

CERTIFICATION

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
SEP 04 2015
FILED

September 4, 2015

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS

as of

December 31, 2014

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS

dated as of December 31, 2014, verified under oath by the examiner-in-charge on September 1, 2015, and received by the company on September 2, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 3 day of September, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin C. Schrader

Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

LIMITED SCOPE EXAMINATION REPORT

OF

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS

as of

December 31, 2014



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Columbus, Georgia
July 31, 2015

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS (Aflac)

which has its Statutory Home Office located at

10306 Regency Parkway Drive
Omaha, Nebraska 68114

with its Principal Executive Office located at

1932 Wynnton Road
Columbus, Georgia 31999

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2011 by the State of Nebraska Department of Insurance (Department). The current limited-scope financial condition examination included a review of the Company's investments, and includes such subsequent events and transactions as were considered pertinent to this report. This was a limited-scope examination, and as such, is limited to those areas identified and is not intended to communicate all matters of importance for understanding the Company's financial condition.

This examination was called as a result of the Department's inquiries regarding the status of the Company's transformation of its investment operations, including but not limited to developing risk appetites, drafting policies and procedures, and selecting information systems noted during the prior examination.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

A general review was made of the Company's Global Investment (GI) operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company".

All investment accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of specific investment related workpapers prepared by KPMG, LLP (KPMG), the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2013 and 2014. Portions of KPMG's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This

utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

DESCRIPTION OF COMPANY

The Company was incorporated on November 17, 1955, and commenced operations on April 1, 1956. The Company is a wholly owned subsidiary of Aflac Incorporated (Aflac Inc.), a Georgia stock corporation. Aflac Inc.'s shares are traded on the New York and Tokyo stock exchanges. The Company operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). These operations service the two principal markets for the Company's insurance business. The Company owns American Family Life Assurance Company of New York (Aflac New York), a New York domestic insurer and Continental American Insurance Company (CAIC), a South Carolina domestic insurer.

GLOBAL INVESTMENTS (GI) OPERATIONS

The Company initiated the decision to bring its investment operations in-house during the prior examination, and began developing the GI operations in 2011. The GI management team is headed by Eric Mr. Kirsch, Global Chief Investment Officer (CIO). Mr. Kirsch was recruited in 2011 with the mandate to build a “world class investment organization”. The structure of GI includes a CIO for the United States portfolio and a CIO for Japan portfolio.

All of Mr. Kirsch's direct reports have at least twenty years of experience in their respective field. The team has significant experience managing insurance assets, trading with Wall Street, dealing with derivatives trades and navigating the challenges in the capital markets that are present following the Financial Crisis.

Investment Process

The investment process begins with a Strategic Asset Allocation (SAA). The SAA attempts to formulate a mix of investable asset classes that will produce an acceptable investment return and takes into account the Company's risk guidelines, asset-liability management (ALM), and cross correlation risk attributes.

The SAA is ultimately overseen by the Company Board of Director's joint Investment and Investment Risk Committee (IIRC) and Mr. Kirsch, and utilizes internal software which attempts to produce an "optimized" portfolio based on expected returns of various asset classes. The metrics that GI is attempting to manage include optimizing investment return, minimizing relative volatility of returns and reducing surplus volatility.

The Investment Strategy Group (ISG) consists of the senior members of the investment team in the US and Japan. The ISG, formerly headed by Mr. Kirsch, is now chaired by Chip Stevens, Global Head of Macro Investment Strategy, Portfolio Solutions, and Trading, and meets once a month. The ISG signs off on all investment strategies to insure consistency. The SAA is intended to give the ISG a "road map" and has roughly a three year horizon.

The GI then narrows the focus and develops a Tactical Asset Allocation (TAA) which is intended to have a more focused "investment plan" which fits into specific portfolio investment strategies. The TAA is overseen by the ISG.

Portfolio Management

The portfolio management function is led by Teresa McTague, GI's US-CIO and Hideto Yamamoto, GI's Japan-CIO. Together, they are responsible for allocating assets based on the SAA to the various strategies and then managing the portfolio around the TAA. Their priority is to identify strategies that have high risk adjusted returns and then allocate cash to either external

managers or the credit team based on the timing of cash flows and relative value opportunities in the market, subject to approval by the appropriate governance committees in Japan and the US respectively as appropriate. Portfolio managers do not trade in the Company portfolios nor do they execute trades. Instead, the portfolio manager gives broad authority to the credit research team to make security specific decisions investing in both investment grade and high yield securities.

Trading – New York

Trading is done on both a global basis and local basis. All U.S. trades are done through traders in New York City, whereas all yen based trades are done through traders in Japan. Chip Stevens, the Global Head of Investment Strategy, Portfolio Solutions and Trading, has extensive experience trading on both the buy side and the sell side. In this role, Mr. Stevens takes responsibility for managing relationships with Wall Street which helps in accessing resources from Wall Street including research, access to syndicate, and data. Mr. Stevens recently returned from Japan after serving as the Aflac Japan CIO.

Credit Research – New York

Global credit research function is overseen by Brad Dyslin, Global Head of Credit. Mr. Dyslin has 25 years of securities research experience and fundamental analysis. His team is responsible for all Asia-Pacific and European credits in addition to domestic. Aflac Japan's research team does not report directly to Mr. Dyslin; however, there is a dotted line to him. Mr. Dyslin has two team leaders that are his direct reports. The teams are split between industries that are regulated (financials and utilities) and non-regulated industries. Each analyst specializes in specific industries and covers both high yield and investment grade issuers within the industry.

In addition, credit research does independent credit work on all counterparties the firm trades with on derivatives.

The credit team adheres to the best practice in the industry for a company of this size which is for every security to have its own financial model. The credit team adheres to a “pyramid” discipline in which analysts gather data from different sources as a base, and then move up the pyramid by refining the data into analysis and then finally arriving at a recommendation.

Governance

The governance over the investment process is primarily through the ISG which includes the senior members of GI and meets monthly. The Global Investment Committee (GIC) meets quarterly and includes the senior executives of the Company. All investment strategies are discussed in the ISG and final oversight through the GIC. The day-to-day investment decisions fit within the strategies are implemented through the investment process. The examination considered that the governance function as it is currently designed within GI provides adequate oversight to the investment decision process without encumbering the process. The Global Investment Policy does provide the Global CIO authority to make decisions absent the approval of the GIC in certain circumstances.

The Global Investment Policy is another one of the tools that support the governance over the investment process. The examination reviewed the Global Investment Policy and considered that it encompasses the breadth of the market and provides ample “guard rails” to support decisions within the investment process.

The examination considered having an independent Investment Risk Management function reporting directly to Todd Daniels, Chief Risk Officer for the Company (and not the

Global CIO for GI) is also representative of good governance. This better aligns the risk oversight of the portfolios and capital of the Company with that of the Company's and not biased through the lenses of the investment function, including investment compensation incentives.

Pricing/Valuation

Private Placements

The Company has a legacy portfolio of private placements in the Aflac Japan portfolio. These investments were the result of trying to put large amounts of yen denominated premium to work in a market that is not deep in investment grade credit opportunities. They consist of investments in European and Japanese companies that were arranged by broker-dealers in the United States. During the Financial Crisis, these investments underperformed. Because they are private placements, they are illiquid and one of Mr. Kirsch's first priorities after coming on board was to reduce the size of the private placement portfolio.

The Company's GIC has a Private Placement Committee (PPC) that is charged with overseeing the credit assessment and reviewing and deliberating on any recommendation to execute on a private placement security. The PPC meets at least quarterly and is co-chaired by Mr. Dyslin and Hitoshi Oda, Vice President, in Japan.

At GI's initiative, the Company retained Duff & Phelps (D&P) in March of 2012 to take over the valuation of the private placement portfolio. The internal documentation supporting the monthly process to value the private placements is very good.

The examination confirmed the process that D&P goes through each month to value each private placement. D&P uses a combination of market inputs including comparative spread analysis of publicly traded securities of the same issuer, analysis of Credit Default Swaps curves, volatility, and analysis of comparative securities of other issuers with similar ratings. D&P uses

these inputs to calculate a spread over a comparable benchmark security and the calculates a net present value

Derivatives

There is a “global and local” approach to derivatives trading. Mr. Stevens is responsible for all derivatives trades. Trades are developed through “consensus building” process between traders in Aflac Japan and GI. Aflac Japan traders enter into short dated currency forwards and swaptions through U.S. and Japan-based counterparties to hedge non-yen denominated securities in the Aflac Japan portfolio.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Based on our review of the requested documentation, the examination considered the documentation provided by the Company to be of high quality and represented an industry best practice for investment management oversight of a large insurance company portfolio. Based on interviews with key leadership within GI as well as the review and analysis of work product requested and provided by the Company, the examination concluded that GI has the capabilities to execute its articulated investment strategies within its defined investment process to an industry best practice with solid risk controls.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Thomas A. Masterson, CFE, Financial Examiner and Gregory J. Hahn, CFA, Investment Specialist from Winthrop Capital Management participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



William A. O'Connell, CPA, CFE, CFE, CIA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Department of Insurance
State of Nebraska

State of Georgia,

County of Cobb,

William A. O'Connell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Family Life Assurance Company of Columbus.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of American Family Life Assurance Company of Columbus was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by William A O'Connell on this 1st day of September, 2015.

(SEAL)



Notary Public

My commission expires 1/15/17 [date].