business segment assets	140,531	116,371
Corporate	28,189	23,375
Intercompany eliminations	(27,433)	(21,490)
Total assets	$141,287	$118,256

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.

14

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.

	June 30, 2016			
(In millions)	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	$22,176	$5,828	$0	$28,004
Municipalities	200	60	0	260
Mortgage- and asset-backed securities	870	51	0	921
Public utilities	1,639	277	13	1,903
Sovereign and supranational	927	189	0	1,116
Banks/financial institutions	2,704	382	119	2,967
Other corporate	3,926	650	55	4,521
Total yen-denominated	32,442	7,437	187	39,692
Dollar-denominated:				
U.S. government and agencies	123	16	0	139
Municipalities	943	164	7	1,100
Mortgage- and asset-backed securities	199	18	0	217
Public utilities	5,724	776	76	6,424
Sovereign and supranational	352	97	0	449
Banks/financial institutions	2,742	533	16	3,259
Other corporate	27,474	2,316	784	29,006
Total dollar-denominated	37,557	3,920	883	40,594
Total fixed maturities	69,999	11,357	1,070	80,286
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	1,650	77	199	1,528
Other corporate	214	20	0	234
Dollar-denominated:				
Banks/financial institutions	52	18	0	70
Total perpetual securities	1,916	115	199	1,832
Equity securities:				
Yen-denominated	694	29	76	647
Dollar-denominated	551	17	18	550
Total equity securities	1,245	46	94	1,197
Total securities available for sale	$73,160	$11,518	$1,363	$83,315

(In millions)	June 30, 2016 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	$23,440	$ 8,636	$ 0	$32,076
Municipalities	398	167	0	565
Mortgage- and asset-backed securities	39	2	0	41
Public utilities	3,623	415	10	4,028
Sovereign and supranational	2,994	404	7	3,391
Banks/financial institutions	4,659	293		