AFLAC INC
Form 10-Q
May 02, 2014

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 March 31, 2014
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-07434
Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

706.323.3431
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes þ No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	April 24, 2014
Common Stock, $.10 Par Value	454,144,039

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2014
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Items other than those listed above are omitted because they are not required or are not applicable.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The March 31, 2014, and 2013, 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 March 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash
flows for the three-month periods ended March 31, 2014 and 2013. 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, 2013, 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 27, 2014, we expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in the method of accounting for costs associated with acquiring or renewing insurance contracts in 2012. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia
May 2, 2014

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended March 31, 2014	2013
Revenues:		
Net premiums, principally supplemental health insurance	$4,854	$5,184
Net investment income	827	833
Realized investment gains (losses):		
Other-than-temporary impairment losses realized	(3)	(55)
Sales and redemptions	41	119
Derivative and other gains (losses)	(84)	92
Total realized investment gains (losses)	(46)	156
Other income	5	35
Total revenues	5,640	6,208
Benefits and expenses:		
Benefits and claims, net	3,220	3,521
Acquisition and operating expenses:		
Amortization of deferred policy acquisition costs	294	283
Insurance commissions	366	392
Insurance expenses	534	534
Interest expense	80	71
Other operating expenses	42	46
Total acquisition and operating expenses	1,316	1,326
Total benefits and expenses	4,536	4,847
Earnings before income taxes	1,104	1,361
Income taxes	372	469
Net earnings	$732	$892
Net earnings per share:		
Basic	$1.61	$1.91
Diluted	1.60	1.90
Weighted-average outstanding common shares used in computing earnings per share (In thousands):		
Basic	454,731	466,462
Diluted	457,699	469,124
Cash dividends per share	$.37	$.35

See the accompanying Notes to the Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In millions - Unaudited)	2014	2013
Net earnings	$732	$892
Other comprehensive income (loss) before income taxes:		
Unrealized foreign currency translation gains (losses) during period	(57)	(188)
Unrealized gains (losses) on investment securities:		
Unrealized holding gains (losses) on investment securities during period	1,399	(874)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	(2)	(58)
Unrealized gains (losses) on derivatives during period	(1)	(7)
Pension liability adjustment during period	(1)	5
Total other comprehensive income (loss) before income taxes	1,338	(1,122)
Income tax expense (benefit) related to items of other comprehensive income (loss)	468	(58)
Other comprehensive income (loss), net of income taxes	870	(1,064)
Total comprehensive income (loss)	$1,602	$(172)

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	March 31, 2014 (Unaudited)		December 31, 2013	
Assets:				
Investments and cash:				
Securities available for sale, at fair value:				
Fixed maturities (amortized cost $57,429 in 2014 and $52,402 in 2013)	$59,619		$53,227	
Fixed maturities - consolidated variable interest entities (amortized cost $3,896 in 2014 and $4,109 in 2013)	4,662		4,843	
Perpetual securities (amortized cost $2,582 in 2014 and $2,524 in 2013)	2,538		2,479	
Perpetual securities - consolidated variable interest entities (amortized cost $475 in 2014 and $463 in 2013)	478		468	
Equity securities (cost $17 in 2014 and 2013)	21		21	
Securities held to maturity, at amortized cost:				
Fixed maturities (fair value $42,576 in 2014 and $45,610 in 2013)	40,615		44,178	
Fixed maturities - consolidated variable interest entities (fair value $240 in 2014 and $236 in 2013)	243		237	
Other investments	323		463	
Cash and cash equivalents	1,994		2,543	
Total investments and cash	110,493		108,459	
Receivables	732		1,165	
Accrued investment income	774		798	
Deferred policy acquisition costs	8,965		8,798	
Property and equipment, at cost less accumulated depreciation	481		481	
Other	1,847	(1)	1,606	(1)
Total assets	$123,292		$121,307	

(1) Includes $107 in 2014 and $106 in 2013 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	March 31, 2014 (Unaudited)	December 31, 2013
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	$71,689	$69,136
Unpaid policy claims	3,875	3,763
Unearned premiums	10,779	10,642
Other policyholders' funds	6,547	5,861
Total policy liabilities	92,890	89,402
Income taxes	4,258	3,718
Payables for return of cash collateral on loaned securities	3,313	5,820
Notes payable	4,913	4,897
Other	2,242 (2)	2,850 (2)
Commitments and contingent liabilities (Note 11)		
Total liabilities	107,616	106,687
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2014 and 2013; issued 667,620 shares in 2014 and 667,046 shares in 2013	67	67
Additional paid-in capital	1,667	1,644
Retained earnings	20,447	19,885
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(1,542)	(1,505)
Unrealized gains (losses) on investment securities	1,944	1,035
Unrealized gains (losses) on derivatives	(13)	(12)
Pension liability adjustment	(82)	(81)
Treasury stock, at average cost	(6,812)	(6,413)
Total shareholders' equity	15,676	14,620
Total liabilities and shareholders' equity	$123,292	$121,307

(2) Includes $194 in 2014 and $207 in 2013 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In millions - Unaudited)	Three Months Ended March 31, 2014	2013
Common stock:		
Balance, beginning of period	$67	$67
Balance, end of period	67	67
Additional paid-in capital:		
Balance, beginning of period	1,644	1,505
Exercise of stock options	6	10
Share-based compensation	5	3
Gain (loss) on treasury stock reissued	12	14
Balance, end of period	1,667	1,532
Retained earnings:		
Balance, beginning of period	19,885	17,387
Net earnings	732	892
Dividends to shareholders	(170)	(165)
Balance, end of period	20,447	18,114
Accumulated other comprehensive income (loss):		
Balance, beginning of period	(563)	2,715
Unrealized foreign currency translation gains (losses) during period, net of income taxes	(37)	(474)
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments	909	(589)
Unrealized gains (losses) on derivatives during period, net of income taxes	(1)	(4)
Pension liability adjustment during period, net of income taxes	(1)	3
Balance, end of period	307	1,651
Treasury stock:		
Balance, beginning of period	(6,413)	(5,696)
Purchases of treasury stock	(421)	(156)
Cost of shares issued	22	23
Balance, end of period	(6,812)	(5,829)
Total shareholders' equity	$15,676	$15,535

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
(In millions - Unaudited)	2014	2013
Cash flows from operating activities:		
Net earnings	$732	$892
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	171	203
Increase in deferred policy acquisition costs	(26)	(100)
Increase in policy liabilities	978	2,400
Change in income tax liabilities	(320)	193
Realized investment (gains) losses	46	(156)
Other, net	34	400
Net cash provided (used) by operating activities	1,615	3,832
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	677	541
Fixed maturities matured or called	222	1,342
Perpetual securities matured or called	0	271
Securities held to maturity:		
Fixed maturities matured or called	4,450	5,011
Costs of investments acquired:		
Available-for-sale fixed maturities acquired	(4,597)	(3,160)
Held-to-maturity fixed maturities acquired	0	(160)
Settlement of derivatives, net	(320)	(851)
Cash received as collateral, net	(2,677)	(6,070)
Other, net	122	(9)
Net cash provided (used) by investing activities	(2,123)	(3,085)
Cash flows from financing activities:		
Purchases of treasury stock	(421)	(156)
Proceeds from borrowings	0	0
Principal payments under debt obligations	0	0
Dividends paid to shareholders	(163)	(159)
Change in investment-type contracts, net	536	134
Treasury stock reissued	16	19
Other, net	0	6
Net cash provided (used) by financing activities	(32)	(156)
Effect of exchange rate changes on cash and cash equivalents	(9)	(36)
Net change in cash and cash equivalents	(549)	555
Cash and cash equivalents, beginning of period	2,543	2,041
Cash and cash equivalents, end of period	$1,994	$2,596
Supplemental disclosures of cash flow information:		
Income taxes paid	$699	$295
Interest paid	51	43
Noncash interest	30 [1]	28 [1]
Impairment losses included in realized investment losses	3	55
Noncash financing activities:		
Capitalized lease obligations	0	(1)

Treasury stock issued for:		
Associate stock bonus	7	8
Shareholder dividend reinvestment	7	6
Share-based compensation grants	4	4

(1) Consists primarily of accreted interest on discounted advance premiums

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
(Interim period data – Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 75% of the Company's total revenues in the three-month periods ended March 31, 2014 and 2013. The percentage of the Company's total assets attributable to Aflac Japan was 85% at March 31, 2014 and December 31, 2013.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of March 31, 2014 and December 31, 2013, and the consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the three-month periods ended March 31, 2014 and 2013. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2013.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists: In July 2013, the FASB issued guidance to amend the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance essentially states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This accounting standard applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This guidance is effective for annual reporting periods beginning on or after December 15, 2013, and interim periods within those annual periods and requires prospective presentation for all comparative periods presented. We adopted this guidance as of January 1, 2014. The adoption of this guidance did not have a significant impact on our financial statements.

Fees paid to the federal government by health insurers: In July 2011, the FASB issued guidance on the accounting for fees owed by health insurers as mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. A health insurer's portion of the annual fee is payable by September 30 of the applicable calendar year once the entity provides health insurance for any U.S. health risk in that year. The annual fee for the health insurance industry will be allocated to individual health insurers based on the ratio of the amount of an entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. The accounting guidance specifies that the liability for the fee should be estimated and recorded in full in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013. We adopted this guidance as of January 1, 2014. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

Accounting Pronouncements Pending Adoption

Receivables -Troubled debt restructurings by creditors: In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

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

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013.

2. BUSINESS SEGMENT INFORMATION

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

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

(In millions)	Three Months Ended March 31, 2014	2013
Revenues:		
Aflac Japan:		
Net earned premiums	$3,560	$3,905
Net investment income	663	674
Other income	8	26
Total Aflac Japan	4,231	4,605
Aflac U.S.:		
Earned premiums	1,294	1,280
Net investment income	161	157
Other income	0	1
Total Aflac U.S.	1,455	1,438
Other business segments	12	12
Total business segment revenues	5,698	6,055
Realized investment gains (losses)	(56) [1]	156
Corporate	78	92
Intercompany eliminations	(71)	(95)
Other non-operating income (loss)	(9)	0
Total revenues	$5,640	$6,208

[1] Excluding a gain of $10 for the three-month period ended March 31, 2014 related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

(In millions)	Three Months Ended March 31, 2014	2013
Pretax earnings:		
Aflac Japan	$933	$989
Aflac U.S.	303	281
Total business segment pretax operating earnings	1,236	1,270
Interest expense, noninsurance operations	(50)	(48)
Corporate and eliminations	(17)	(17)
Pretax operating earnings	1,169	1,205
Realized investment gains (losses)	(56) [1]	156
Other non-operating income (loss)	(9)	0
Total earnings before income taxes	$1,104	$1,361
Income taxes applicable to pretax operating earnings	$395	$415
Effect of foreign currency translation on operating earnings	(48)	(71)

[1] Excluding a gain of $10 for the three-month period ended March 31, 2014 related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

Assets were as follows:

(In millions)	March 31, 2014	December 31, 2013
Assets:		
Aflac Japan	$104,614	$102,973
Aflac U.S.	16,772	16,112
Other business segments	154	155
Total business segment assets	121,540	119,240
Corporate	20,949	19,909
Intercompany eliminations	(19,197)	(17,842)
Total assets	$123,292	$121,307

3. INVESTMENTS

Investment Holdings

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

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(In millions)	March 31, 2014 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$18,152	$608	$3	$18,757
Mortgage- and asset-backed securities	444	33	0	477
Public utilities	2,223	96	24	2,295
Sovereign and supranational	937	125	0	1,062
Banks/financial institutions	2,926	235	218	2,943
Other corporate	4,051	184	163	4,072
Total yen-denominated	28,733	1,281	408	29,606
Dollar-denominated:				
U.S. government and agencies	141	10	2	149
Municipalities	998	103	4	1,097
Mortgage- and asset-backed securities	169	20	0	189
Public utilities	5,156	577	102	5,631
Sovereign and supranational	396	86	0	482
Banks/financial institutions	3,340	526	17	3,849
Other corporate	22,392	1,611	725	23,278
Total dollar-denominated	32,592	2,933	850	34,675
Total fixed maturities	61,325	4,214	1,258	64,281
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	2,644	165	250	2,559
Other corporate	214	15	0	229
Dollar-denominated:				
Banks/financial institutions	199	35	6	228
Total perpetual securities	3,057	215	256	3,016
Equity securities	17	5	1	21
Total securities available for sale	$64,399	$4,434	$1,515	$67,318

(In millions)	March 31, 2014 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$23,461	$1,668	$0	$25,129
Municipalities	409	46	0	455
Mortgage- and asset-backed securities	58	3	0	61
Public utilities	3,993	189	107	4,075
Sovereign and supranational	3,011	163	56	3,118
Banks/financial institutions	6,398	174	295	6,277
Other corporate	3,528	221	48	3,701
Total yen-denominated	40,858	2,464	506	42,816
Total securities held to maturity	$40,858	$2,464	$506	$42,816

(In millions)	December 31, 2013 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	$14,936	$431	$33	$15,334
Mortgage- and asset-backed securities	558	29	0	587
Public utilities	2,261	100	18	2,343
Sovereign and supranational	978	85	28	1,035
Banks/financial institutions	2,799	220	242	2,777
Other corporate	3,956	151	185	3,922
Total yen-denominated	25,488	1,016	506	25,998
Dollar-denominated:				
U.S. government and agencies	92	10	4	98
Municipalities	992	71	12	1,051
Mortgage- and asset-backed securities	163	21	0	184
Public utilities	4,931	471	183	5,219
Sovereign and supranational	404	85	1	488
Banks/financial institutions	3,318	447	33	3,732
Other corporate	21,123	1,347	1,170	21,300
Total dollar-denominated	31,023	2,452	1,403	32,072
Total fixed maturities	56,511	3,468	1,909	58,070
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	2,582	151	217	2,516
Other corporate	209	0	0	209
Dollar-denominated:				
Banks/financial institutions	196	35	9	222
Total perpetual securities	2,987	186	226	2,947
Equity securities	17	5	1	21
Total securities available for sale	$59,515	$3,659	$2,136	$61,038

(In millions)	December 31, 2013 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	$27,362	$1,347	$1	$28,708
Municipalities	399	41	0	440
Mortgage- and asset-backed securities	58	3	0	61
Public utilities	3,900	150	122	3,928
Sovereign and supranational	2,941	171	72	3,040
Banks/financial institutions	6,310	146	328	6,128
Other corporate	3,445	183	87	3,541
Total yen-denominated	44,415	2,041	610	45,846
Total securities held to maturity	$44,415	$2,041	$610	$45,846

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

During the first quarter of 2014, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of the issuer being downgraded to below investment grade. At the time of transfer, the security had an amortized cost of $63 million and an unrealized loss of $8 million. During the first quarter of 2013, we did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio.

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at March 31, 2014, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$607	$616	$50	$52
Due after one year through five years	1,819	1,953	565	662
Due after five years through 10 years	10,783	10,868	1,562	1,653
Due after 10 years	36,378	37,916	8,675	9,608
Mortgage- and asset-backed securities	509	553	38	47
Total fixed maturities available for sale	$50,096	$51,906	$10,890	$12,022
Held to maturity:				
Due in one year or less	$101	$102	$0	$0
Due after one year through five years	1,605	1,756	0	0
Due after five years through 10 years	2,180	2,316	0	0
Due after 10 years	36,914	38,581	0	0
Mortgage- and asset-backed securities	58	61	0	0
Total fixed maturities held to maturity	$40,858	$42,816	$0	$0

At March 31, 2014, the Parent Company had a portfolio of available-for-sale fixed-maturity securities totaling $339 million at amortized cost and $353 million at fair value, which is not included in the table above.

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

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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 of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at March 31, 2014, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Due in one year or less	$291	$275	$0	$0
Due after one year through five years	730	701	5	5
Due after five years through 10 years	214	229	0	0
Due after 10 years	1,718	1,698	99	108
Total perpetual securities available for sale	$2,953	$2,903	$104	$113

Investment Concentrations

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

Banks and Financial Institutions

One of our largest investment sector concentrations as of March 31, 2014, was banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy.

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

	March 31, 2014 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	December 31, 2013 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio
Fixed maturities:				
Amortized cost	$12,664	12 %	$12,427	12 %
Fair value	13,069	12	12,637	12
Perpetual securities:				
Upper Tier II:				
Amortized cost	$1,967	2 %	$1,920	2 %
Fair value	1,965	2	1,913	2
Tier I:				
Amortized cost	876	1	858	1
Fair value	822	1	825	1
Total:				
Amortized cost	$15,507	15 %	$15,205	15 %
Fair value	15,856	15	15,375	15

Realized Investment Gains and Losses

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

	Three Months Ended March 31,	
(In millions)	2014	2013
Realized investment gains (losses) on securities:		
Fixed maturities:		
Available for sale:		
Gross gains from sales	$35	$119
Gross losses from sales	(1)	(6)
Net gains (losses) from redemptions	7	6
Other-than-temporary impairment losses	(3)	(54)
Total fixed maturities	38	65
Equity securities:		
Other-than-temporary impairment losses	0	(1)
Total equity securities	0	(1)
Derivatives and other:		
Derivative gains (losses)	(83)	87
Other	(1)	5
Total derivatives and other	(84)	92
Total realized investment gains (losses)	$(46)	$156

Other-than-temporary Impairment

The fair values of our debt and perpetual security investments fluctuate based on changes in interest rates, foreign exchange, and credit spreads in the global financial markets. Fair values can also be heavily influenced by the values of the assets of the issuer and expected ultimate recovery values upon default, bankruptcy or other financial restructuring. Credit spreads are most impacted by the general credit environment and global market liquidity. Interest rates are driven by numerous factors including, but not limited to, supply and demand, governmental monetary actions, expectations of inflation and economic growth. We believe that fluctuations in the fair values of our investment securities related to

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general changes in the level of credit spreads or interest rates have little bearing on underlying credit quality of the issuer, and whether our investment is ultimately recoverable. Generally, we consider such declines in fair values to be temporary even in situations where an investment remains in an unrealized loss position for a year or more.

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

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

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

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

	Three Months Ended March 31,	
(In millions)	2014	2013
Corporate bonds	$3	$38
Sovereign and supranational	0	16
Equity securities	0	1
Total other-than-temporary impairment losses realized [1]	$3	$55

[1] Includes $0 and $1 for the three-month periods ended March 31, 2014 and 2013, respectively, for impairments due to severity and duration of decline in fair value and $3 and $54 for the three-month periods ended March 31, 2014 and 2013, respectively, from change in intent to sell securities

Unrealized Investment Gains and Losses

Effect on Shareholders’ Equity

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

(In millions)	March 31, 2014	December 31, 2013
Unrealized gains (losses) on securities available for sale	$2,919	$1,523