AFLAC INC
Form 10-Q
August 03, 2017
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, 2017
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 website, 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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 ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
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 26, 2017
Common Stock, $.10 Par Value	395,229,099

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2017
Table of Contents

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

As used in this report, “we,” “our,” “us” and “Registrant” refer to Aflac Incorporated.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The June 30, 2017, and 2016, 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, 2017, the related consolidated statements of earnings, and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, and the related consolidated statements of shareholders' equity, and cash flows for the six-month periods ended June 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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, 2016, 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 24, 2017, 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, 2016, 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 3, 2017

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Revenues:				
Net premiums, principally supplemental health insurance	$4,665	$4,823	$9,303	$9,425
Net investment income	802	822	1,596	1,623
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	(9)	(33)	(19)	(47)
Sales and redemptions	5	22	(1)	113
Derivative and other gains (losses)	(52)	(212)	(176)	(260)
Total realized investment gains (losses)	(56)	(223)	(196)	(194)
Other income (loss)	17	15	34	34
Total revenues	5,428	5,437	10,737	10,888
Benefits and expenses:				
Benefits and claims, net	3,039	3,254	6,091	6,279
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	283	284	577	576
Insurance commissions	335	345	664	678
Insurance and other expenses	665	654	1,339	1,273
Interest expense	61	66	122	131
Total acquisition and operating expenses	1,344	1,349	2,702	2,658
Total benefits and expenses	4,383	4,603	8,793	8,937
Earnings before income taxes	1,045	834	1,944	1,951
Income taxes	332	286	639	672
Net earnings	$713	$548	$1,305	$1,279
Net earnings per share:				
Basic	$1.80	$1.33	$3.27	$3.08
Diluted	1.79	1.32	3.25	3.06
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	396,433	411,853	398,768	415,301
Diluted	399,348	414,326	401,695	417,623
Cash dividends per share	$.43	$.41	$.86	$.82

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)	2017	2016	2017	2016
Net earnings	$713	$548	$1,305	$1,279
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	9	899	383	1,588
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	1,075	2,693	549	5,382
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	1	11	17	(66)
Unrealized gains (losses) on derivatives during period	(2)	8	1	11
Pension liability adjustment during period	0	(4)	(2)	(6)
Total other comprehensive income (loss) before income taxes	1,083	3,607	948	6,909
Income tax expense (benefit) related to items of other comprehensive income (loss)	314	1,111	177	2,102
Other comprehensive income (loss), net of income taxes	769	2,496	771	4,807
Total comprehensive income (loss)	$1,482	$3,044	$2,076	$6,086

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	June 30, 2017 (Unaudited)	December 31, 2016
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $67,809 in 2017 and $62,195 in 2016)	$ 74,698	$ 68,778
Fixed maturities - consolidated variable interest entities (amortized cost $4,149 in 2017 and $4,168 in 2016)	5,059	4,982
Perpetual securities (amortized cost $1,319 in 2017 and $1,269 in 2016)	1,627	1,425
Perpetual securities - consolidated variable interest entities (amortized cost $241 in 2017 and $237 in 2016)	216	208
Equity securities (cost $257 in 2017 and $231 in 2016)	280	265
Equity securities - consolidated variable interest entities (cost $1,032 in 2017 and $972 in 2016)	1,123	1,044
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $39,307 in 2017 and $40,021 in 2016)	32,613	33,350
Other investments [(1)]	2,016	1,450
Cash and cash equivalents	4,264	4,859
Total investments and cash	121,896	116,361
Receivables	871	669
Accrued investment income	760	754
Deferred policy acquisition costs	9,340	8,993
Property and equipment, at cost less accumulated depreciation	442	433
Other [(2)]	2,085	2,609
Total assets	$ 135,394	$ 129,819

[(1)] Includes $1,200 in 2017 and $819 in 2016 of loan receivables from consolidated variable interest entities
[(2)] Includes $142 in 2017 and $127 in 2016 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

5

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	June 30, 2017 (Unaudited)	December 31, 2016
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	$80,652	$76,106
Unpaid policy claims	4,281	4,045
Unearned premiums	6,547	6,916
Other policyholders' funds	6,978	6,659
Total policy liabilities	98,458	93,726
Income taxes	6,057	5,387
Payables for return of cash collateral on loaned securities	663	526
Notes payable	5,252	5,360
Other [3]	3,461	4,338
Total liabilities	113,891	109,337
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2017 and 2016; issued 672,037 shares in 2017 and 671,249 shares in 2016	67	67
Additional paid-in capital	2,048	1,976
Retained earnings	26,942	25,981
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(1,580)	(1,983)
Unrealized gains (losses) on investment securities	5,173	4,805
Unrealized gains (losses) on derivatives	(23)	(24)
Pension liability adjustment	(169)	(168)
Treasury stock, at average cost	(10,955)	(10,172)
Total shareholders' equity	21,503	20,482
Total liabilities and shareholders' equity	$135,394	$129,819

[3] Includes $133 in 2017 and $146 in 2016 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

	Six Months Ended June 30,	
(In millions - Unaudited)	2017	2016
Common stock:		
Balance, beginning of period	$67	$67
Balance, end of period	67	67
Additional paid-in capital:		
Balance, beginning of period	1,976	1,828
Exercise of stock options	28	25
Share-based compensation	24	34
Gain (loss) on treasury stock reissued	20	18
Balance, end of period	2,048	1,905
Retained earnings:		
Balance, beginning of period	25,981	24,007
Net earnings	1,305	1,279
Dividends to shareholders	(344)	(342)
Balance, end of period	26,942	24,944
Accumulated other comprehensive income (loss):		
Balance, beginning of period	2,630	625
Unrealized foreign currency translation gains (losses) during period, net of income taxes	403	1,349
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments	368	3,455
Unrealized gains (losses) on derivatives during period, net of income taxes	1	7
Pension liability adjustment during period, net of income taxes	(1)	(4)
Balance, end of period	3,401	5,432
Treasury stock:		
Balance, beginning of period	(10,172)	(8,819)
Purchases of treasury stock	(813)	(1,014)
Cost of shares issued	30	35
Balance, end of period	(10,955)	(9,798)
Total shareholders' equity	$21,503	$22,550

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, 2017	2016
Cash flows from operating activities:		
Net earnings	$1,305	$1,279
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	8	53
Increase in deferred policy acquisition costs	(116)	(103)
Increase in policy liabilities	1,326	1,654
Change in income tax liabilities	368	(136)
Realized investment (gains) losses	196	194
Other, net	78	(87)
Net cash provided (used) by operating activities	3,165	2,854
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	2,114	675
Fixed maturities matured or called	451	612
Perpetual securities matured or called	9	234
Equity securities sold	157	50
Securities held to maturity:		
Fixed maturities matured or called	1,311	736
Costs of investments acquired:		
Available-for-sale fixed maturities acquired	(5,662)	(3,827)
Available-for-sale equity securities acquired	(178)	(691)
Other investments, net	(514)	(324)
Settlement of derivatives, net	(34)	664
Cash received (pledged or returned) as collateral, net	(129)	(525)
Other, net	(42)	(33)
Net cash provided (used) by investing activities	(2,517)	(2,429)
Cash flows from financing activities:		
Purchases of treasury stock	(813)	(1,014)
Proceeds from borrowings	524	0
Principal payments under debt obligations	(656)	(1)
Dividends paid to shareholders	(328)	(330)
Change in investment-type contracts, net	23	82
Treasury stock reissued	17	19
Other, net	2	(37)
Net cash provided (used) by financing activities	(1,231)	(1,281)
Effect of exchange rate changes on cash and cash equivalents	(12)	206
Net change in cash and cash equivalents	(595)	(650)
Cash and cash equivalents, beginning of period	4,859	4,350
Cash and cash equivalents, end of period	$4,264	$3,700
Supplemental disclosures of cash flow information:		
Income taxes paid	$293	$944
Interest paid	103	101
Noncash interest	19	30
Impairment losses included in realized investment losses	19	47

Noncash financing activities:		
Capital lease obligations	3	2
Treasury stock issued for:		
Associate stock bonus	16	17
Shareholder dividend reinvestment	16	12
Share-based compensation grants	1	5

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 69% and 75% of the Company's total revenues in the six-month periods ended June 30, 2017 and 2016, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 84% at June 30, 2017, compared with 83% at December 31, 2016.

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 and derivatives, 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, 2017 and December 31, 2016, the consolidated statements of earnings and comprehensive income (loss) for the three- and six-month periods ended June 30, 2017 and 2016, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2017 and 2016. 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 on Form 10-K for the year ended December 31, 2016 (2016 Annual Report).

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

Prior year foreign currency transaction gains and losses have been reclassified from Other income (loss) to Realized investment gains (losses) - Derivative and other gains (losses) to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity. This change in classification was made to reflect that the major source of our foreign currency transaction gains and losses is directly or indirectly a result of our investment activity.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Consolidation - Interests Held through Related Parties That Are under Common Control: In October 2016, the FASB issued amendments which clarify the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. We adopted this guidance as of January 1, 2017. The adoption of this guidance did not have a significant impact on our financial position, results of operations or 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 equity, and classification on the statement of cash flows. We adopted this guidance as of January 1, 2017.

The amendment requires prospective recognition of excess tax benefits and deficiencies in the income statement, rather than in paid-in capital. As a result of applying this requirement, we believe that recognition of excess tax benefits will increase volatility in our statement of operations but the adoption of this guidance did not have a significant impact on our financial position, results of operations or disclosures.

The amendment also requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The guidance requires modified retrospective transition for settlements on all outstanding awards (both historical and future) that did not give rise to an excess benefit to be recorded through retained earnings on a cumulative-effect basis. The adoption of these amendments in the guidance did not have a significant impact on our financial position, results of operations or disclosures.

Additionally, the amendment requires that the minimum statutory tax withholding for all outstanding liability awards be reclassified at the date of adoption to equity (assuming equity classification results from the guidance change), and as a cumulative-effect adjustment to equity be recorded on a modified retrospective basis. The adoption of these amendments in the guidance did not have a significant impact on our financial position, results of operations or disclosures.

The guidance requires certain reclassifications of balances on the statement of cash flows to or from operating and financing activities. The reclassification guidance did not have a significant impact on our statement of cash flows.

The amendment allows an entity to elect whether to use estimates of forfeitures, or to account for forfeitures as they occur, using modified retrospective application. We have made an entity-wide accounting policy election to estimate the number of awards that are expected to vest (consistent with our prior policy). The election and adoption of this guidance did not have a significant impact 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. We adopted this guidance as of January 1, 2017. The adoption of this guidance did not have a significant impact on our financial position, results of operations or disclosures.

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. We adopted this guidance as of January 1, 2017. The adoption of this guidance did not have a significant impact on our financial position, results of operations or disclosures.

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. We adopted this guidance as of January 1, 2017. The adoption of this guidance did not have a significant impact on our financial position, results of operations or disclosures.

Accounting Pronouncements Pending Adoption

Compensation-Stock Compensation: Scope of Modification Accounting: In May 2017, the FASB issued amendments to provide guidance clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. An entity should apply modification accounting if the fair value, vesting conditions or classification of the award (as an equity instrument or liability instrument) changes as a result of the change in terms or conditions of the award. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted and should be applied prospectively. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations or disclosures.

Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities: In March 2017, the FASB issued amendments to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, 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, results of operations or disclosures.

Compensation-Retirement Benefit: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: In March 2017, the FASB issued amendments requiring that an employer report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations, disclosures or statements of cash flows.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets: In February 2017, the FASB issued amendments that clarify the scope and accounting guidance for the derecognition of a nonfinancial asset or a financial asset that meets the definition of an "in substance nonfinancial asset." The amendments define an "in substance nonfinancial asset," and provide additional accounting guidance for partial sales of nonfinancial assets. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Earlier adoption is permitted for fiscal years beginning after December 15, 2016, including interim periods therein. An entity is required to apply the amendments at the same time that it applies the FASB amendments for Revenue from Contracts with Customers. We are evaluating the impact of adoption of this guidance on our financial position, results of operations, disclosures and statements of cash flows.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment: In January 2017, the FASB issued amendments simplifying the subsequent measurement of goodwill. An entity, under this update, is no longer required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, the entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments are effective for public business entities that are U.S. Securities and Exchange Commission

(SEC) filers for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2019. Early adoption is permitted for any goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this guidance to have a significant impact on our financial position, results of operations or disclosures.

Business Combinations - Clarifying the Definition of a Business: In January 2017, the FASB issued amendments clarifying when a set of assets and activities is a business. The amendments provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business. The amendments are effective for public business entities beginning after December 15, 2017, including interim periods within those periods. We do not expect the adoption of this guidance to have a significant impact on our financial position, results of operations or disclosures.

Statement of Cash Flows - Restricted Cash: In November 2016, the FASB issued amendments requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this guidance to have a significant impact on our financial position, results of operations, disclosures or statement of cash flows.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory: In October 2016, the FASB issued amendments that require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. We are evaluating the impact of adoption of this guidance on our financial position, results of operations and disclosures.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments: In August 2016, the FASB issued amendments that provide guidance on eight specific statement of cash flows classification issues. The amendments are effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for any interim or annual period. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations, disclosures or statements of cash flows.

Financial Instruments - Credit Losses - 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 U.S. 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 U.S. 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 have identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, loans and loan receivables and reinsurance recoverables (See Notes 3 and 7 for current balances of instruments in scope). We are continuing to evaluate the impact of adoption of this guidance on our financial position, results of operations and disclosures.

Leases: In February 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, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We have identified certain operating leases in scope of this guidance to include office space and equipment leases (See Note 15 of the Notes to the Consolidated Financial Statements in the 2016 Annual Report for current balances of leases in scope). The leases within scope of this guidance will increase our right-of-use assets recorded on our financial position, however we estimate leases within scope of the guidance to represent less than 1% of our total assets as of June 30, 2017. We estimate that the adoption of this guidance will not have a significant impact on our financial position, results of operations and disclosures.

Financial Instruments - Overall - 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 have identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, perpetual securities and equity securities (See Note 3 for current balances of instruments in scope). We estimate that the impact of this guidance will increase volatility in our statement of operations and we are continuing to evaluate the impact of this guidance on our statement of financial position, operations and disclosures.

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. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods. We have identified revenue in scope of this guidance to include certain revenues associated with affiliated entities in support of our operations. We estimate the revenue within scope of the guidance to represent less than 1% of our total revenues as of June 30, 2017. We estimate that the adoption of this guidance will not have a significant impact on our financial position, results of operations and 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 the 2016 Annual Report.

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 amortized hedge costs related to foreign currency denominated investments, but excludes certain items that cannot be predicted or that are outside of management's control, such as realized investment gains and losses from securities transactions, impairments, change in loan loss reserves and certain derivative and foreign currency activities; nonrecurring items; and other non-operating income (loss) from net earnings. Nonrecurring and other non-operating items consist of infrequent events and activity not associated with the normal course of the Company's insurance operations and do not reflect Aflac's underlying business performance. We exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment follows:

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenues:				
Aflac Japan:				
Net earned premiums	$3,222	$3,402	$6,416	$6,581
Net investment income, less amortized hedge costs (1)	557	605	1,115	1,195
Other income	10	11	20	19
Total Aflac Japan	3,789	4,018	7,551	7,795
Aflac U.S.:				
Net earned premiums	1,388	1,362	2,778	2,729
Net investment income	180	176	358	350
Other income	2	0	3	3
Total Aflac U.S.	1,570	1,538	3,139	3,082
Other business segments	72	68	144	136
Total business segment revenues	5,431	5,624	10,834	11,013
Corporate and eliminations	16	21	31	43
Total operating revenues	5,447	5,645	10,865	11,056
Realized investment gains (losses) (1), (2), (3)	(19)	(208)	(128)	(168)
Total revenues	$5,428	$5,437	$10,737	$10,888

(1) Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $56 and $37 for the three-month periods and $108 and $69 for the six-month periods ended June 30, 2017, and 2016, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing segment operations to conform to current year reporting.

(2) Excluding a gain of $20 and $21 for the three-month periods and $41 and $43 for the six-month periods ended June 30, 2017, and 2016, 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

(3) Prior year foreign currency transaction gains and losses have been reclassified from other non-operating income (loss) to realized investment gains (losses) to conform to current-year reporting classifications. These reclassifications had no impact on total revenues.

(In millions)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Pretax earnings:				
Aflac Japan [1]	$791	$802	$1,560	$1,608
Aflac U.S.	330	291	640	623
Other business segments	3	5	3	8
Total business segment pretax operating earnings	1,124	1,098	2,203	2,239
Interest expense, noninsurance operations	(30)	(30)	(59)	(59)
Corporate and eliminations	(21)	(26)	(44)	(61)
Pretax operating earnings	1,073	1,042	2,100	2,119
Realized investment gains (losses) [1], [2], [3]	(19)	(208)	(128)	(168)
Other non-operating income (loss) [3]	(9)	0	(28)	0
Total earnings before income taxes	$1,045	$834	$1,944	$1,951
Income taxes applicable to pretax operating earnings	$342	$359	$694	$731
Effect of foreign currency translation on after-tax operating earnings	(9)	36	(3)	49

(1) Amortized hedge costs related to hedging U.S. dollar-denominated investments held in Aflac Japan were $56 and $37 for the three-month periods and $108 and $69 for the six-month periods ended June 30, 2017, and 2016, respectively, and have been reclassified from realized investment gains (losses) and reported as a deduction from pretax operating earnings when analyzing segment operations to conform to current year reporting.
(2) Excluding a gain of $20 and $21 for the three-month periods and $41 and $43 for the six-month periods ended June 30, 2017, and 2016, 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
(3) Prior year foreign currency transaction gains and losses have been reclassified from other non-operating income (loss) to realized investment gains (losses) to conform to current-year reporting classifications. These reclassifications had no impact on total earnings before income taxes.

Assets were as follows:

(In millions)	June 30, 2017	December 31, 2016
Assets:		
Aflac Japan	$113,497	$ 107,858
Aflac U.S.	19,996	19,453
Other business segments	471	270
Total business segment assets	133,964	127,581
Corporate and eliminations	1,430	2,238
Total assets	$135,394	$ 129,819

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, 2017			
(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	$27,020	$ 3,262	$ 396	$29,886
Municipalities	305	26	14	317
Mortgage- and asset-backed securities	261	31	0	292
Public utilities	1,654	367	8	2,013
Sovereign and supranational	1,482	181	3	1,660
Banks/financial institutions	3,150	460	64	3,546
Other corporate	3,657	715	14	4,358
Total yen-denominated	37,529	5,042	499	42,072
U.S. dollar-denominated:				
U.S. government and agencies	131	12	0	143
Municipalities	891	143	7	1,027
Mortgage- and asset-backed securities	175	13	0	188
Public utilities	5,263	770	42	5,991
Sovereign and supranational	326	88	0	414
Banks/financial institutions	2,684	573	7	3,250
Other corporate	24,959	2,267	554	26,672
Total U.S. dollar-denominated	34,429	3,866	610	37,685
Total fixed maturities	71,958	8,908	1,109	79,757
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	1,317	256	31	1,542
Other corporate	197	31	0	228
U.S. dollar-denominated:				
Banks/financial institutions	46	27	0	73
Total perpetual securities	1,560	314	31	1,843
Equity securities:				
Yen-denominated	668	86	5	749
U.S. dollar-denominated	621	47	14	654
Total equity securities	1,289	133	19	1,403
Total securities available for sale	$74,807	$ 9,355	$ 1,159	$83,003

	June 30, 2017			
(In millions)	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	$21,527	$ 5,126	$ 0	$26,653
Municipalities	362	105	0	467
Mortgage- and asset-backed securities	29	1	0	30
Public utilities	3,329	450	0	3,779
Sovereign and supranational	1,537	304	0	1,841
Banks/financial institutions	3,119	218	15	3,322
Other corporate	2,710	505	0	3,215
Total yen-denominated	32,613	6,709	15	39,307
Total securities held to maturity	$32,613	$ 6,709	$ 15	$39,307

(In millions)	December 31, 2016 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	$22,857	$ 3,359	$ 160	$26,056
Municipalities	246	29	8	267
Mortgage- and asset-backed securities	1,096	33	8	1,121
Public utilities	1,533	318	3	1,848
Sovereign and supranational	862	186	5	1,043
Banks/financial institutions	2,673	403	74	3,002
Other corporate	3,192	623	3	3,812
Total yen-denominated	32,459	4,951	261	37,149
U.S dollar-denominated:				
U.S. government and agencies	148	10	0	158
Municipalities	894	142	8	1,028
Mortgage- and asset-backed securities	196	20	0	216
Public utilities	5,205	690	60	5,835
Sovereign and supranational	335	91	0	426
Banks/financial institutions	2,570	507	16	3,061
Other corporate	24,556	2,021	690	25,887
Total U.S. dollar-denominated	33,904	3,481	774	36,611
Total fixed maturities	66,363	8,432	1,035	73,760
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	1,266	128	49	1,345
Other corporate	189	24	0	213
U.S. dollar-denominated:				
Banks/financial institutions	51	24	0	75
Total perpetual securities	1,506	176	49	1,633
Equity securities:				
Yen-denominated	624	83	2	705
U.S. dollar-denominated	579	31	6	604
Total equity securities	1,203	114	8	1,309
Total securities available for sale	$69,072	$ 8,722	$ 1,092	$76,702

(In millions)	December 31, 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	$20,702	$ 5,338	$ 0	$26,040
Municipalities	350	107	0	457
Mortgage- and asset-backed securities	30	2	0	32
Public utilities	3,201	358	23	3,536
Sovereign and supranational	2,602	283	8	2,877
Banks/financial institutions	3,731	195	26	3,900
Other corporate	2,734	452	7	3,179
Total yen-denominated	33,350	6,735	64	40,021
Total securities held to maturity	$33,350	$ 6,735	$ 64	$40,021

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

During the second quarter of 2017, we reclassified three investments from the held-to-maturity category to the available-for-sale category as a result of the issuers' credit rating being downgraded to below investment grade. At the time of the transfer, the securities had an amortized cost of $773 million and an unrealized gain of $47 million. During the first quarter of 2017, we did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

During the first and second quarters of 2016, 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, 2017, were as follows:

(In millions)	Aflac Japan Amortized Cost	Aflac Japan Fair Value	Aflac U.S. Amortized Cost	Aflac U.S. Fair Value
Available for sale:				
Due in one year or less	$140	$153	$114	$117
Due after one year through five years	4,639	4,905	639	685
Due after five years through 10 years	9,668	10,114	3,118	3,360
Due after 10 years	44,106	49,639	8,500	9,688
Mortgage- and asset-backed securities	304	346	40	42
Total fixed maturities available for sale	$58,857	$65,157	$12,411	$13,892
Held to maturity:				
Due in one year or less	$491	$504	$0	$0
Due after one year through five years	929	981	0	0
Due after five years through 10 years	1,648	1,826	0	0
Due after 10 years	29,516	35,965	0	0
Mortgage- and asset-backed securities	29	31	0	0
Total fixed maturities held to maturity	$32,613	$39,307	$0	$0

At June 30, 2017, the Parent Company and other business segments had portfolios of available-for-sale fixed-maturity securities totaling $690 million at amortized cost and $708 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, 2017, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Due in one year or less	$85	$82	$0	$ 0
Due after one year through five years	197	229	0	0
Due after 10 years	1,239	1,473	39	59
Total perpetual securities available for sale	$1,521	$1,784	$39	$ 59

Investment Concentrations

Our process for investing in credit-related investments begins with an independent approach to underwriting each issuer's fundamental credit quality. We evaluate independently those factors that 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 were as follows:

(In millions)	June 30, 2017 Credit Rating	Amortized Cost	Fair Value	December 31, 2016 Credit Rating	Amortized Cost	Fair Value
Japan National Government[1]	A	$47,844	$55,723	A	$42,931	$51,345

[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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Realized investment gains (losses):				
Fixed maturities:				
Available for sale:				
Gross gains from sales	$5	$6	$17	$8
Gross losses from sales[1]	(16)	(12)	(31)	(16)
Net gains (losses) from redemptions	(9)[1]	4	(37)[1]	87
Other-than-temporary impairment losses	(3)	(9)[1]	(7)	(21)[1]
Total fixed maturities	(23)	(11)	(58)	58
Perpetual securities:				
Available for sale:				
Net gains (losses) from redemptions	4	30	4	40
Other-than-temporary impairment losses	0	0	0	(2)[1]
Total perpetual securities	4	30	4	38
Equity securities:				
Gross gains from sales	23	2	48	5
Gross losses from sales	(2)	(8)[1]	(2)	(11)
Other-than-temporary impairment losses	(6)	(24)	(12)	(24)
Total equity securities	15	(30)	34	(30)
Derivatives and other:				
Derivative gains (losses)	(51)	(167)	(103)	(171)
Foreign currency gains (losses)	(1)	(45)	(73)	(89)
Total derivatives and other	(52)	(212)	(176)	(260)
Total realized investment gains (losses)	$(56)	$(223)	$(196)	$(194)

[1] Primarily driven by foreign exchange

Prior year foreign currency transaction gains and losses have been reclassified to conform to current-year reporting classifications

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, 2017	December 31, 2016
Unrealized gains (losses) on securities available for sale	$8,196	$ 7,630
Deferred income taxes	(3,023)	(2,825)
Shareholders' equity, unrealized gains (losses) on investment securities	$5,173	$ 4,805

Gross Unrealized Loss Aging

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

(In millions)	June 30, 2017 Total Fair Value	Unrealized Losses	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
Fixed Maturities:						
Japan government and agencies:						
Yen-denominated	$6,241	$ 396	$6,234	$ 395	$7	$ 1
Municipalities:						
U.S. dollar-denominated	45	7	0	0	45	7
Yen-denominated	128	14	116	11	12	3
Public utilities:						
U.S. dollar-denominated	1,121	42	623	14	498	28
Yen-denominated	96	8	96	8	0	0
Sovereign and supranational:						
Yen-denominated	42	3	42	3	0	0
Banks/financial institutions:						
U.S. dollar-denominated	232	7	216	5	16	2
Yen-denominated	1,523	79	590	27	933	52
Other corporate:						
U.S. dollar-denominated	8,252	554	4,772	155	3,480	399
Yen-denominated	169	14	132	13	37	1
Total fixed maturities	17,849	1,124	12,821	631	5,028	493
Perpetual securities:						
Yen-denominated	429	31	0	0	429	31
Total perpetual securities	429	31	0	0	429	31
Equity securities:						
U.S. dollar-denominated	268	14	255	11	13	3
Yen-denominated	99	5	80	3	19	2
Total equity securities	367	19	335	14	32	5
Total	$18,645	$ 1,174	$13,156	$ 645	$5,489	$ 529

(In millions)	December 31, 2016 Total Fair Value	Unrealized Losses	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
Fixed Maturities:						
Japan government and agencies:						
Yen-denominated	$3,958	$ 160	$3,958	$ 160	$0	$ 0
Municipalities:						
U.S. dollar-denominated	44	8	0	0	44	8
Yen-denominated	105	8	105	8	0	0
Mortgage- and asset-backed securities:						
Yen-denominated	713	8	713	8	0	0
Public utilities:						
U.S. dollar-denominated	1,265	60	790	32	475	28
Yen-denominated	635	26	347	14	288	12
Sovereign and supranational:						
Yen-denominated	244	13	38	5	206	8
Banks/financial institutions:						
U.S. dollar-denominated	268	16	238	10	30	6
Yen-denominated	1,521	100	636	19	885	81
Other corporate:						
U.S. dollar-denominated	10,462	690	7,252	346	3,210	344
Yen-denominated	321	10	321	10	0	0
Total fixed maturities	19,536	1,099	14,398	612	5,138	487
Perpetual securities:						
Yen-denominated	479	49	85	1	394	48
Total perpetual securities	479	49	85	1	394	48
Equity securities:						
U.S. dollar-denominated	211	6	211	6	0	0
Yen-denominated	49	2	49	2	0	0
Total equity securities	260	8	260	8	0	0
Total	$20,275	$ 1,156	$14,743	$ 621	$5,532	$ 535

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.

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.

Other Investments

The table below reflects the composition of the carrying value for other investments as of the periods presented.

(In millions)	June 30, 2017	December 31, 2016
Other investments:		
Commercial mortgage loans	$ 1,052	$ 855
Middle market loans	578	319
Short-term investments	138	89
Policy loans	201	184
Other	47	3
Total other investments	$ 2,016	$ 1,450

Loans and Loan Receivables

We classify our commercial mortgage loans (CMLs) and middle market loans (MMLs) 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 allowance for loan losses is established using both general and specific allowances. 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 estimate probable incurred losses. The specific allowance is used on an individual loan basis when it is probable that a loss has been incurred. As of June 30, 2017 and December 31, 2016, our allowance for loan losses was $6 million and $3 million, respectively. As of June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016. We had no troubled debt restructurings during the six months ended June 30, 2017 and 2016.

Commercial Mortgage Loans

Commercial mortgage loans include transitional real estate (TRE) loans. As of June 30, 2017, we had $336 million in outstanding commitments to fund commercial mortgage loans, inclusive of loans held in unit trust structures. These commitments are contingent on the final underwriting and due diligence to be performed.

Middle Market Loans

Middle market loans are generally considered to be below investment grade. The carrying value for middle market loans included an unfunded amount of $147 million and $91 million, as of June 30, 2017, and December 31, 2016, respectively, that is reflected in other liabilities on the consolidated balance sheets.

As of June 30, 2017, we had commitments of approximately $600 million to fund potential future loan originations related to this investment program, inclusive of loans held in unit trust structures. These commitments are contingent upon the availability of middle market loans that meet our underwriting criteria.

Other

As of June 30, 2017, we had $200 million in outstanding commitments to fund alternative investments in limited partnerships.

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 other than certain unit trust structures, 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 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, 2017		December 31, 2016	
(In millions)	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$4,149	$5,059	$4,168	$4,982
Perpetual securities, available for sale	241	216	237	208
Equity securities	1,032	1,123	972	1,044
Other investments [(1)]	1,200	1,186	819	789
Other assets [(2)]	142	142	127	127
Total assets of consolidated VIEs	$6,764	$7,726	$6,323	$7,150
Liabilities:				
Other liabilities [(2)]	$133	$133	$146	$146
Total liabilities of consolidated VIEs	$133	$133	$146	$146

[(1)] Consists of CMLs and MMLs

[(2)] Consist entirely of derivatives

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 invested assets 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 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.

Investments in Unit Trust Structures

We invest through unit trust structures in yen-denominated public equity securities, U.S. dollar-denominated public equity securities, bank loans, commercial mortgage loans, infrastructure debt, and middle market loans in which we are the only investor, requiring us to consolidate these trusts under U.S. GAAP. The yen-denominated and U.S. dollar-denominated equity securities, bank loans and certain infrastructure debt are classified as available-for-sale in the financial statements. The commercial mortgage loans, middle market loans and certain infrastructure debt that meets the criteria to be classified as a loan are classified as loans held for investment and reflected in other investments on the consolidated balance sheets at amortized cost.

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, 2017		December 31, 2016	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$4,832	$5,433	$4,729	$5,261
Perpetual securities, available for sale	179	230	172	200
Fixed maturities, held to maturity	2,662	3,085	2,563	2,948
Other investments	47	48	1	1
Total investments in VIEs not consolidated	$7,720	$8,796	$7,465	$8,410

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 147 separate issuers with an average credit rating of BBB as of June 30, 2017, compared with 145 separate issuers with an average credit rating of BBB as of December 31, 2016.

Securities Lending and Pledged Securities

We lend fixed-maturity and public equity 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, 2017
Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous[1]	Up to 30 days	Total
Securities lending transactions:			
Public utilities	$ 63	$ 0	$63
Banks/financial institutions	38	0	38
Other corporate	556	0	556
Equity securities	6	0	6
Total borrowings	$ 663	$ 0	$663
Gross amount of recognized liabilities for securities lending transactions			$663
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, 2016
Remaining Contractual Maturity of the Agreements

(In millions)	Overnight and Continuous[1]	Up to 30 days	Total
Securities lending transactions:			
Public utilities	$ 62	$ 0	$62
Banks/financial institutions	34	0	34
Other corporate	430	0	430
Total borrowings	$ 526	$ 0	$526
Gross amount of recognized liabilities for securities lending transactions			$526
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.

We did not have any repurchase agreements or repurchase-to-maturity transactions outstanding as of June 30, 2017 and December 31, 2016, respectively.

Certain fixed-maturity securities can be 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 have historically consisted of: (1) foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated investments in Aflac Japan's portfolio; (2) 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; (3) 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; (4) foreign currency swaps and credit default swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary; 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 the majority of the Parent Company's yen-denominated liabilities (notes payable and loans) as nonderivative hedging instruments for this net investment hedge.

Derivative Types

Foreign currency forwards and options are executed for the Aflac Japan segment in order to hedge the currency risk on the carrying value of certain U.S. dollar-denominated investments. The average maturity of these forwards and options can change depending on factors such as market conditions and types of investments being held. In situations where the maturity of the forwards and options are shorter than the underlying investment being hedged, we may enter into new forwards and options near maturity of the existing derivative in order to continue hedging the underlying investment. 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 U.S. 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).

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 U.S. dollar-denominated senior note and subordinated debenture principal and interest obligations into yen-denominated obligations.

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

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 and are not reflective of exposure or credit risk.

	June 30, 2017			December 31, 2016		
(In millions)		Asset Derivatives	Liability Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Notional Amount	Fair Value	Fair Value
Cash flow hedges:						
Foreign currency swaps	$75	$ 0	$(8)	$75	$ 0	$(10)
Total cash flow hedges	75	0	(8)	75	0	(10)
Fair value hedges:						
Foreign currency forwards	9,268	0	(469)	10,965	0	(759)
Foreign currency options	5,585	0	(6)	4,224	2	(32)
Total fair value hedges	14,853	0	(475)	15,189	2	(791)
Net investment hedge:						
Foreign currency forwards	287	2	(3)	209	5	(2)
Foreign currency options	926	20	(10)	843	41	(17)
Total net investment hedge	1,213	22	(13)	1,052	46	(19)
Non-qualifying strategies:						
Foreign currency swaps	5,882	307	(191)	6,266	490	(220)
Foreign currency forwards	10,676	212	(434)	21,218	667	(956)
Foreign currency options	0	0	0	41	0	(2)
Credit default swaps	89	2	0	86	2	0
Total non-qualifying strategies	16,647	521	(625)	27,611	1,159	(1,178)
Total derivatives	$32,788	$ 543	$(1,121)	$43,927	$ 1,207	$(1,998)
Balance Sheet Location						
Other assets	$12,108	$ 543	$0	$18,329	$ 1,207	$0
Other liabilities	20,680	0	(1,121)	25,598	0	(1,998)
Total derivatives	$32,788	$ 543	$(1,121)	$43,927	$ 1,207	$(1,998)

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 nine years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting are included in “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 investments. 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.

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, 2017:						
Foreign currency forwards	Fixed-maturity and equity securities	$(34)	$ (50)	$ 16	$(15)	$ 1
Foreign currency options	Fixed-maturity securities	(7)	(7)	0	0	0
Six Months Ended June 30, 2017:						
Foreign currency forwards	Fixed-maturity and equity securities	$307	$ (98)	$ 405	$(387)	$ 18
Foreign currency options	Fixed-maturity securities	17	6	11	(10)	1
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

Net Investment Hedge

Our investment in Aflac Japan is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have designated the Parent Company's yen-denominated liabilities (see Note 8) 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.

As of June 30, 2017, we had foreign exchange forwards and options as part of a hedge on 45.0 billion yen of profit repatriation received from Aflac Japan in July 2017 and 90.8 billion yen of future profit repatriation.

Our net investment hedge was effective during the three- and six-month periods ended June 30, 2017 and 2016, respectively.

Non-qualifying Strategies

For our derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings within derivative and other gains (losses). The amount of gain or loss recognized in earnings for our VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed-maturity or perpetual securities associated with these swaps is recorded through other comprehensive income.

We have cross-currency interest rate swap agreements related to our $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 8 in this report and Note 9 of the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

In 2016, we began using foreign exchange forwards to mitigate the currency risk of our U.S. dollar-denominated loan receivables held within the Aflac Japan segment. As of June 30, 2017, the outstanding derivative notional amounts associated with these U.S. dollar-denominated loan receivables were approximately $1.1 billion. We have not elected to apply hedge accounting for these loan receivables due to the change in fair value of the foreign exchange forwards and the foreign currency remeasurement of the loan receivables being recorded through current period earnings, and generally offsetting each other within realized investment gains (losses).

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.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
(In millions)	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss)(1)	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss)(1)	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss)(1)	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss)(1)
Qualifying hedges:								
Cash flow hedges:								
Foreign currency swaps	$0	$ (2)	$1	$ 8	$0	$ 1	$1	$ 11
Total cash flow hedges	0	(2)	1	8	0	1	1	11
Fair value hedges:								
Foreign currency forwards(2)	(49)	0	(80)	0	(80)	0	(105)	0
Foreign currency options(2)	(7)	0	7	0	7	0	6	0
Total fair value hedges	(56)	0	(73)	0	(73)	0	(99)	0
Net investment hedge:								
Non-derivative hedging instruments	0	(1)	0	(22)	0	(18)	0	(37)
Foreign currency forwards	0	(19)	0	(83)	0	(28)	0	(133)
Foreign currency options	0	31	0	(15)	0	8	0	(31)
Total net investment hedge	0	11	0	(120)	0	(38)	0	(201)
Non-qualifying strategies:								
Foreign currency swaps	34	0	(104)	0	26	0	(94)	0
Foreign	(29)	0	10	0	(56)	0	21	0

currency forwards								
Credit default swaps	0	0	(1)	0	0	0	0	0
Total non-qualifying strategies	5	0	(95)	0	(30)	0	(73)	0
Total	$(51)	$ 9	$(167)	$ (112)	$(103)	$ (37)	$(171)	$ (190)

(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 an immaterial amount related to our cash flow hedges from accumulated other comprehensive income (loss) into earnings for the three- and six-month periods ended June 30, 2017, and reclassified a $1 million gain for the three- and six-month periods ended June 30, 2016, 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, 2017 and 2016, respectively. As of June 30, 2017, 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.

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 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 and subordinated debentures; 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 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, 2017, there were 16 counterparties to our derivative agreements, with five comprising 68% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

	June 30, 2017			December 31, 2016		
(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	$24,508	$ 385	$(977)	$6,844	$ 247	$(308)
A	7,839	149	(76)	36,019	900	(1,621)
BBB	441	9	(68)	1,064	60	(69)
Total	$32,788	$ 543	$(1,121)	$43,927	$ 1,207	$(1,998)

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 Annexes (CSAs) provisions, which generally provide for two-way collateral postings at the first dollar of exposure. 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. In addition, a significant portion of the derivative transactions have provisions that give the counterparty the right to terminate the transaction upon a downgrade of Aflac’s financial strength rating. The actual 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.

Collateral posted by us to third parties for derivative transactions 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 $703 million and $1.2 billion as of June 30, 2017 and December 31, 2016, respectively. We are generally allowed to sell or repledge collateral obtained from our derivative counterparties, although we do not typically exercise such rights. (See the Offsetting tables below for collateral posted or received as of the reported balance sheet dates.)

Offsetting of Financial Instruments and Derivatives

Most 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 the master netting arrangements generally provide that the Company will receive or pledge financial collateral at the first dollar of exposure.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity and public equity 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 Asset
June 30, 2017

				Gross Amounts Not Offset in Balance Sheet			
(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
Derivative assets:							
Derivative assets subject to a master netting agreement or offsetting arrangement	$401	$ 0	$401	$(285)	$ 0	$(114)	$2
Derivative assets not subject to a master netting agreement or offsetting arrangement	142		142				142
Total derivative assets	543	0	543	(285)	0	(114)	144
Securities lending and similar arrangements	647	0	647	0	0	(647)	0
Total	$1,190	$ 0	$1,190	$(285)	$ 0	$(761)	$144

December 31, 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: Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
Derivative assets:							
Derivative assets subject to a master netting agreement or offsetting arrangement	$1,080	$ 0	$ 1,080	$(698)	$ 0	$ (382)	$ 0
Derivative assets not subject to a master netting agreement or offsetting arrangement	127		127				127
Total derivative assets	1,207	0	1,207	(698)	0	(382)	127
Securities lending and similar arrangements	513	0	513	0	0	(513)	0
Total	$1,720	$ 0	$ 1,720	$(698)	$ 0	$ (895)	$ 127

Offsetting of Financial Liabilities and Derivative Liabilities
June 30, 2017

(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: Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
Derivative liabilities:							
Derivative liabilities subject to a master netting agreement or	$(988)	$ 0	$(988)	$285	$ 697	$ 7	$1

offsetting arrangement							
Derivative liabilities not subject to a master netting agreement or offsetting arrangement	(133)		(133)				(133)
Total derivative liabilities	(1,121)	0	(1,121)	285	697	7	(132)
Securities lending and similar arrangements	(663)	0	(663)	647	0	0	(16)
Total	$(1,784)	$ 0	$(1,784)	$932	$ 697	$ 7	$(148)

35

December 31, 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: Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
Derivative liabilities:							
Derivative liabilities subject to a master netting agreement or offsetting arrangement	$(1,852)	$ 0	$(1,852)	$698	$ 1,130	$ 21	$(3)
Derivative liabilities not subject to a master netting agreement or offsetting arrangement	(146)		(146)				(146)
Total derivative liabilities	(1,998)	0	(1,998)	698	1,130	21	(149)
Securities lending and similar arrangements	(526)	0	(526)	513	0	0	(13)
Total	$(2,524)	$ 0	$(2,524)	$1,211	$ 1,130	$ 21	$(162)

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 the 2016 Annual Report.

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, 2017 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	$29,129	$900	$ 0	$30,029
Municipalities	0	1,344	0	1,344
Mortgage- and asset-backed securities	0	292	188	480
Public utilities	0	7,951	53	8,004
Sovereign and supranational	0	2,074	0	2,074
Banks/financial institutions	0	6,771	25	6,796
Other corporate	0	30,953	77	31,030
Total fixed maturities	29,129	50,285	343	79,757
Perpetual securities:				
Banks/financial institutions	0	1,615	0	1,615
Other corporate	0	228	0	228
Total perpetual securities	0	1,843	0	1,843
Equity securities	1,383	6	14	1,403
Other assets:				
Foreign currency swaps	0	167	140	307
Foreign currency forwards	0	214	0	214
Foreign currency options	0	20	0	20
Credit default swaps	0	0	2	2
Total other assets	0	401	142	543
Other investments	138	0	0	138
Cash and cash equivalents	4,264	0	0	4,264
Total assets	$34,914	$52,535	$ 499	$87,948
Liabilities:				
Other liabilities:				
Foreign currency swaps	$0	$66	$ 133	$199
Foreign currency forwards	0	906	0	906
Foreign currency options	0	16	0	16
Total liabilities	$0	$988	$ 133	$1,121

(In millions)	December 31, 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	$25,387	$827	$ 0	$26,214
Municipalities	0	1,295	0	1,295
Mortgage- and asset-backed securities	0	1,139	198	1,337
Public utilities	0	7,667	16	7,683
Sovereign and supranational	0	1,469	0	1,469
Banks/financial institutions	0	6,038	25	6,063
Other corporate	0	29,699	0	29,699
Total fixed maturities	25,387	48,134	239	73,760
Perpetual securities:				
Banks/financial institutions	0	1,420	0	1,420
Other corporate	0	213	0	213
Total perpetual securities	0	1,633	0	1,633
Equity securities	1,300	6	3	1,309
Other assets:				
Foreign currency swaps	0	365	125	490
Foreign currency forwards	0	672	0	672
Foreign currency options	0	43	0	43
Credit default swaps	0	0	2	2
Total other assets	0	1,080	127	1,207
Other investments	276	0	0	276
Cash and cash equivalents	4,859	0	0	4,859
Total assets	$31,822	$50,853	$ 369	$83,044
Liabilities:				
Other liabilities:				
Foreign currency swaps	$0	$84	$ 146	$230
Foreign currency forwards	0	1,717	0	1,717
Foreign currency options	0	51	0	51
Total liabilities	$0	$1,852	$ 146	$1,998

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.

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, 2017				
(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	$21,527	$26,653	$0	$ 0	$26,653
Municipalities	362	0	467	0	467
Mortgage and asset-backed securities	29	0	9	21	30
Public utilities	3,329	0	3,779	0	3,779
Sovereign and supranational	1,537	0	1,841	0	1,841
Banks/financial institutions	3,119	0	3,322	0	3,322
Other corporate	2,710	0	3,215	0	3,215
Other investments [(1)]	1,630	0	0	1,616	1,616
Total assets	$34,243	$26,653	$12,633	$ 1,637	$40,923
Liabilities:					
Other policyholders’ funds	$6,978	$0	$0	$ 6,859	$6,859
Notes payable (excluding capital leases)	5,234	507	4,783	267	5,557
Total liabilities	$12,212	$507	$4,783	$ 7,126	$12,416

[(1)] Excludes policy loans of $201 and equity method investments of $47, at carrying value

(In millions)	December 31, 2016 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	$20,702	$26,040	$0	$ 0	$26,040
Municipalities	350	0	457	0	457
Mortgage and asset-backed securities	30	0	10	22	32
Public utilities	3,201	0	3,536	0	3,536
Sovereign and supranational	2,602	0	2,877	0	2,877
Banks/financial institutions	3,731	0	3,900	0	3,900
Other corporate	2,734	0	3,179	0	3,179
Other investments	1,174	0	0	1,142	1,142
Total assets	$34,524	$26,040	$ 13,959	$ 1,164	$41,163
Liabilities:					
Other policyholders' funds	$6,659	$0	$0	$ 6,540	$6,540
Notes payable (excluding capital leases)	5,339	0	0	5,530	5,530
Total liabilities	$11,998	$0	$0	$ 12,070	$12,070

Fair Value of Financial Instruments

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 with limited or no observable valuation inputs. For Level 3 securities, 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. We also 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.

(In millions)	June 30, 2017 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	$29,129	$ 900	$ 0	$30,029
Total government and agencies	29,129	900	0	30,029
Municipalities:				
Third party pricing vendor	0	1,344	0	1,344
Total municipalities	0	1,344	0	1,344
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	292	0	292
Broker/other	0	0	188	188
Total mortgage- and asset-backed securities	0	292	188	480
Public utilities:				
Third party pricing vendor	0	7,951	0	7,951
Broker/other	0	0	53	53
Total public utilities	0	7,951	53	8,004
Sovereign and supranational:				
Third party pricing vendor	0	2,074	0	2,074
Total sovereign and supranational	0	2,074	0	2,074
Banks/financial institutions:				
Third party pricing vendor	0	6,771	0	6,771
Broker/other	0	0	25	25
Total banks/financial institutions	0	6,771	25	6,796
Other corporate:				
Third party pricing vendor	0	30,953	0	30,953
Broker/other	0	0	77	77
Total other corporate	0	30,953	77	31,030
Total fixed maturities	29,129	50,285	343	79,757
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	1,615	0	1,615
Total banks/financial institutions	0	1,615	0	1,615
Other corporate:				
Third party pricing vendor	0	228	0	228
Total other corporate	0	228	0	228
Total perpetual securities	0	1,843	0	1,843
Equity securities:				
Third party pricing vendor	1,383	6	0	1,389
Broker/other	0	0	14	14
Total equity securities	1,383	6	14	1,403
Total securities available for sale	$30,512	$ 52,134	$ 357	$83,003

(In millions)	June 30, 2017 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	$26,653	$ 0	$ 0	$26,653
Total government and agencies	26,653	0	0	26,653
Municipalities:				
Third party pricing vendor	0	467	0	467
Total municipalities	0	467	0	467
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	9	0	9
Broker/other	0	0	21	21
Total mortgage- and asset-backed securities	0	9	21	30
Public utilities:				
Third party pricing vendor	0	3,779	0	3,779
Total public utilities	0	3,779	0	3,779
Sovereign and supranational:				
Third party pricing vendor	0	1,841	0	1,841
Total sovereign and supranational	0	1,841	0	1,841
Banks/financial institutions:				
Third party pricing vendor	0	3,322	0	3,322
Total banks/financial institutions	0	3,322	0	3,322
Other corporate:				
Third party pricing vendor	0	3,215	0	3,215
Total other corporate	0	3,215	0	3,215
Total securities held to maturity	$26,653	$ 12,633	$ 21	$39,307

(In millions)	December 31, 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	$25,387	$ 827	$ 0	$26,214
Total government and agencies	25,387	827	0	26,214
Municipalities:				
Third party pricing vendor	0	1,295	0	1,295
Total municipalities	0	1,295	0	1,295
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	1,139	0	1,139
Broker/other	0	0	198	198
Total mortgage- and asset-backed securities	0	1,139	198	1,337
Public utilities:				
Third party pricing vendor	0	7,667	0	7,667
Broker/other	0	0	16	16
Total public utilities	0	7,667	16	7,683
Sovereign and supranational:				
Third party pricing vendor	0	1,469	0	1,469
Total sovereign and supranational	0	1,469	0	1,469
Banks/financial institutions:				
Third party pricing vendor	0	6,038	0	6,038
Broker/other	0	0	25	25
Total banks/financial institutions	0	6,038	25	6,063
Other corporate:				
Third party pricing vendor	0	29,699	0	29,699
Total other corporate	0	29,699	0	29,699
Total fixed maturities	25,387	48,134	239	73,760
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	1,420	0	1,420
Total banks/financial institutions	0	1,420	0	1,420
Other corporate:				
Third party pricing vendor	0	213	0	213
Total other corporate	0	213	0	213
Total perpetual securities	0	1,633	0	1,633
Equity securities:				
Third party pricing vendor	1,300	6	0	1,306
Broker/other	0	0	3	3
Total equity securities	1,300	6	3	1,309
Total securities available for sale	$26,687	$ 49,773	$ 242	$76,702

(In millions)	December 31, 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	$26,040	$ 0	$ 0	$26,040
Total government and agencies	26,040	0	0	26,040
Municipalities:				
Third party pricing vendor	0	457	0	457
Total municipalities	0	457	0	457
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	10	0	10
Broker/other	0	0	22	22
Total mortgage- and asset-backed securities	0	10	22	32
Public utilities:				
Third party pricing vendor	0	3,536	0	3,536
Total public utilities	0	3,536	0	3,536
Sovereign and supranational:				
Third party pricing vendor	0	2,877	0	2,877
Total sovereign and supranational	0	2,877	0	2,877
Banks/financial institutions:				
Third party pricing vendor	0	3,900	0	3,900
Total banks/financial institutions	0	3,900	0	3,900
Other corporate:				
Third party pricing vendor	0	3,179	0	3,179
Total other corporate	0	3,179	0	3,179
Total securities held to maturity	$26,040	$ 13,959	$ 22	$40,021

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

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 investments; 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 investments

Other investments where fair value is disclosed above include short-term investments and loan receivables. Loan receivables include commercial mortgage loans and middle market loans. 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 London Interbank Offered Rate (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.

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

As of December 31, 2016, the fair values of our publicly issued notes payable were obtained from a limited number of independent brokers and classified as Level 3 within the fair value hierarchy. However, in 2017 recognizing the similarities of our publicly issued notes payable to fixed income securities in our investment portfolios, we aligned the determination of the fair values of these liabilities with our practices of determining asset fair values whereby we utilize available sources of observable inputs from third party pricing vendors; therefore, the fair values of our publicly issued notes payable were reclassified into Level 2 from Level 3 in the first quarter of 2017. Further review of available sources for these liabilities has led to reclassifying the Parent Company’s subordinated debentures into Level 1 from Level 2 in the second quarter of 2017 given these securities are listed and traded on an exchange where their valuations reflect quoted market prices for identical assets or liabilities in an active market. The fair values of our yen-denominated loans approximate their carrying values.

Transfers between Hierarchy Levels and Level 3 Rollforward

During the three- and six-month periods ended June 30, 2017 and 2016, respectively, there were no transfers between Level 1 and 2 for assets and liabilities that are measured and carried at fair value on a recurring basis.

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, 2017

	Fixed Maturities				Equity Securities	Derivatives [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$195	$ 16	$ 24	$ 35	$ 4	$19	$ 2	$295
Realized investment gains (losses) included in earnings	0	0	0	0	0	(10)	0	(10)
Unrealized gains (losses) included in other comprehensive income (loss)	0	0	1	2	0	(2)	0	1
Purchases, issuances, sales and settlements:								
Purchases	0	37	0	40	10	0	0	87
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	(7)	0	0	0	0	0	0	(7)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$188	$ 53	$ 25	$ 77	$ 14	$7	$ 2	$366
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	$ 0	$(10)	$ 0	$(10)

[1] Derivative assets and liabilities are presented net

Three Months Ended
June 30, 2016

	Fixed Maturities				Equity Securities	Derivatives [1]		
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$237	$ 0	$ 26	$ 0	$ 3	$ (63)	$ 2	$205
Realized investment gains (losses) included in earnings	0	0	0	0	0	123	(1)	122
Unrealized gains (losses) included in other comprehensive income (loss)	26	0	0	0	0	(1)	0	25
Purchases, issuances, sales and settlements:								

Purchases	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	(11)	0	0	0	0	0	0	(11)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$252	$ 0	$ 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	$ 0	$ 123	$ (1)	$122

(1) Derivative assets and liabilities are presented net

47

Six Months Ended
June 30, 2017

(In millions)	Fixed Maturities: Mortgage- and Asset-Backed Securities	Fixed Maturities: Public Utilities	Fixed Maturities: Banks/ Financial Institutions	Fixed Maturities: Other Corporate	Equity Securities	Derivatives [1]: Foreign Currency Swaps	Derivatives [1]: Credit Default Swaps	Total
Balance, beginning of period	$198	$ 16	$ 25	$ 0	$ 3	$(21)	$ 2	$223
Realized investment gains (losses) included in earnings	0	0	0	0	0	28	0	28
Unrealized gains (losses) included in other comprehensive income (loss)	6	0	0	2	0	0	0	8
Purchases, issuances, sales and settlements:								
Purchases	0	37	0	75	12	0	0	124
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	(1)	0	0	(1)
Settlements	(16)	0	0	0	0	0	0	(16)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$188	$ 53	$ 25	$ 77	$ 14	$7	$ 2	$366
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	$ 0	$28	$ 0	$28

[1] Derivative assets and liabilities are presented net

Six Months Ended
June 30, 2016

(In millions)	Fixed Maturities: Mortgage- and Asset-Backed Securities	Fixed Maturities: Public Utilities	Fixed Maturities: Banks/ Financial Institutions	Fixed Maturities: Other Corporate	Equity Securities	Derivatives [1]: Foreign Currency Swaps	Derivatives [1]: Credit Default Swaps	Total
Balance, beginning of period	$220	$ 0	$ 26	$ 0	$ 3	$(192)	$ 1	$58
Realized investment gains (losses) included in earnings	0	0	0	0	0	268	0	268
Unrealized gains (losses) included in other comprehensive income (loss)	47	0	0	0	0	(16)	0	31
Purchases, issuances, sales and settlements:								
Purchases	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	(15)	0	0	0	0	(1)	0	(16)
Transfers into Level 3	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	$252	$ 0	$ 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	$ 0	$268	$ 0	$268

(1) Derivative assets and liabilities are presented net

48

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, 2017

(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	$188	Consensus pricing	Offered quotes	N/A	(d)
Public utilities	53	Discounted cash flow	Historical volatility	N/A	(d)
Banks/financial institutions	25	Consensus pricing	Offered quotes	N/A	(d)
Other corporate	77	Discounted cash flow	Historical volatility	N/A	(e)
Equity securities	14	Net asset value	Offered quotes	$1 - $729 ($6)	
Other assets:					
Foreign currency swaps	25	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			CDS spreads	7 - 128 bps	
			Foreign exchange rates	21.15%	(c)
	42	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			CDS spreads	11 - 73 bps	
	73	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			Foreign exchange rates	21.15%	(c)
Credit default swaps	2	Discounted cash flow	Base correlation	54.48% - 59.52%	(e)
			CDS spreads	19 bps	
			Recovery rate	36.58%	
Total assets	$499				

(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, 2017

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Other liabilities:					
Foreign currency swaps	$111	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			CDS spreads	7 - 128 bps	
			Foreign exchange rates	21.15%	(c)
	14	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			CDS spreads	14 - 162 bps	
	8	Discounted cash flow	Interest rates (USD)	2.30% - 2.58%	(a)
			Interest rates (JPY)	.28% - .85%	(b)
			Foreign exchange rates	21.15%	(c)
Total liabilities	$133				

(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, 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	$198	Consensus pricing	Offered quotes	N/A	(d)
Public utilities	16	Discounted cash flow	Historical volatility	N/A	(d)
Banks/financial institutions	25	Consensus pricing	Offered quotes	N/A	(d)
Equity securities	3	Net asset value	Offered quotes	$1-$701 ($8)	
Other assets:					
Foreign currency swaps	16	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			CDS spreads	17 - 172 bps	
			Foreign exchange rates	21.47%	(c)
	29	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			CDS spreads	16 - 88 bps	
	80	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			Foreign exchange rates	21.47%	(c)
Credit default swaps	2	Discounted cash flow	Base correlation	52.18% - 56.07%	(e)
			CDS spreads	54 bps	
			Recovery rate	36.69%	
Total assets	$369				

(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, 2016 (In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Other liabilities:					
Foreign currency swaps	$113	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			CDS spreads	17 - 172 bps	
			Foreign exchange rates	21.47%	(c)
	23	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			CDS spreads	24 - 216 bps	
	10	Discounted cash flow	Interest rates (USD)	2.34% - 2.59%	(a)
			Interest rates (JPY)	.22% - .80%	(b)
			Foreign exchange rates	21.47%	(c)
Total liabilities	$146				

(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 VIE 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.

Base Correlations, CDS Spreads, Recovery Rates

Our remaining collateralized debt obligation (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 the 2016 Annual Report.

6. POLICY LIABILITIES

Changes in the liability for unpaid policy claims were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Unpaid supplemental health claims, beginning of period	$3,854	$3,710	$3,707	$3,548
Less reinsurance recoverables	30	28	27	26
Net balance, beginning of period	3,824	3,682	3,680	3,522
Add claims incurred during the period related to:				
Current year	1,772	1,790	3,520	3,498
Prior years	(138)	(81)	(260)	(229)
Total incurred	1,634	1,709	3,260	3,269
Less claims paid during the period on claims incurred during:				
Current year	1,220	1,266	1,721	1,748
Prior years	400	412	1,461	1,469
Total paid	1,620	1,678	3,182	3,217
Effect of foreign exchange rate changes on unpaid claims	4	198	84	337
Net balance, end of period	3,842	3,911	3,842	3,911
Add reinsurance recoverables	30	30	30	30
Unpaid supplemental health claims, end of period	3,872	3,941	3,872	3,941
Unpaid life claims, end of period	409	318	409	318
Total liability for unpaid policy claims	$4,281	$4,259	$4,281	$4,259

The incurred claims development related to prior years reflects favorable claims experience, compared with previous estimates, primarily in our lines of business in Japan. The favorable claims development of $260 million for the six-month period ended June 30, 2017 comprises approximately $166 million from Japan, which represents approximately 64% of the total. Excluding the impact of foreign exchange of a loss of approximately $8 million from December 31, 2016 to June 30, 2017, the favorable claims development in Japan would have been approximately $174 million, representing approximately 67% of the total.

We have experienced continued favorable claim trends in 2017 for our core health products in Japan. Our experience in Japan related to the average length of stay in the hospital for cancer treatment has shown continued decline in the current period. In addition, cancer treatment patterns in Japan are continuing to be influenced by significant advances in early-detection techniques and by the increased use of pathological diagnosis rather than clinical exams. Additionally, follow-up radiation and chemotherapy treatments are occurring more often on an outpatient basis. Such changes in treatment not only increase the quality of life and initial outcomes for the patients, but also decrease the average length of each hospital stay, resulting in favorable claims development.

7. REINSURANCE

We periodically 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 $934 million, as of June 30, 2017, is included in future policy benefits in the consolidated balance sheet and 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 $906 million and $860 million as of June 30, 2017 and December 31, 2016, 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 4% and ceded reserves increased approximately 1% from December 31, 2016 to June 30, 2017.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Direct premium income	$4,752	$4,915	$9,476	$9,605
Ceded to other companies:				
Ceded Aflac Japan closed blocks	(130)	(141)	(260)	(275)
Other	(13)	(12)	(25)	(24)
Assumed from other companies:				
Retrocession activities	55	59	109	115
Other	1	2	3	4
Net premium income	$4,665	$4,823	$9,303	$9,425
Direct benefits and claims	$3,117	$3,332	$6,246	$6,435
Ceded benefits and change in reserves for future benefits:				
Ceded Aflac Japan closed blocks	(119)	(129)	(241)	(250)
Eliminations	13	15	26	29
Other	(11)	(7)	(22)	(17)
Assumed from other companies:				
Retrocession activities	52	56	106	109
Eliminations	(13)	(15)	(26)	(29)
Other	0	2	2	2
Benefits and claims, net	$3,039	$3,254	$6,091	$6,279

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 was renewed in 2016 and is effective until December 31, 2017. 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, 2017, we have not executed a reinsurance treaty under this committed reinsurance facility.

8. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	June 30, 2017	December 31, 2016
2.65% senior notes paid February 2017	$0	$ 649
2.40% senior notes due March 2020	545	547
4.00% senior notes due February 2022	346	348
3.625% senior notes due June 2023	694	696
3.625% senior notes due November 2024	743	745
3.25% senior notes due March 2025	445	445
2.875% senior notes due October 2026	298	298
6.90% senior notes due December 2039	221	220
6.45% senior notes due August 2040	256	254
4.00% senior notes due October 2046	394	394
5.50% subordinated debentures due September 2052	494	486
Yen-denominated senior notes:		
.932% senior notes due January 2027 (principal amount 60.0 billion yen)	532	0
Yen-denominated loans:		
Variable interest rate loan due September 2021 (.31% in 2017 and 2016, principal amount 5.0 billion yen)	44	43
Variable interest rate loan due September 2023 (.46% in 2017 and 2016, principal amount 25.0 billion yen)	222	214
Capitalized lease obligations payable through 2024	18	21
Total notes payable	$5,252	$ 5,360

Amounts in the table above are reported net of debt issuance costs and issuance premiums or discounts, if applicable, that are being amortized over the life of the notes.

In January 2017, the Parent Company issued 60.0 billion yen of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of .932% per annum, payable semi-annually, and have a 10-year maturity. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In February 2017, the Parent Company extinguished $650 million of 2.65% senior notes upon their maturity.

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 up to 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 14, 2017. As of June 30, 2017, we did not have any borrowings outstanding under our $100 million credit agreement.

The Parent Company has a three-year senior unsecured revolving credit facility agreement with a syndicate 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, 2017, we did not have any borrowings outstanding under our 100.0 billion yen revolving 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 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, 2017, 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 up to 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, 2017, 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, 2017. No events of default or defaults occurred during the six-month period ended June 30, 2017.

For additional information, see Notes 4 and 9 of the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

9. 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)	2017	2016
Common stock - issued:		
Balance, beginning of period	671,249	669,723
Exercise of stock options and issuance of restricted shares	788	1,041
Balance, end of period	672,037	670,764
Treasury stock:		
Balance, beginning of period	265,439	245,343
Purchases of treasury stock:		
Open market	11,155	16,026
Other	170	224
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	(498)	(594)

Exercise of stock options	(206)	(238)
Other	(22)	(112)
Balance, end of period	276,038	260,649
Shares outstanding, end of period	395,999	410,115

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share (EPS). The following table presents the approximate number of share-based awards to purchase shares, on a weighted-average basis, that were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share for the following periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Anti-dilutive share-based awards	419	696	370	1,689

Share Repurchase Program

During the first six months of 2017, we repurchased 11.2 million shares of our common stock in the open market for $800 million as part of our share repurchase program. During the first six months of 2016, we repurchased 16.0 million shares of our common stock in the open market for $1.0 billion as part of our share repurchase program. As of June 30, 2017, a remaining balance of 15.6 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors.

Reclassifications from Accumulated Other Comprehensive Income

The tables below are reconciliations of accumulated other comprehensive income by component for the following periods.

Changes in Accumulated Other Comprehensive Income
Three Months Ended
June 30, 2017

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$ (1,650)	$ 4,474	$ (22)	$ (170)	$ 2,632
Other comprehensive income (loss) before reclassification	70	698	(1)	(2)	765
Amounts reclassified from accumulated other comprehensive income (loss)	0	1	0	3	4
Net current-period other comprehensive income (loss)	70	699	(1)	1	769
Balance, end of period	$ (1,580)	$ 5,173	$ (23)	$ (169)	$ 3,401

All amounts in the table above are net of tax.

Three Months Ended
June 30, 2016

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$ (1,584)	$ 4,684	$ (24)	$ (140)	$ 2,936
Other comprehensive income (loss) before reclassification	737	1,750	5	(4)	2,488
Amounts reclassified from accumulated other comprehensive income (loss)	0	7	0	1	8
Net current-period other comprehensive income (loss)	737	1,757	5	(3)	2,496
Balance, end of period	$ (847)	$ 6,441	$ (19)	$ (143)	$ 5,432

All amounts in the table above are net of tax.

Six Months Ended
June 30, 2017

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$ (1,983)	$ 4,805	$ (24)	$ (168)	$ 2,630
Other comprehensive income (loss) before reclassification	403	357	1	(6)	755
Amounts reclassified from accumulated other comprehensive income (loss)	0	11	0	5	16
Net current-period other comprehensive income (loss)	403	368	1	(1)	771
Balance, end of period	$ (1,580)	$ 5,173	$ (23)	$ (169)	$ 3,401

All amounts in the table above are net of tax.

Six Months Ended
June 30, 2016

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$ (2,196)	$ 2,986	$ (26)	$ (139)	$ 625
Other comprehensive income (loss) before reclassification	1,349	3,498	7	(5)	4,849
Amounts reclassified from accumulated other comprehensive income (loss)	0	(43)	0	1	(42)
Net current-period other comprehensive income (loss)	1,349	3,455	7	(4)	4,807
Balance, end of period	$ (847)	$ 6,441	$ (19)	$ (143)	$ 5,432

All amounts in the table above are net of tax.

The tables below summarize the amounts reclassified from each component of accumulated other comprehensive income based on source for the following periods.

Reclassifications Out of Accumulated Other Comprehensive Income

(In millions)	Three Months Ended June 30, 2017	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Unrealized gains (losses) on available-for-sale securities	$ 5	Sales and redemptions
	(6)	Other-than-temporary impairment losses realized
	(1)	Total before tax
	0	Tax (expense) or benefit[(1)]
	$ (1)	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	$ (5)	Acquisition and operating expenses[(2)]
Prior service (cost) credit	0	Acquisition and operating expenses[(2)]
	2	Tax (expense) or benefit[(1)]
	$ (3)	Net of tax

Total reclassifications for the period	$ (4)	Net of tax

(1) Based on 35% tax rate

(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 11 for additional details).

(In millions)	Three Months Ended June 30, 2016		
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statements of Earnings
Unrealized gains (losses) on available-for-sale securities	$ 22		Sales and redemptions
	(33	)	Other-than-temporary impairment losses realized
	(11	)	Total before tax
	4		Tax (expense) or benefit[(1)]
	$ (7	)	Net of tax
Amortization of defined benefit pension items:			
Actuarial gains (losses)	$ (5	)	Acquisition and operating expenses[(2)]
Prior service (cost) credit	3		Acquisition and operating expenses[(2)]