AFLAC INC
Form 10-Q
August 04, 2015
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, 2015
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-07434
Aflac Incorporated

(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 27, 2015
Common Stock, $.10 Par Value	430,694,102

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2015
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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, 2015, and 2014, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aflac Incorporated:

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

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia
August 4, 2015

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

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

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

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

[(1)] Includes $100 in 2015 and $106 in 2014 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

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

[(2)] Includes $322 in 2015 and $318 in 2014 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

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

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

(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 70% and 75% of the Company's total revenues in the six-month periods ended June 30, 2015, and 2014, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 83% at June 30, 2015, compared with 82% at December 31, 2014.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of June 30, 2015 and December 31, 2014, the consolidated statements of earnings and comprehensive income (loss) for the three- and six-month periods ended June 30, 2015, and 2014, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2015 and 2014. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2014.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Income Statement - Extraordinary and Unusual Items - Simplifying income statement presentation by eliminating the concept of extraordinary items: In January 2015, the FASB issued updated guidance that eliminates from GAAP the concept of extraordinary items. Although the amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this updated guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We adopted this guidance as of January 1, 2015. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

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

Accounting Pronouncements Pending Adoption

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

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

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

Consolidation - Amendments to the consolidation analysis: In February 2015, the FASB issued updated guidance that affects evaluation of whether limited partnerships and similar legal entities (limited liability corporations and securitization structures, etc.) are variable interest entities (VIEs), evaluation of whether fees paid to a decision maker or a service provider are a variable interest, and evaluation of the effect of fee arrangements and the effect of related parties on the determination of the primary beneficiary under the VIE model for consolidation. The updated guidance eliminates the presumption that a general partner should consolidate a limited partnership. Limited partnership and similar legal entities that provide partners with either substantive kick-out rights or substantive participating rights (representing the partners' controlling financial interest in the entity) over the general partner will now be evaluated under the voting interest model rather than the VIE model for consolidation. In regard to the fees paid to a decision maker or a service provider, the updated guidance eliminates three of the six criteria that an entity's decision makers or service providers must meet for them to conclude that the fees do not represent a variable interest in that entity and, thus, should be excluded from the assessment for determining the primary beneficiary. Finally, in situations where no single party has a controlling financial interest in a VIE, the related party relationships under common control should be considered in their entirety in determining whether that common control group has a controlling financial interest in the VIE. However, if substantially all of the activities of the VIE are conducted on behalf of a single variable interest holder (excluding the decision maker) in a related party group that has the characteristics of a primary beneficiary, that single variable interest holder must consolidate the VIE as the primary beneficiary. The amendments in the updated guidance are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early application is permitted, including adoption in an interim period. We are evaluating whether the adoption of this guidance will have an impact on our financial position, results of operations or disclosures.

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

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

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

Revenue from contracts with customers: In May 2014, the FASB issued updated guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

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

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

2. BUSINESS SEGMENT INFORMATION

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

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

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

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

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

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

Assets were as follows:

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

3. INVESTMENTS

Investment Holdings

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

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

(In millions)	June 30, 2015 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$19,708	$2,541	$0	$22,249
Municipalities	339	58	0	397
Mortgage- and asset-backed securities	39	2	0	41
Public utilities	3,209	158	72	3,295
Sovereign and supranational	2,516	193	21	2,688
Banks/financial institutions	4,528	143	121	4,550
Other corporate	2,954	225	34	3,145
Total yen-denominated	33,293	3,320	248	36,365
Total securities held to maturity	$33,293	$3,320	$248	$36,365

(In millions)	December 31, 2014 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$17,341	$1,740	$0	$19,081
Municipalities	88	9	0	97
Mortgage- and asset-backed securities	351	35	0	386
Public utilities	1,691	226	5	1,912
Sovereign and supranational	799	163	0	962
Banks/financial institutions	2,752	325	189	2,888
Other corporate	3,479	531	48	3,962
Total yen-denominated	26,501	3,029	242	29,288
Dollar-denominated:				
U.S. government and agencies	100	17	0	117
Municipalities	961	201	2	1,160
Mortgage- and asset-backed securities	185	31	0	216
Public utilities	5,061	960	36	5,985
Sovereign and supranational	343	111	0	454
Banks/financial institutions	2,943	775	8	3,710
Other corporate	22,291	2,682	330	24,643
Total dollar-denominated	31,884	4,777	376	36,285
Total fixed maturities	58,385	7,806	618	65,573
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	2,132	223	92	2,263
Other corporate	183	48	0	231
Dollar-denominated:				
Banks/financial institutions	125	50	0	175
Total perpetual securities	2,440	321	92	2,669
Equity securities	19	9	0	28
Total securities available for sale	$60,844	$8,136	$710	