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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The June 30, 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

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions - Unaudited)	2016	2015	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

(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.

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	32	4,920
Other corporate	3,193	590	8	3,775
Total yen-denominated	38,346	10,507	57	48,796
Total securities held to maturity	$38,346	$10,507	$ 57	$48,796

(In millions)	December 31, 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	$17,293	$ 1,862	$ 0	$19,155
Municipalities	128	9	0	137
Mortgage- and asset-backed securities	322	33	0	355
Public utilities	1,400	210	10	1,600
Sovereign and supranational	791	180	0	971
Banks/financial institutions	2,321	325	105	2,541
Other corporate	3,337	448	33	3,752
Total yen-denominated	25,592	3,067	148	28,511
Dollar-denominated:				
U.S. government and agencies	110	11	0	121
Municipalities	926	151	6	1,071
Mortgage- and asset-backed securities	200	27	0	227
Public utilities	5,464	636	221	5,879
Sovereign and supranational	331	105	0	436
Banks/financial institutions	2,865	634	21	3,478
Other corporate	25,154	1,774	1,302	25,626
Total dollar-denominated	35,050	3,338	1,550	36,838
Total fixed maturities	60,642	6,405	1,698	65,349
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	1,581	143	93	1,631
Other corporate	183	22	0	205
Dollar-denominated:				
Banks/financial institutions	77	35	1	111
Total perpetual securities	1,841	200	94	1,947
Equity securities:				
Yen-denominated	472	19	4	487
Dollar-denominated	8	3	0	11
Total equity securities	480	22	4	498
Total securities available for sale	$62,963	$ 6,627	$ 1,796	$67,794

(In millions)	December 31, 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	$20,004	$ 3,387	$ 0	$23,391
Municipalities	341	74	0	415
Mortgage- and asset-backed securities	36	2	0	38
Public utilities	3,092	205	94	3,203
Sovereign and supranational	2,555	182	26	2,711
Banks/financial institutions	4,431	168	53	4,546
Other corporate	3,000	260	44	3,216
Total yen-denominated	33,459	4,278	217	37,520
Total securities held to maturity	$33,459	$ 4,278	$ 217	$37,520

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

Beginning in 2015 and continuing into the first six months of 2016, we increased our investment in yen-denominated publicly traded equity securities. During the first six months of 2016, we also increased our investment in U.S. dollar-denominated publicly traded equity securities. These securities are classified as available for sale and carried on our balance sheet at fair value.

During the first and second quarters of 2016 and 2015, respectively, we did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at June 30, 2016, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$305	$312	$60	$62
Due after one year through five years	3,882	3,972	722	789
Due after five years through 10 years	11,905	12,101	2,487	2,726
Due after 10 years	40,332	48,573	8,776	10,124
Mortgage- and asset-backed securities	926	988	34	41
Total fixed maturities available for sale	$57,350	$65,946	$12,079	$13,742
Held to maturity:				
Due in one year or less	$49	$49	$0	$0
Due after one year through five years	1,983	2,087	0	0
Due after five years through 10 years	2,084	2,283	0	0
Due after 10 years	34,191	44,336	0	0
Mortgage- and asset-backed securities	39	41	0	0
Total fixed maturities held to maturity	$38,346	$48,796	$0	$0

At June 30, 2016, the Parent Company and other business segments had portfolios of available-for-sale fixed-maturity securities totaling $570 million at amortized cost and $598 million at fair value, which are 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 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, 2016, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$221	$195	$0	$ 0
Due after one year through five years	306	316	0	0
Due after 10 years	1,350	1,269	39	52
Total perpetual securities available for sale	$1,877	$1,780	$39	$ 52

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.

Investment exposures that individually exceeded 10% of shareholders' equity as of June 30, 2016 and December 31, 2015 were as follows:

(In millions)	June 30, 2016			December 31, 2015		
	Credit Rating	Amortized Cost	Fair Value	Credit Rating	Amortized Cost	Fair Value
Japan National Government[1]	A	$45,064	$59,305	A	$36,859	$42,025

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

Realized Investment Gains and Losses

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

(In millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Realized investment gains (losses):				
Fixed maturities:				
Available for sale:				
Gross gains from sales	$6	$55	$8	$104
Gross losses from sales	(12)	0	(16)	0
Net gains (losses) from redemptions	(5)	7	78	26
Other-than-temporary impairment losses	(9)	0	(21)	(6)
Total fixed maturities	(20)	62	49	124
Perpetual securities:				
Available for sale:				
Net gains (losses) from redemptions	30	30	40	30
Other-than-temporary impairment losses	0	0	(2)	0
Total perpetual securities	30	30	38	30
Equity securities:				
Gross gains from sales	2	0	5	0
Gross losses from sales	(8)	0	(11)	0
Other-than-temporary impairment losses	(24)	0	(24)	0
Total equity securities	(30)	0	(30)	0
Derivatives and other:				
Derivative gains (losses)	(167)	35	(171)	(14)
Total derivatives and other	(167)	35	(171)	(14)
Total realized investment gains (losses)	$(187)	$127	$(114)	$140

Other-than-temporary Impairment

The majority of our fixed maturity and perpetual security investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investments and whether we have the intent to sell or if it is more likely than not we would be required to sell the security prior to recovery of its amortized cost. The fair values of our fixed maturity 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 a 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 an extended period of time.

In the course of our review process, we may determine that it is unlikely that our fixed maturity or perpetual security investment will recover in value within an acceptable time frame. Factors which may influence this determination include the severity of the price decline, the length of time the price has been impaired, if the price decline was driven by issuer credit deterioration, and our view of the likelihood of the security defaulting or otherwise being subject to an unfavorable restructuring. In those cases where we believe the security will not recover in price within an acceptable period of time, 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.

The perpetual securities we hold were 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.

Our investments in perpetual securities that are rated below investment grade and equity securities are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model focuses on the severity of a security’s decline in fair value coupled with the length of time the fair value of the security has been below cost or amortized cost and the financial condition and near-term prospects of the issuer. For equity securities, we also verify our intent to hold the securities until they recover in value. The fair value of our investments in equity securities may decline for various reasons, such as general market conditions which reflect prospects for the economy as a whole, or due to specific information pertaining to an industry or an individual company. For those equity securities evaluated for impairment under the equity impairment model that are in an unrealized loss position, if we believe the security will not recover in price within an acceptable period of time, or we do not have the intent to hold until recovery, we will record an other-than-temporary impairment of the investment and reduce the cost of the investment to its fair value on that date.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2016	2015	2016	2015
Perpetual securities	$0	$ 0	$2	$ 0
Corporate bonds	9	0	21	2
Bank/financial institution bonds	0	0	0	4
Equity securities	24	0	24	0
Total other-than-temporary impairment losses realized (1)	$33	$ 0	$47	$ 6

(1) Includes $33 and an immaterial amount for the three-month periods and $47 and $6 for the six-month periods ended June 30, 2016 and 2015, respectively, from change in intent to sell securities or change in intent to hold securities until recovery

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, 2016	December 31, 2015
Unrealized gains (losses) on securities available for sale	$10,155	$ 4,831
Deferred income taxes	(3,714)	(1,845)
Shareholders’ equity, unrealized gains (losses) on investment securities	$6,441	$ 2,986

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.

	June 30, 2016					
	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
Municipalities:						
Dollar-denominated	$46	$ 7	$ 0	$ 0	$ 46	$ 7
Public utilities:						
Dollar-denominated	1,216	76	283	12	933	64
Yen-denominated	823	23	182	13	641	10
Sovereign and supranational:						
Yen-denominated	236	7	0	0	236	7
Banks/financial institutions:						
Dollar-denominated	148	16	78	6	70	10
Yen-denominated	1,428	151	240	3	1,188	148
Other corporate:						
Dollar-denominated	8,556	784	3,203	255	5,353	529
Yen-denominated	970	63	327	18	643	45
Total fixed maturities	13,423	1,127	4,313	307	9,110	820
Perpetual securities:						
Yen-denominated	989	199	500	42	489	157
Total perpetual securities	989	199	500	42	489	157
Equity securities:						
Dollar-denominated	268	18	268	18	0	0
Yen-denominated	411	76	411	76	0	0
Total equity securities	679	94	679	94	0	0
Total	$15,091	$ 1,420	$ 5,492	$ 443	$ 9,599	$ 977

(In millions)	December 31, 2015 Total Fair Value	Unrealized Losses	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
Fixed Maturities:						
Municipalities:						
Dollar-denominated	$80	$ 6	$80	$ 6	$0	$ 0
Public utilities:						
Dollar-denominated	2,127	221	1,689	132	438	89
Yen-denominated	1,487	104	1,062	73	425	31
Sovereign and supranational:						
Yen-denominated	580	26	385	13	195	13
Banks/financial institutions:						
Dollar-denominated	366	21	348	11	18	10
Yen-denominated	2,350	158	1,147	14	1,203	144
Other corporate:						
Dollar-denominated	13,430	1,302	11,068	770	2,362	532
Yen-denominated	1,151	77	343	5	808	72
Total fixed maturities	21,571	1,915	16,122	1,024	5,449	891
Perpetual securities:						
Dollar-denominated	6	1	0	0	6	1
Yen-denominated	645	93	216	12	429	81
Total perpetual securities	651	94	216	12	435	82
Equity securities:						
Yen-denominated	191	4	191	4	0	0
Total equity securities	191	4	191	4	0	0
Total	$22,413	$ 2,013	$16,529	$ 1,040	$5,884	$ 973

Analysis of Securities in Unrealized Loss Positions

The unrealized losses on our fixed maturity or perpetual securities investments have been primarily related to general market changes in interest rates, foreign exchange rates, and/or the levels of credit spreads rather than specific concerns with the issuer's ability to pay interest and repay principal. The unrealized losses on our investments in equity securities are primarily related to foreign exchange rates, general market conditions which reflect prospects for the economy as a whole, or specific information pertaining to an industry or an individual company.

For any significant declines in fair value of our fixed income or perpetual securities, 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 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 predictions, or other relevant features. From these reviews, we evaluate the issuers' continued ability to service our investment through payment of interest and principal.

For any significant declines in fair value of our equity securities, we review the severity of the security’s decline in fair value coupled with the length of time the fair value of the security has been below cost. We also perform a more focused review of the financial condition and near-term prospects of the issuer as well as general market conditions reflecting the prospects for the economy as a whole, and determine whether we have the intent to hold the securities until they recover in value.

The following table provides more information on our unrealized loss position on fixed maturities, perpetual securities and equity securities.

	June 30, 2016			December 31, 2015		
(In millions)	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	13 %	7 %	88 %	16 %	16 %	93 %
Sovereign and supranational	2	1	100	3	1	100
Banks/financial institutions	11	12	36	12	9	59
Other corporate	63	59	47	66	69	86
Total fixed maturities	89	79		97	95	
Perpetual securities	7	14	100	3	5	100
Equity securities	4	7		0	0	
Total	100 %	100 %		100 %	100 %	

The decrease in the percentage of gross unrealized losses that are investment grade for the banks and financial institutions sector for the period ending June 30, 2016 was due to the redemption of an investment-grade security that contributed to a large portion of investment-grade unrealized losses at December 31, 2015. The decrease in the percentage of gross unrealized loss for the other corporate sector for the period ending June 30, 2016 was due to the increase in unrealized losses of dollar-denominated below-investment-grade securities mainly attributable to the strengthening of the yen/dollar exchange rate.

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

Variable Interest Entities (VIEs)

As a condition of 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.

For those VIEs in which we are not the arranger, our involvement is passive in nature. We are not, nor have we been, required to purchase any securities issued in the future by these VIEs.

Our ownership interest in VIEs is limited to holding the obligations issued by them. 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. For those VIEs in which we hold debt obligations, the weighted-average lives of our notes are very similar to the underlying collateral held by these VIEs where applicable.

We also utilize unit trust structures in our Aflac Japan segment to invest in various asset classes. As the arranger and sole investor of these VIEs, we are required to consolidate these entities under U.S. GAAP.

Our risk of loss related to our interests in any of our VIEs is limited to the carrying value of the related investments held in the VIE.

VIEs - Consolidated

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

Investments in Consolidated Variable Interest Entities

	June 30, 2016		December 31, 2015	
(In millions)	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$4,878	$5,493	$3,739	$4,554
Perpetual securities, available for sale	267	197	255	228
Equity securities	1,018	941	363	363
Other investments	165	169	0	0
Other assets	177	177	102	102
Total assets of consolidated VIEs	$6,505	$6,977	$4,459	$5,247
Liabilities:				
Other liabilities	$117	$117	$293	$293
Total liabilities of consolidated VIEs	$117	$117	$293	$293

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, equity, and perpetual securities and foreign currency, and/or credit default swaps (CDS), 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 (bank loans), commercial mortgage loans, and certain equity securities 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 invest in bank loans, yen-denominated public equities, dollar-denominated public equities, and commercial mortgage loans through unit trust structures in which we are the only investor, requiring us to consolidate these trusts under U.S. GAAP. The bank loans are classified as available-for-sale fixed-maturity securities in the financial statements. As of June 30, 2016, the amortized cost and fair value of our bank loan investments was $2.1 billion and $1.9 billion, respectively, compared with an amortized cost and fair value of $1.4 billion as of December 31, 2015. The yen-denominated and dollar-denominated equities are classified as available-for-sale in the financial statements. As of June 30, 2016, the amortized cost and fair value of these equities was $1.0 billion and $941 million, respectively, compared with amortized cost and fair value of $363 million as of December 31, 2015. The commercial mortgage loans, all of which were purchased in the first six months of 2016, are classified as held for investment and reflected in other investments on the consolidated balance sheets. As of June 30, 2016, the amortized cost of these loans, net of loan loss reserves, was $165 million.

We are exposed to credit losses within our consolidated collateralized debt obligation (CDO) that could result in principal losses to our investment. However, we have mitigated the risk of credit loss through the structure of the VIE, which contractually requires the subordinated tranches within the VIE 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 CDO, the VIE can sustain a reasonable number of defaults in the underlying reference entities in the CDS 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

	June 30, 2016		December 31, 2015	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$5,158	$5,656	$4,731	$5,093
Perpetual securities, available for sale	292	279	249	253
Fixed maturities, held to maturity	2,902	3,336	2,477	2,636
Total investments in VIEs not consolidated	$8,352	$9,271	$7,457	$7,982

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

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 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 the obligation to absorb losses of the entity or 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 143 separate issuers with an average credit rating of BBB.

Loans and Loan Receivables

We classify our loans and loan receivables as held-for-investment and include them in the other investments line on the consolidated balance sheets. We carry them on the balance sheet at amortized cost less an estimated allowance for loan losses. Our loan allowance for losses is established using both specific and general allowances. The specific allowance is used on an individual loan basis for those impaired loans where we expect to incur a loss. The general allowance is used for loans grouped by similar risk characteristics where a loan-specific or market-specific risk has not been identified, but for which we anticipate to incur a loss.

Middle Market Loans

As of June 30, 2016, and December 31, 2015, our investment in middle market loan receivables, net of loan loss reserves, was $227 million and $118 million, respectively, which included an unfunded amount of $31 million and $53 million, respectively, that was reflected in other liabilities on the consolidated balance sheets. As of June 30, 2016 and December 31, 2015, we had no loans that were past due in regards to principal and/or interest payments. Additionally, we held no loans that were on nonaccrual status or considered impaired as of June 30, 2016 and December 31, 2015. Our middle market loan allowance for losses was immaterial as of June 30, 2016 and December 31, 2015. We had no troubled debt restructurings during the six months ended June 30, 2016 and 2015.

As of June 30, 2016, we had commitments of $72 million to fund potential future loan originations related to this investment program. These commitments are contingent upon the availability of middle market loans that meet our underwriting criteria.

Commercial Mortgage Loans

In 2016, we began funding investments in commercial mortgage loans. As of June 30, 2016, the amortized cost of these investments, net of loan loss reserves, was $188 million, $165 million of which was held in unit trust structures as discussed above. We had no loans that were past due in regards to principal and/or interest payments, and we held no loans that were on nonaccrual status or considered impaired as of June 30, 2016. Our commercial mortgage loan allowance for losses was immaterial as of June 30, 2016. We had no troubled debt restructurings during the six months ended June 30, 2016.

As of June 30, 2016, we had $177 million in outstanding commitments to fund commercial mortgage loans. These commitments are contingent on the final underwriting and due diligence to be performed.

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, 2016
Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous[1]	Up to 30 days	Total
Securities lending transactions:			
Japan government and agencies	$ 0	$372	$372
Public utilities	104	0	104
Banks/financial institutions	24	0	24
Other corporate	326	0	326
Total borrowings	$ 454	$372	$826
Gross amount of recognized liabilities for securities lending transactions			$826
Amounts related to agreements not included in offsetting disclosure in Note 4			$0

[1] 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, 2015
Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous[1]	Up to 30 days	Total
Securities lending transactions:			
Japan government and agencies	$ 0	$499	$499
Public utilities	108	0	108
Banks/financial institutions	13	0	13
Other corporate	321	0	321
Total borrowings	$ 442	$499	$941
Gross amount of recognized liabilities for securities lending transactions			$941
			$0

Amounts related to agreements not included in
offsetting disclosure in Note 4

(1) 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, 2016 and December 31, 2015, respectively.

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

4. DERIVATIVE INSTRUMENTS

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 and options used to hedge foreign exchange risk from our net investment in Aflac Japan and economically 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 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 are executed for the Aflac Japan segment in order to hedge the currency risk on the fair value of certain fixed-maturity U.S. dollar-denominated securities. The majority of these forwards and options have short-term maturities (12 months or less). 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 and options 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. In the option transactions, we use a combination of foreign currency options to protect expected future cash flows by simultaneously purchasing yen put options (options that protect against a weakening yen) and selling yen call options (options that limit participation in a strengthening yen). The combination of these two actions results in no net premium being paid (i.e. a costless or zero-cost collar).

The only CDS that we currently hold relates to components of an investment in a VIE and is used to assume credit risk related to an individual security. This CDS contract entitles the consolidated VIE to receive periodic fees in exchange for an obligation to compensate the derivative counterparties should the referenced security issuer 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 U.S. 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 our U.S. dollar-denominated available-for-sale securities due to interest rates. 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 that counterparties to those transactions must meet. As of June 30, 2016, there were 15 counterparties to our derivative agreements, with five comprising 62% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

	June 30, 2016			December 31, 2015		
(In millions)	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	$2,875	$ 173	$ (126)	$2,187	$ 166	$ (35)
A	19,131	1,691	(352)	19,940	510	(336)
BBB	1,100	99	(64)	0	0	0
Total	$23,106	$ 1,963	$ (542)	$22,127	$ 676	$ (371)

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 the collateral posted by us to third parties for derivative transactions was $259 million at June 30, 2016, which consisted entirely of cash, compared with $20 million at December 31, 2015, which consisted of $17 million of pledged securities and $3 million of cash. This collateral can generally be repledged or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was approximately $248 million and $26 million as of June 30, 2016 and December 31, 2015, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2016, we estimate that 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 $1.7 billion and $412 million at June 30, 2016 and December 31, 2015, 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 hedges 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). When assessing the effectiveness of our fair value hedges, we exclude the changes in fair value related to the difference between the spot and the forward rate on our foreign currency forwards and the time value of options.

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, 2016			
(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	$(1)	$ 1	$ (2)
Total cash flow hedges	75	(1)	1	(2)
Fair value hedges:				
Foreign currency forwards	12,917	1,442	1,442	0
Foreign currency options	1,685	6	7	(1)
Total fair value hedges	14,602	1,448	1,449	(1)
Net investment hedge:				
Foreign currency forwards	846	(93)	0	(93)
Foreign currency options	710	(48)	4	(52)
Total net investment hedge	1,556	(141)	4	(145)
Non-qualifying strategies:				
Foreign currency swaps	6,669	97	491	(394)
Foreign currency forwards	107	17	17	0
Credit default swaps	97	1	1	0
Total non-qualifying strategies	6,873	115	509	(394)
Total derivatives	$23,106	$1,421	$ 1,963	$ (542)
Balance Sheet Location				
Other assets	$18,388	$1,963	$ 1,963	$ 0
Other liabilities	4,718	(542)	0	(542)
Total derivatives	$23,106	$1,421	$ 1,963	$ (542)

(In millions)	December 31, 2015 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	13,080	45	88	(43)
Foreign currency options	1,250	0	0	0
Total fair value hedges	14,330	45	88	(43)
Net investment hedge:				
Foreign currency forwards	763	13	19	(6)
Foreign currency options	266	(3)	5	(8)
Total net investment hedge	1,029	10	24	(14)
Non-qualifying strategies:				
Foreign currency swaps	6,599	264	563	(299)
Foreign currency forwards	11	0	0	0
Credit default swaps	83	1	1	0
Total non-qualifying strategies	6,693	265	564	(299)
Total derivatives	$ 22,127	$ 305	$ 676	$ (371)
Balance Sheet Location				
Other assets	$ 11,413	$ 676	$ 676	$ 0
Other liabilities	10,714	(371)	0	(371)
Total derivatives	$ 22,127	$ 305	$ 676	$ (371)

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 10 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 U.S. 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 U.S. 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.

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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, 2016:						
Foreign currency forwards	Fixed-maturity securities	$1,156	$ (48)	$ 1,204	$(1,236)	$ (32)
Foreign currency options	Fixed-maturity securities	7	7	0	0	0
Six Months Ended June 30, 2016:						
Foreign currency forwards	Fixed-maturity securities	$2,013	$ (92)	$ 2,105	$(2,118)	$ (13)
Foreign currency options	Fixed-maturity securities	6	6	0	0	0
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)

Subsequent to the end of the second quarter, in July 2016 we began using foreign exchange forwards to hedge the currency risk of our senior secured bank loan portfolio and U.S. dollar-denominated equity portfolio within the Aflac Japan segment. The derivative notional amounts associated with the hedges of our senior secured bank loan portfolio and our U.S. equity portfolio is approximately $1.9 billion and $457 million, respectively.

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 - see Note 7) as non-derivative hedges and designated foreign currency forwards and options as derivative hedges of the foreign currency exposure of our net investment in Aflac Japan.

We used foreign exchange forwards and options to hedge foreign exchange risk on 25.0 billion yen of profit repatriation received from Aflac Japan in February 2016. As of June 30, 2016, we had entered into foreign exchange forwards and options as part of a hedge on 51.1 billion yen of profit repatriation received in July 2016 and 109.0 billion yen of future profit repatriation.

Our net investment hedge was effective during the three- and six-month periods ended June 30, 2016 and 2015, respectively.

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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, 2015.

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, 2016 Realized Investment Gains (Losses)	2016 Other Comprehensive Income (Loss)[1]	2015 Realized Investment Gains (Losses)	2015 Other Comprehensive Income (Loss)[1]	Six Months Ended June 30, 2016 Realized Investment Gains (Losses)	2016 Other Comprehensive Income (Loss)[1]	2015 Realized Investment Gains (Losses)	2015 Other Comprehensive Income (Loss)[1]
Qualifying hedges:								
Cash flow hedges:								
Foreign currency swaps	$1	$ 8	$0	$ 2	$1	$ 11	$0	$ (2)
Total cash flow hedges	1	8	0	2	1	11	0	(2)
Fair value hedges:								
Foreign currency forwards[2]	(80)	0	(23)	0	(105)	0	(25)	0
Foreign currency options[2]	7	0	1	0	6	0	4	0
Interest rate swaptions[2]	0	0	1	0	0	0	4	0
Total fair value hedges	(73)	0	(21)	0	(99)	0	(17)	0
Net investment hedge:								
Non-derivative hedging instruments	0	(22)	0	6	0	(37)	0	5
Foreign currency forwards	0	(83)	0	32	0	(133)	0	34
Foreign currency options	0	(15)	0	0	0	(31)	0	0
Total net investment hedge	0	(120)	0	38	0	(201)	0	39
Non-qualifying strategies:								
Foreign currency	(104)	0	55	0	(94)	0	(2)	0

swaps								
Foreign currency forwards	10	0	(1)	0	21	0	(1)	0
Credit default swaps	(1)	0	0	0	0	0	1	0
Interest rate swaps	0	0	2	0	0	0	5	0
Total non-qualifying strategies	(95)	0	56	0	(73)	0	3	0
Total	$(167)	$ (112)	$35	$ 40	$(171)	$ (190)	$(14)	$ 37

(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)

We reclassified a $1 million gain related to our designated cash flow hedges from accumulated other comprehensive income (loss) into earnings for the three- and six-month periods ended June 30, 2016, and reclassified an immaterial amount for the three- and six-month periods ended June 30, 2015, respectively. There was no gain or loss reclassified from accumulated other comprehensive income (loss) into earnings related to the net investment hedge for the three- and six-month periods ended June 30, 2016 and 2015, respectively. As of June 30, 2016, 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

Some 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 U.S. GAAP, our policy is to not offset these financial instruments in the Consolidated Balance Sheets.

Offsetting of Financial Assets and Derivative Assets
June 30, 2016

(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	Gross Amounts Not Offset in Balance Sheet: Collateral Received	Net Amount
Derivative assets:						
Foreign currency swaps	$492	$ 0	$ 492	$0	$(187)	$ 305
Foreign currency forwards	1,459	0	1,459	0	(1,554)	(95)
Foreign currency options	11	0	11	0	(6)	5
Credit default swaps	1	0	1	0	0	1
Total derivative assets, subject to a master netting arrangement or offsetting arrangement	1,963	0	1,963	0	(1,747) [1]	216
Securities lending and similar arrangements	801	0	801	0	(801)	0
Total	$2,764	$ 0	$ 2,764	$0	$(2,548)	$ 216

[1] Consists of $1,509 of pledged securities and $238 of cash.

December 31, 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	Gross Amounts Not Offset in Balance Sheet: Collateral Received	Net Amount
Derivative assets:						
Foreign currency swaps	$563	$ 0	$ 563	$0	$(313)	$ 250
Foreign currency forwards	107	0	107	0	(96)	11
Foreign currency options	5	0	5	0	(3)	2
Credit default swaps	1	0	1	0	0	1
Total derivative assets, subject to a master netting arrangement	676	0	676	0	(412) [1]	264

or offsetting arrangement						
Securities lending and similar arrangements	921	0	921	0	(921)	0
Total	$ 1,597	$ 0	$ 1,597	$ 0	$ (1,333)	$ 264

(1) Consists of $86 of pledged securities and $326 of cash.

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Offsetting of Financial Liabilities and Derivative Liabilities
June 30, 2016

(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: Carrying Value of Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Collateral Pledged	Net Amount
Derivative liabilities:						
Foreign currency swaps	$(396)	$ 0	$(396)	$0	$111	$(285)
Foreign currency forwards	(93)	0	(93)	0	95	2
Foreign currency options	(53)	0	(53)	0	53	0
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(542)	0	(542)	0	259 [1]	(283)
Securities lending and similar arrangements	(826)	0	(826)	801	0	(25)
Total	$(1,368)	$ 0	$(1,368)	$801	$259	$(308)

[1] Consists entirely of cash.

December 31, 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: Carrying Value of Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Collateral Pledged	Net Amount
Derivative liabilities:						
Foreign currency swaps	$(314)	$ 0	$(314)	$0	$ 1	$(313)
Foreign currency forwards	(49)	0	(49)	0	18	(31)
Foreign currency options	(8)	0	(8)	0	1	(7)
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(371)	0	(371)	0	20 [1]	(351)
Securities lending and similar arrangements	(941)	0	(941)	921	0	(20)
Total	$(1,312)	$ 0	$(1,312)	$921	$ 20	$(371)

[1] Consists of $17 of pledged securities and $3 of cash.

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, 2015.

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

(In millions)	June 30, 2016 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	$27,284	$859	$ 0	$28,143
Municipalities	0	1,360	0	1,360
Mortgage- and asset-backed securities	0	886	252	1,138
Public utilities	0	8,327	0	8,327
Sovereign and supranational	0	1,565	0	1,565
Banks/financial institutions	0	6,200	26	6,226
Other corporate	0	33,527	0	33,527
Total fixed maturities	27,284	52,724	278	80,286
Perpetual securities:				
Banks/financial institutions	0	1,598	0	1,598
Other corporate	0	234	0	234
Total perpetual securities	0	1,832	0	1,832
Equity securities	1,188	6	3	1,197
Other assets:				
Foreign currency swaps	0	316	176	492
Foreign currency forwards	0	1,459	0	1,459
Foreign currency options	0	11	0	11
Credit default swaps	0	0	1	1
Total other assets	0	1,786	177	1,963
Other investments	207	0	0	207
Cash and cash equivalents	3,700	0	0	3,700
Total assets	$32,379	$56,348	$ 458	$89,185
Liabilities:				
Foreign currency swaps	$0	$279	$ 117	$396
Foreign currency forwards	0	93	0	93
Foreign currency options	0	53	0	53
Total liabilities	$0	$425	$ 117	$542

(In millions)	December 31, 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	$18,669	$607	$ 0	$19,276
Municipalities	0	1,208	0	1,208
Mortgage- and asset-backed securities	0	362	220	582
Public utilities	0	7,479	0	7,479
Sovereign and supranational	0	1,407	0	1,407
Banks/financial institutions	0	5,993	26	6,019
Other corporate	0	29,378	0	29,378
Total fixed maturities	18,669	46,434	246	65,349
Perpetual securities:				
Banks/financial institutions	0	1,742	0	1,742
Other corporate	0	205	0	205
Total perpetual securities	0	1,947	0	1,947
Equity securities	489	6	3	498
Other assets:				
Foreign currency swaps	0	462	101	563
Foreign currency forwards	0	107	0	107
Foreign currency options	0	5	0	5
Credit default swaps	0	0	1	1
Total other assets	0	574	102	676
Other investments	176	0	0	176
Cash and cash equivalents	4,350	0	0	4,350
Total assets	$23,684	$48,961	$ 351	$72,996
Liabilities:				
Foreign currency swaps	$0	$21	$ 293	$314
Foreign currency forwards	0	49	0	49
Foreign currency options	0	8	0	8
Total liabilities	$0	$78	$ 293	$371

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, 2016				
(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	$23,440	$32,076	$0	$ 0	$32,076
Municipalities	398	0	565	0	565
Mortgage and asset-backed securities	39	0	13	28	41
Public utilities	3,623	0	4,028	0	4,028
Sovereign and supranational	2,994	0	3,391	0	3,391
Banks/financial institutions	4,659	0	4,920	0	4,920
Other corporate	3,193	0	3,775	0	3,775
Other investments	415	0	0	421	421
Total assets	$38,761	$32,076	$16,692	$ 449	$49,217
Liabilities:					
Other policyholders' funds	$7,468	$0	$0	$ 7,327	$7,327
Notes payable (excluding capital leases)	4,987	0	0	5,522	5,522
Total liabilities	$12,455	$0	$0	$ 12,849	$12,849

(In millions)	December 31, 2015 Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	$20,004	$23,391	$0	$ 0	$23,391
Municipalities	341	0	415	0	415
Mortgage and asset-backed securities	36	0	12	26	38
Public utilities	3,092	0	3,203	0	3,203
Sovereign and supranational	2,555	0	2,711	0	2,711
Banks/financial institutions	4,431	0	4,546	0	4,546
Other corporate	3,000	0	3,216	0	3,216
Other investments	118	0	0	118	118
Total assets	$33,577	$23,391	$ 14,103	$ 144	$37,638
Liabilities:					
Other policyholders' funds	$6,285	$0	$0	$ 6,160	$6,160
Notes payable (excluding capital leases)	4,991	0	0	5,285	5,285
Total liabilities	$11,276	$0	$0	$ 11,445	$11,445

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 (excluding loan receivables), 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 U.S. 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 Classification 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, 2016 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	$27,284	$ 859	$ 0	$28,143
Total government and agencies	27,284	859	0	28,143
Municipalities:				
Third party pricing vendor	0	1,360	0	1,360
Total municipalities	0	1,360	0	1,360
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	886	0	886
Broker/other	0	0	252	252
Total mortgage- and asset-backed securities	0	886	252	1,138
Public utilities:				
Third party pricing vendor	0	8,327	0	8,327
Total public utilities	0	8,327	0	8,327
Sovereign and supranational:				
Third party pricing vendor	0	1,565	0	1,565
Total sovereign and supranational	0	1,565	0	1,565
Banks/financial institutions:				
Third party pricing vendor	0	6,200	0	6,200
Broker/other	0	0	26	26
Total banks/financial institutions	0	6,200	26	6,226
Other corporate:				
Third party pricing vendor	0	33,527	0	33,527
Total other corporate	0	33,527	0	33,527
Total fixed maturities	27,284	52,724	278	80,286
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	1,598	0	1,598
Total banks/financial institutions	0	1,598	0	1,598
Other corporate:				
Third party pricing vendor	0	234	0	234
Total other corporate	0	234	0	234
Total perpetual securities	0	1,832	0	1,832
Equity securities:				
Third party pricing vendor	1,188	6	0	1,194
Broker/other	0	0	3	3
Total equity securities	1,188	6	3	1,197
Total securities available for sale	$28,472	$ 54,562	$ 281	$83,315

(In millions)	June 30, 2016 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$32,076	$0	$ 0	$32,076
Total government and agencies	32,076	0	0	32,076
Municipalities:				
Third party pricing vendor	0	565	0	565
Total municipalities	0	565	0	565
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	13	0	13
Broker/other	0	0	28	28
Total mortgage- and asset-backed securities	0	13	28	41
Public utilities:				
Third party pricing vendor	0	4,028	0	4,028
Total public utilities	0	4,028	0	4,028
Sovereign and supranational:				
Third party pricing vendor	0	3,391	0	3,391
Total sovereign and supranational	0	3,391	0	3,391
Banks/financial institutions:				
Third party pricing vendor	0	4,823	0	4,823
Broker/other	0	97	0	97
Total banks/financial institutions	0	4,920	0	4,920
Other corporate:				
Third party pricing vendor	0	3,775	0	3,775
Total other corporate	0	3,775	0	3,775
Total securities held to maturity	$32,076	$ 16,692	$ 28	$48,796

(In millions)	December 31, 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	$18,669	$607	$ 0	$19,276
Total government and agencies	18,669	607	0	19,276
Municipalities:				
Third party pricing vendor	0	1,208	0	1,208
Total municipalities	0	1,208	0	1,208
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	362	0	362
Broker/other	0	0	220	220
Total mortgage- and asset-backed securities	0	362	220	582
Public utilities:				
Third party pricing vendor	0	7,479	0	7,479
Total public utilities	0	7,479	0	7,479
Sovereign and supranational:				
Third party pricing vendor	0	1,407	0	1,407
Total sovereign and supranational	0	1,407	0	1,407
Banks/financial institutions:				
Third party pricing vendor	0	5,993	0	5,993
Broker/other	0	0	26	26
Total banks/financial institutions	0	5,993	26	6,019
Other corporate:				
Third party pricing vendor	0	29,378	0	29,378
Total other corporate	0	29,378	0	29,378
Total fixed maturities	18,669	46,434	246	65,349
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	1,742	0	1,742
Total banks/financial institutions	0	1,742	0	1,742
Other corporate:				
Third party pricing vendor	0	205	0	205
Total other corporate	0	205	0	205
Total perpetual securities	0	1,947	0	1,947
Equity securities:				
Third party pricing vendor	489	6	0	495
Broker/other	0	0	3	3
Total equity securities	489	6	3	498
Total securities available for sale	$19,158	$48,387	$ 249	$67,794

(In millions)	December 31, 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 held to maturity, carried at amortized cost:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$23,391	$ 0	$ 0	$23,391
Total government and agencies	23,391	0	0	23,391
Municipalities:				
Third party pricing vendor	0	415	0	415
Total municipalities	0	415	0	415
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	12	0	12
Broker/other	0	0	26	26
Total mortgage- and asset-backed securities	0	12	26	38
Public utilities:				
Third party pricing vendor	0	3,203	0	3,203
Total public utilities	0	3,203	0	3,203
Sovereign and supranational:				
Third party pricing vendor	0	2,711	0	2,711
Total sovereign and supranational	0	2,711	0	2,711
Banks/financial institutions:				
Third party pricing vendor	0	4,546	0	4,546
Total banks/financial institutions	0	4,546	0	4,546
Other corporate:				
Third party pricing vendor	0	3,189	0	3,189
Broker/other	0	27	0	27
Total other corporate	0	3,216	0	3,216
Total securities held to maturity	$23,391	$ 14,103	$ 26	$37,520

The following is a discussion of the determination of fair value of our remaining financial instruments.

Loan Receivables

Our loan receivables do not have readily determinable market prices and generally lack market liquidity. Fair values for loan receivables are determined based on the present value of expected future cash flows discounted at the applicable U.S. Treasury or LIBOR yield plus an appropriate spread that considers other risk factors, such as credit and liquidity risk. These spreads are provided by the applicable asset managers based on their knowledge of the current loan pricing environment and market conditions. The spreads are a significant component of the pricing inputs and are generally considered unobservable. Therefore, these investments have been assigned a Level 3 within the fair value hierarchy. Loan receivables are included in other investments on the consolidated balance sheets.

Derivatives

We use derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified in the same fair value hierarchy level as the associated asset. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility.

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

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

Other policyholders' funds

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

Notes payable

The fair values of our publicly issued notes payable classified as Level 3 were obtained from a limited number of independent 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. The fair values of our yen-denominated loans approximate their carrying values.

Transfers between Hierarchy Levels and Level 3 Rollforward

There were no transfers between Level 1 and 2 for the three- and six-month periods ended June 30, 2016 and 2015, respectively.

The following tables present the changes in fair value of our available-for-sale investments and derivatives classified as Level 3.

Three Months Ended
June 30, 2016

	Fixed Maturities		Perpetual Securities	Equity Securities	Derivatives (1)		
(In millions)	Mortgage- and Asset-Backed Securities	Banks/ Financial Institutions	Banks/ Financial Institutions		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 237	$ 26	$ 0	$ 3	$ (63)	$ 2	$ 205
Realized investment gains (losses) included in earnings	0	0	0	0	123	(1)	122
Unrealized gains (losses) included in other comprehensive income (loss)	26	0	0	0	(1)	0	25
Purchases, issuances, sales and settlements:							
Purchases	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0
Settlements	(11)	0	0	0	0	0	(11)
Transfers into Level 3	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Balance, end of period	$ 252	$ 26	$ 0	$ 3	$ 59	$ 1	$ 341
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included	$ 0	$ 0	$ 0	$ 0	$ 123	$ (1)	$ 122

in realized
investment gains
(losses)

[1] Derivative assets and liabilities are presented net

Three Months Ended
June 30, 2015

(In millions)	Fixed Maturities		Perpetual Securities	Equity Securities	Derivatives [1]		
	Mortgage- and Asset-Backed Securities	Banks/ Financial Institutions	Banks/ Financial Institutions		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$221	$ 26	$ 150	$ 3	$(283)	$ 1	$118
Realized investment gains (losses) included in earnings	0	0	0	0	58	0	58
Unrealized gains (losses) included in other comprehensive income (loss)	(6)	(1)	(3)	0	2	0	(8)
Purchases, issuances, sales and settlements:							
Purchases	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0
Sales	0	0	(147)	0	0	0	(147)
Settlements	(1)	0	0	0	0	0	(1)
Transfers into Level 3	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Balance, end of period	$214	$ 25	$ 0	$ 3	$(223)	$ 1	$20
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$58	$ 0	$58

[1] Derivative assets and liabilities are presented net

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Six Months Ended
June 30, 2016

(In millions)	Fixed Maturities		Perpetual Securities	Equity Securities	Derivatives [1]		
	Mortgage- and Asset-Backed Securities	Banks/ Financial Institutions	Banks/ Financial Institutions		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$220	$ 26	$ 0	$ 3	$(192)	$ 1	$58
Realized investment gains (losses) included in earnings	0	0	0	0	268	0	268
Unrealized gains (losses) included in other comprehensive income (loss)	47	0	0	0	(16)	0	31
Purchases, issuances, sales and settlements:							
Purchases	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0
Settlements	(15)	0	0	0	(1)	0	(16)
Transfers into Level 3	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Balance, end of period	$252	$ 26	$ 0	$ 3	$59	$ 1	$341
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$268	$ 0	$268

[1] Derivative assets and liabilities are presented net

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Six Months Ended
June 30, 2015

(In millions)	Fixed Maturities: Mortgage- and Asset-Backed Securities	Fixed Maturities: Banks/Financial Institutions	Perpetual Securities: Banks/Financial Institutions	Equity Securities	Derivatives [1]: Foreign Currency Swaps	Derivatives [1]: Credit Default Swaps	Total
Balance, beginning of period	$223	$ 26	$ 149	$ 3	$(212)	$ 0	$189
Realized investment gains (losses) included in earnings	0	0	0	0	(25)	1	(24)
Unrealized gains (losses) included in other comprehensive income (loss)	(7)	(1)	(2)	0	(2)	0	(12)
Purchases, issuances, sales and settlements:							
Purchases	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0
Sales	0	0	(147)	0	0	0	(147)
Settlements	(2)	0	0	0	16	0	14
Transfers into Level 3	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Balance, end of period	$214	$ 25	$ 0	$ 3	$(223)	$ 1	$20
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$(25)	$ 1	$(24)

[1] Derivative assets and liabilities are presented net

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Fair Value Sensitivity

Level 3 Significant Unobservable Input Sensitivity

The following tables summarize the significant unobservable inputs used in the valuation of our Level 3 available-for-sale investments and derivatives. Included in the tables are the inputs or range of possible inputs that have an effect on the overall valuation of the financial instruments.
June 30, 2016

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturities:					
Mortgage- and asset-backed securities	$252	Consensus pricing	Offered quotes	N/A	(d)
Banks/financial institutions	26	Consensus pricing	Offered quotes	N/A	(d)
Equity securities	3	Net asset value	Offered quotes	$1 - $793 ($9)	
Other assets:					
Foreign currency swaps	42	Discounted cash flow	Interest rates (USD)	1.36% - 1.83%	(a)
			Interest rates (JPY)	(.04%) - .17%	(b)
			CDS spreads	20 - 163 bps	
			Foreign exchange rates	21.14%	(c)
	61	Discounted cash flow	Interest rates (USD)	1.64% - 2.14%	(a)
			Interest rates (JPY)	.15% - .60%	(b)
			CDS spreads	19 - 106 bps	
	73	Discounted cash flow	Interest rates (USD)	1.64% - 2.14%	(a)
			Interest rates (JPY)	.15% - .60%	(b)
			Foreign exchange rates	21.14%	(c)
Credit default swaps	1	Discounted cash flow	Base correlation	64.18% - 69.87%	(e)
			CDS spreads	84 bps	
			Recovery rate	36.93%	
Total assets	$458				

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(c) Based on 10 year volatility of JPY/USD exchange rate
(d) N/A represents securities where we receive unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.
(e) Range of base correlation for our bespoke tranche for attachment and detachment points corresponding to market indices.

June 30, 2016 (In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Foreign currency swaps	$96	Discounted cash flow	Interest rates (USD)	1.64% - 2.14%	(a)
			Interest rates (JPY)	.15% - .60%	(b)
			CDS spreads	32 - 147 bps	
			Foreign exchange rates	21.14%	(c)
	19	Discounted cash flow	Interest rates (USD)	1.64% - 2.14%	(a)
			Interest rates (JPY)	.15% - .60%	(b)
			CDS spreads	49 - 329 bps	
	2	Discounted cash flow	Interest rates (USD)	1.64% - 2.14%	(a)
			Interest rates (JPY)	.15% - .60%	(b)
			Foreign exchange rates	21.14%	(c)
Total liabilities	$117				

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(c) Based on 10 year volatility of JPY/USD exchange rate

December 31, 2015

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturities:					
Mortgage- and asset-backed securities	$220	Consensus pricing	Offered quotes	N/A	(d)
Banks/financial institutions	26	Consensus pricing	Offered quotes	N/A	(d)
Equity securities	3	Net asset value	Offered quotes	$1-$677 ($7)	
Other assets:					
Foreign currency swaps	7	Discounted cash flow	Interest rates (USD)	2.20% - 2.62%	(a)
			Interest rates (JPY)	.42% - 1.22%	(b)
			CDS spreads	32 - 147 bps	
			Foreign exchange rates	20.05%	(c)
	94	Discounted cash flow	Interest rates (USD)	2.20% - 2.62%	(a)
			Interest rates (JPY)	.42% - 1.22%	(b)
			Foreign exchange rates	20.05%	(c)
Credit default swaps	1	Discounted cash flow	Base correlation	53.26% - 58.40%	(e)
			CDS spreads	123 bps	
			Recovery rate	36.87%	
Total assets	$351				

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(c) Based on 10 year volatility of JPY/USD exchange rate
(d) N/A represents securities where we receive unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.
(e) Range of base correlation for our bespoke tranche for attachment and detachment points corresponding to market indices

December 31, 2015

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Foreign currency swaps	$158	Discounted cash flow	Interest rates (USD)	2.20% - 2.62%	(a)
			Interest rates (JPY)	.42% - 1.22%	(b)
			CDS spreads	32 - 147 bps	
			Foreign exchange rates	20.05%	(c)
	120	Discounted cash flow	Interest rates (USD)	2.20% - 2.62%	(a)
			Interest rates (JPY)	.42% - 1.22%	(b)
			CDS spreads	35 - 213 bps	
	15	Discounted cash flow	Interest rates (USD)	2.20% - 2.62%	(a)
			Interest rates (JPY)	.42% - 1.22%	(b)
			Foreign exchange rates	20.05%	(c)
Total liabilities	$293				

(a) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(b) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(c) Based on 10 year volatility of JPY/USD exchange rate

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

Net Asset Value

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

Offered Quotes

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

Interest Rates, CDS Spreads, Foreign Exchange Rates

The significant drivers of the valuation of the interest and foreign exchange swaps are interest rates, foreign exchange rates and CDS spreads. Our swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. Since most of our yen-denominated cross currency swaps are in a net liability position, an increase in interest rates will decrease the liabilities and increase the value of the swap.
Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal receivables at the termination of the swap. An increase in yen interest rates will decrease the value of the final settlement foreign exchange receivables and decrease the value of the swap, and an increase in U.S. dollar interest rates will increase the swap value.
A similar sensitivity pattern is observed for the foreign exchange rates. When the spot U.S. dollar/Japanese yen (USD/JPY) foreign exchange rate decreases and the swap is receiving a final exchange payment in JPY, the swap value will increase due to the appreciation of the JPY. Most of our swaps are designed to receive payments in JPY at the termination and will thus be impacted by the USD/JPY foreign exchange rate in this way. In cases where there is no final foreign exchange receivable in JPY and we are paying JPY as interest payments and receiving USD, a decrease in the foreign exchange rate will lead to a decrease in the swap value.

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

Due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data.

Interest rates, CDS spreads, and foreign exchange rates are unobservable inputs in the determination of fair value of foreign currency swaps.

Base Correlations, CDS Spreads, Recovery Rates

Our remaining CDO is a tranche on a basket of single-name credit default swaps. The risk in this synthetic CDO comes from the single-name CDS risk and the correlations between the single names. The valuation of synthetic CDOs is dependent on the calibration of market prices for interest rates, single name CDS default probabilities and base correlation using financial modeling tools. Since there is limited or no observable data available for this tranche, the base correlations must be obtained from commonly traded market tranches such as the CDX and iTraxx indices. From the historical prices of these indices, base correlations can be obtained to develop a pricing curve of CDOs with different seniorities. Since the reference entities of the market indices do not match those in the portfolio underlying the synthetic

CDO to be valued, several processing steps are taken to map the CDO in our portfolio to the indices. With the base correlation determined and the appropriate spreads selected, a valuation is calculated. An increase in the CDS spreads in the underlying portfolio leads to a decrease in the value due to higher probability of defaults and losses. The impact on the valuation due to base correlation depends on a number of factors, including the riskiness between market tranches and the modeled tranche based on our portfolio and the equivalence between detachment points in these tranches. Generally speaking, an increase in base correlation will decrease the value of the senior tranches while increasing the value of junior tranches. This may result in a positive or negative value change.

The CDO tranche in our portfolio is a senior mezzanine tranche and, due to the low level of credit support for this type of tranche, exhibits equity-like behavior. As a result, an increase in recovery rates tends to cause its value to decrease.

Base correlations, CDS spreads, and recovery rates are unobservable inputs in the determination of fair value of credit default swaps.

For additional information on our investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2015.

6. REINSURANCE

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

We have recorded a deferred profit liability related to reinsurance transactions. The remaining deferred profit liability of $953 million, as of June 30, 2016, included in future policy benefits in the consolidated balance sheet, is being amortized into income over the expected lives of the policies. We also have recorded a reinsurance recoverable for reinsurance transactions, which is included in other assets in the consolidated balance sheet and had a remaining balance of $959 million and $805 million as of June 30, 2016 and December 31, 2015, respectively. The increase in the reinsurance recoverable balance was driven by two aggregating factors: yen strengthening and the growth in reserves related to the business that has been reinsured as the policies age. The spot yen/dollar exchange rate strengthened by approximately 17% and ceded reserves increased approximately 2% from December 31, 2015 to June 30, 2016.

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

(In millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Direct premium income	$4,915	$4,448	$9,605	$8,962
Ceded to other companies:				
Ceded Aflac Japan closed blocks	(141)	(132)	(275)	(222)
Other	(12)	(8)	(24)	(18)
Assumed from other companies:				
Retrocession activities	59	55	115	70
Other	2	1	4	4
Net premium income	$4,823	$4,364	$9,425	$8,796
Direct benefits and claims	$3,332	$3,013	$6,435	$6,038
Ceded benefits and change in reserves for future benefits:				
Ceded Aflac Japan closed blocks	(129)	(120)	(250)	(200)
Other	8	10	12	3
Assumed from other companies:				
Retrocession activities	56	51	109	65
Other	(13)	(17)	(27)	(17)
Benefits and claims, net	$3,254	$2,937	$6,279	$5,889

These reinsurance transactions are indemnity reinsurance that do not relieve us from our obligations to policyholders. In the event that the reinsurer is unable to meet their obligations, we remain liable for the reinsured claims.

As a part of our capital contingency plan, we entered into a committed reinsurance facility agreement on December 1, 2015 in the amount of approximately 110 billion yen. This reinsurance facility agreement is effective from December 1, 2015 until December 31, 2016. There are also additional commitment periods of a one-year duration each which are automatically extended unless notification is received from the reinsurer within 60 days prior to the expiration. The reinsurer can withdraw from the committed facility if Aflac's Standard and Poor's (S&P) rating drops below BBB-. As of June 30, 2016, we have not executed a reinsurance treaty under this committed reinsurance facility.

7.NOTES PAYABLE

A summary of notes payable follows:

(In millions)	June 30, 2016		December 31, 2015	
2.65% senior notes due February 2017	$650	(1)	$ 651	(1)
2.40% senior notes due March 2020	547	(2)	546	(2)
4.00% senior notes due February 2022	348		348	
3.625% senior notes due June 2023	696		696	
3.625% senior notes due November 2024	744		744	
3.25% senior notes due March 2025	445		445	
6.90% senior notes due December 2039	394	(2)	393	(2)
6.45% senior notes due August 2040	445		445	
5.50% subordinated debentures due September 2052	486		486	
Yen-denominated Uridashi notes:				
2.26% notes due September 2016 (principal amount 8 billion yen)	78		66	
Yen-denominated Samurai notes:				
1.84% notes due July 2016 (principal amount 15.8 billion yen)	154	(3)	131	
Capitalized lease obligations payable through 2023	22		20	
Total notes payable	$5,009		$ 4,971	

(1) Principal amount plus an issuance premium that is being amortized over the life of the notes
(2) Principal amount net of an issuance discount that is being amortized over the life of the notes
(3) Paid off in July 2016 at its specific maturity date
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.

In March 2016, the Parent Company entered into a three-year senior unsecured revolving credit facility agreement with a group of financial institutions that provides for borrowings of up to 100.0 billion yen on a revolving basis. Borrowings bear interest at a rate per annum equal to the Tokyo interbank market rate (TIBOR) plus, at our option, either (a) the applicable TIBOR margin during the period from the closing date to the commitment termination date or (b) the applicable TIBOR margin during the term out period. The applicable margin ranges between .35% and .75% during the period from the closing date to the commitment termination date and .70% and 1.50% during the term out period, depending on the Parent Company's debt ratings as of the date of determination. In addition, the Parent Company is required to pay a facility fee on the commitments ranging between .30% and .50%, also based on the Parent Company's debt ratings as of the date of determination. Borrowings under this credit agreement may be used for general corporate purposes, including a capital contingency plan for the operations of the Parent Company, and will expire on the earlier of (a) March 31, 2019, or (b) the date the commitments are terminated pursuant to an event of default, as such term is defined in the credit agreement. The credit facility requires compliance with certain financial covenants on a quarterly basis. As of June 30, 2016, we did not have any borrowings outstanding under our 100.0 billion yen revolving credit agreement.

The Parent Company and Aflac have a 364-day uncommitted bilateral line of credit with a third party that provides for borrowings in the amount of $100 million. Borrowings will bear interest at the rate quoted by the bank and agreed upon at the time of making such loan and will have a three-month maturity period. There are no related facility fees, upfront expenses or financial covenant requirements. Borrowings under this credit agreement may be used for general corporate purposes. Borrowings under the financing agreement will mature no later than three months after the last drawdown date of October 15, 2016. As of June 30, 2016, we did not have any borrowings outstanding under our $100 million credit agreement.

The Parent Company and Aflac have a five-year senior unsecured revolving credit facility agreement with a syndicate of financial institutions that provides for borrowings of up to 55.0 billion yen or the equivalent of yen in U.S. dollars on a revolving basis. This credit agreement provides for borrowings in Japanese yen or the equivalent of Japanese yen in U.S. dollars on a revolving basis. Borrowings bear interest at a rate per annum equal to, at our option, either (a) a eurocurrency rate determined by reference to the London Interbank Offered Rate (LIBOR) for the interest period relevant to such borrowing adjusted for certain additional costs or (b) a base rate determined by reference to the highest of (1) the federal funds effective rate plus ½ of 1%, (2) the rate of interest for such day announced by Mizuho Bank, Ltd. as its prime rate and (3) the eurocurrency rate for an interest period of one month plus 1.00%, in each case plus an applicable margin. The applicable margin ranges between .79% and 1.275% for eurocurrency rate borrowings and 0.0% and .275% for base rate borrowings, depending on the Parent Company's debt ratings as of the date of determination. In addition, the Parent Company and Aflac are required to pay a facility fee on the commitments ranging between .085% and .225%, also based on the Parent Company's debt ratings as of the date of determination. Borrowings under the amended and restated credit facility may be used for general corporate purposes, including a capital contingency plan for the operations of the Parent Company and Aflac. The amended and restated credit facility requires compliance with certain financial covenants on a quarterly basis and will expire on the earlier of (a) September 18, 2020, or (b) the date the commitments are terminated pursuant to an event of default, as such term is defined in the credit agreement. As of June 30, 2016, we did not have any borrowings outstanding under our 55.0 billion yen revolving credit agreement.

The Parent Company and Aflac have an uncommitted bilateral line of credit with a third party that provides for borrowings in the amount of $50 million. Borrowings will bear interest at the rate quoted by the bank and agreed upon at the time of making such loan and will have a three-month maturity period. There are no related facility fees, upfront expenses or financial covenant requirements. Borrowings under this credit agreement may be used for general corporate purposes. As of June 30, 2016, we did not have any borrowings outstanding under our $50 million credit agreement.

We were in compliance with all of the covenants of our notes payable and lines of credit at June 30, 2016. No events of default or defaults occurred during the six-month period ended June 30, 2016.

For additional information, see Notes 4 and 9 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2015.

8. SHAREHOLDERS' EQUITY

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

(In thousands of shares)	2016	2015
Common stock - issued:		
Balance, beginning of period	669,723	668,132
Exercise of stock options and issuance of restricted shares	1,041	934
Balance, end of period	670,764	669,066
Treasury stock:		
Balance, beginning of period	245,343	225,687
Purchases of treasury stock:		
Open market	16,026	13,534
Other	224	214
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	(594)	