AFLAC INC
Form 10-Q
November 02, 2012

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 September 30, 2012
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	October 26, 2012
Common Stock, $.10 Par Value	468,906,913

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2012
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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 September 30, 2012, and 2011, 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 September 30, 2012, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2012 and 2011, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. 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, 2011, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in the method of evaluating the consolidation of variable interest entities (VIEs) and qualified special purpose entities (QSPEs) in 2010 and a change in the method of evaluating other-than-temporary impairments of debt securities in 2009. As described in Note 1, on January 1, 2012, the Company adopted amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts on a retrospective basis resulting in a revision of the December 31, 2011, consolidated balance sheet. We have not audited and reported on the revised balance sheet reflecting the adoption of this new guidance.

Atlanta, Georgia
November 2, 2012

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for share and per-share amounts - Unaudited)	2012	2011	2012	2011
Revenues:				
Premiums, principally supplemental health insurance	$5,660	$5,210	$16,505	$15,037
Net investment income	869	843	2,597	2,422
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	(97)	(166)	(643)	(1,100)
Sales and redemptions	288	307	358	49
Derivative and other gains (losses)	95	(224)	108	(279)
Total realized investment gains (losses)	286	(83)	(177)	(1,330)
Other income	32	17	64	63
Total revenues	6,847	5,987	18,989	16,192
Benefits and expenses:				
Benefits and claims	3,932	3,517	11,341	10,049
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	281	264	838	775
Insurance commissions	442	438	1,309	1,287
Insurance expenses	595	579	1,745	1,678
Interest expense	67	52	186	143
Other operating expenses	50	45	147	131
Total acquisition and operating expenses	1,435	1,378	4,225	4,014
Total benefits and expenses	5,367	4,895	15,566	14,063
Earnings before income taxes	1,480	1,092	3,423	2,129
Income taxes	463	356	1,138	730
Net earnings	$1,017	$736	$2,285	$1,399
Net earnings per share:				
Basic	$2.17	$1.58	$4.90	$3.00
Diluted	2.16	1.57	4.87	2.98
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	467,422	465,910	466,702	466,843
Diluted	469,721	467,793	468,951	469,919
Cash dividends per share	$.33	$.30	$.99	$.90

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.
See the accompanying Notes to the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions - Unaudited)	2012	2011	2012	2011
Net earnings	$1,017	$736	$2,285	$1,399
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	76	(25)	8	(115)
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	1,430	114	1,435	(22)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	(213)	(173)	284	1,070
Unrealized gains (losses) on derivatives during period	2	0	(6)	(38)
Pension liability adjustment during period	(33)	(15)	(30)	(11)
Total other comprehensive income (loss) before income taxes	1,262	(99)	1,691	884
Income tax expense (benefit) related to items of other comprehensive income (loss)	347	(215)	569	86
Other comprehensive income (loss), net of income taxes	915	116	1,122	798
Total comprehensive income (loss)	$1,932	$852	$3,407	$2,197

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions - Unaudited)	September 30, 2012	December 31, 2011
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $47,302 in 2012 and $40,534 in 2011)	$50,238	$42,222
Fixed maturities - consolidated variable interest entities (amortized cost $5,348 in 2012 and $4,822 in 2011)	6,010	5,350
Perpetual securities (amortized cost $4,213 in 2012 and $5,365 in 2011)	4,132	5,149
Perpetual securities - consolidated variable interest entities (amortized cost $615 in 2012 and $1,532 in 2011)	587	1,290
Equity securities (cost $22 in 2012 and 2011)	24	25
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $60,934 in 2012 and $45,817 in 2011)	59,732	46,366
Fixed maturities - consolidated variable interest entities (fair value $323 in 2012 and $566 in 2011)	322	643
Other investments	185	168
Cash and cash equivalents	2,985	2,249
Total investments and cash	124,215	103,462
Receivables	1,005	680
Accrued investment income	793	802
Deferred policy acquisition costs	10,283	9,789
Property and equipment, at cost less accumulated depreciation	625	617
Other	919 [1]	887 [1]
Total assets	$137,840	$116,237

[1] Includes $351 in 2012 and $375 in 2011 of derivatives from consolidated variable interest entities
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts - Unaudited)	September 30, 2012		December 31, 2011	
Liabilities and shareholders’ equity:				
Liabilities:				
Policy liabilities:				
Future policy benefits	$83,065		$79,278	
Unpaid policy claims	4,267		3,981	
Unearned premiums	2,315		1,704	
Other policyholders’ funds	15,681		9,630	
Total policy liabilities	105,328		94,593	
Income taxes	3,263		2,308	
Payables for return of cash collateral on loaned securities	6,591		838	
Notes payable	4,401		3,285	
Other	2,272	(2)	2,267	(2)
Commitments and contingent liabilities (Note 10)				
Total liabilities	121,855		103,291	
Shareholders’ equity:				
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2012 and 2011; issued 664,796 shares in 2012 and 663,639 shares in 2011	66		66	
Additional paid-in capital	1,473		1,408	
Retained earnings	16,969		15,148	
Accumulated other comprehensive income (loss):				
Unrealized foreign currency translation gains	1,011		984	
Unrealized gains (losses) on investment securities	2,260		1,143	
Unrealized gains (losses) on derivatives	5		9	
Pension liability adjustment	(189	)	(171	)
Treasury stock, at average cost	(5,610	)	(5,641	)
Total shareholders’ equity	15,985		12,946	
Total liabilities and shareholders’ equity	$137,840		$116,237	

(2) Includes $436 in 2012 and $531 in 2011 of derivatives from consolidated variable interest entities
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In millions - Unaudited)	Nine Months Ended September 30, 2012	2011
Common stock:		
Balance, beginning of period	$66	$66
Balance, end of period	66	66
Additional paid-in capital:		
Balance, beginning of period	1,408	1,320
Exercise of stock options	19	17
Share-based compensation	25	27
Gain (loss) on treasury stock reissued	21	24
Balance, end of period	1,473	1,388
Retained earnings:		
Balance, beginning of period	15,148	13,787
Net earnings	2,285	1,399
Dividends to shareholders	(464)	(421)
Balance, end of period	16,969	14,765
Accumulated other comprehensive income (loss):		
Balance, beginning of period	1,965	753
Unrealized foreign currency translation gains (losses) during period, net of income taxes:		
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	27	160
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments:		
Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes	1,117	666
Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes	0	3
Unrealized gains (losses) on derivatives during period, net of income taxes	(4)	(25)
Pension liability adjustment during period, net of income taxes	(18)	(7)
Balance, end of period	3,087	1,550
Treasury stock:		
Balance, beginning of period	(5,641)	(5,386)
Purchases of treasury stock	(13)	(268)
Cost of shares issued	44	41
Balance, end of period	(5,610)	(5,613)
Total shareholders' equity	$15,985	$12,156

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net earnings	$2,285	$1,399
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	4,628	1,832
Increase in deferred policy acquisition costs	(481)	(320)
Increase in policy liabilities	4,537	3,259
Change in income tax liabilities	385	60
Realized investment (gains) losses	177	1,330
Other, net	(80)	(74)
Net cash provided (used) by operating activities	11,451	7,486
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	5,376	6,878
Fixed maturities matured or called	1,616	1,373
Perpetual securities sold	1,389	230
Perpetual securities matured or called	378	62
Securities held to maturity:		
Fixed maturities matured or called	1,579	710
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities acquired	(12,815)	(6,361)
Securities held to maturity:		
Fixed maturities acquired	(15,629)	(11,307)
Cash received as collateral on loaned securities, net	5,752	667
Other, net	(145)	(31)
Net cash provided (used) by investing activities	(12,499)	(7,779)
Cash flows from financing activities:		
Purchases of treasury stock	(13)	(268)
Proceeds from borrowings	1,456	624
Principal payments under debt obligations	(340)	(462)
Dividends paid to shareholders	(445)	(404)
Change in investment-type contracts, net	1,095	472
Treasury stock reissued	19	18
Other, net	9	5
Net cash provided (used) by financing activities	1,781	(15)
Effect of exchange rate changes on cash and cash equivalents	3	49
Net change in cash and cash equivalents	736	(259)
Cash and cash equivalents, beginning of period	2,249	2,121
Cash and cash equivalents, end of period	$2,985	$1,862
Supplemental disclosures of cash flow information:		
Income taxes paid	$527	$690
Interest paid	173	88
Impairment losses included in realized investment losses	643	1,100

Noncash financing activities:		
Capitalized lease obligations	3	4
Treasury stock issued for:		
Associate stock bonus	24	27
Shareholder dividend reinvestment	19	17
Share-based compensation grants	3	2

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

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). 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 78% and 75% of the Company's total revenues in the nine-month periods ended September 30, 2012, and 2011, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 88% at September 30, 2012, and 87% at December 31, 2011.

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 September 30, 2012, and December 31, 2011, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2012, and 2011, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2012, and 2011. 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, 2011.

Significant Accounting Policies

We have revised the accounting policy for deferred policy acquisition costs as a result of the adoption of amended accounting guidance effective January 1, 2012, and we have updated the disclosure in the accounting policy for income taxes. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2011.

Deferred Policy Acquisition Costs: Certain direct and incremental costs of acquiring new business are deferred and amortized with interest over the premium payment periods in proportion to the ratio of annual premium income to total anticipated premium income. Anticipated premium income is estimated by using the same mortality, persistency and interest assumptions used in computing liabilities for future policy benefits. In this manner, the related acquisition expenses are matched with revenues. Deferred costs include the excess of current-year commissions over ultimate renewal-year commissions and certain incremental direct policy issue, underwriting and sales expenses. All of these

incremental costs are directly related to successful policy acquisition.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. For internal replacement transactions where the resulting contract is substantially unchanged, the policy is accounted for as a continuation of the replaced contract. Unamortized deferred acquisition costs from the original policy continue to be amortized over the expected life of the new policy, and the costs of replacing the policy are accounted for as policy maintenance costs and expensed as incurred. Internal replacement transactions that result in a policy that is not substantially unchanged are accounted for as an extinguishment of the original policy and the issuance of a new policy. Unamortized deferred acquisition costs on the original policy that was replaced are immediately expensed, and the costs of acquiring the new policy are capitalized and amortized in accordance with our accounting policies for deferred acquisition costs.
Income Taxes: Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse. We record deferred tax assets for tax positions taken based on our assessment of whether the tax position is more likely than not to be sustained upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

As discussed in the Translation of Foreign Currencies section in Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011, Aflac Japan maintains a dollar-denominated investment portfolio on behalf of Aflac U.S. While there are no translation effects to record in other comprehensive income, the deferred tax expense or benefit associated with foreign exchange gains or losses on the portfolio is recognized in other comprehensive income until the securities mature or are sold. Total income tax expense (benefit) related to items of other comprehensive income (loss) included a tax benefit of $86 million during the three-month period ended September 30, 2012, and a tax benefit of $186 million during the three-month period ended September 30, 2011, for this dollar-denominated portfolio. Excluding these amounts from total taxes on other comprehensive income would result in an effective income tax rate on pretax other comprehensive income (loss) of 34.4% and 29.2% in the three-month periods ended September 30, 2012 and 2011, respectively. Total income tax expense (benefit) related to items of other comprehensive income (loss) included a tax benefit of $25 million during the nine-month period ended September 30, 2012, and a tax benefit of $236 million during the nine-month period ended September 30, 2011, for this dollar-denominated portfolio. Excluding these amounts from total taxes on other comprehensive income would result in an effective income tax rate on pretax other comprehensive income (loss) of 35.2% and 36.5% in the nine-month periods ended September 30, 2012 and 2011, respectively.

New Accounting Pronouncements
Recently Adopted Accounting Pronouncements

Presentation of comprehensive income: In June 2011, the FASB issued guidance to amend the presentation of comprehensive income. The amendment requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted this guidance as of January 1, 2012 and elected the option to report comprehensive income in two separate but consecutive statements. The adoption of this guidance did not have an impact on our financial position or results of operations. The amendment also requires reclassification adjustments for items that are reclassified from other comprehensive income to net income to be presented in the statements where the components of net income and the components of other comprehensive income are presented; however, in December 2011, the FASB issued guidance to temporarily defer the effective date of this additional requirement.

Fair value measurements and disclosures: In May 2011, the FASB issued guidance to amend the fair value measurement and disclosure requirements. Most of the amendments are clarifications of the FASB's intent about the application of existing fair value measurement and disclosure requirements. Other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The new fair value measurement disclosures include additional quantitative and qualitative disclosures for Level 3 measurements, including a qualitative sensitivity analysis of fair value to changes in unobservable inputs, and categorization by fair value hierarchy level for items for which the fair value is only disclosed. We adopted this guidance as of January 1, 2012. The adoption of this guidance impacted our financial statement disclosures, but it did not affect our financial position or results

of operations.

Accounting for costs associated with acquiring or renewing insurance contracts: In October 2010, the FASB issued amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts. Under the previous guidance, costs that varied with and were primarily related to the acquisition of a policy were deferrable. Under the amended guidance, only incremental direct costs associated with the successful acquisition of a new or renewal contract may be capitalized, and direct-response advertising costs may be capitalized only if they meet certain criteria. This guidance is effective on a prospective or retrospective basis for interim and annual periods beginning after December 15, 2011. We retrospectively adopted this guidance as of January 1, 2012. The retrospective adoption of this accounting standard resulted in an after-tax cumulative reduction to retained earnings of $408 million and an after-tax cumulative reduction to unrealized foreign currency translation gains in accumulated other comprehensive income of $108 million, resulting in a total reduction to shareholders' equity of $516 million as of December 31, 2010. The adoption of this accounting standard had an immaterial impact on net income in 2011 and for all preceding years.

Accounting Pronouncements Pending Adoption

Disclosures about offsetting assets and liabilities: In November 2011, the FASB issued guidance to amend the disclosure requirements about offsetting assets and liabilities. The new guidance essentially clarifies the FASB's intent concerning the application of existing offsetting disclosure requirements. Entities will be required to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and activities that are subject to an agreement similar to a master netting arrangement. This scope includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The objective of this disclosure is to converge U.S. GAAP and international accounting standards. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods and requires retrospective disclosures for all comparative periods presented. The adoption of this guidance will impact our financial statement disclosures, but it will not affect 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, 2011.

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 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) and nonrecurring items. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment follows:

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(In millions)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Revenues:				
Aflac Japan:				
Earned premiums	$4,405	$4,018	$12,769	$11,490
Net investment income	713	695	2,134	1,980
Other income	22	7	38	33
Total Aflac Japan	5,140	4,720	14,941	13,503
Aflac U.S.:				
Earned premiums	1,254	1,192	3,736	3,547
Net investment income	153	147	457	439
Other income	5	3	10	8
Total Aflac U.S.	1,412	1,342	4,203	3,994
Other business segments	10	13	40	40
Total business segment revenues	6,562	6,075	19,184	17,537
Realized investment gains (losses)	286	(83)	(177)	(1,330)
Corporate	65	62	197	183
Intercompany eliminations	(66)	(67)	(215)	(198)
Total revenues	$6,847	$5,987	$18,989	$16,192

(In millions)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Pretax earnings:				
Aflac Japan	$994	$1,019	$2,998	$2,918
Aflac U.S.	260	214	789	708
Other business segments	0	0	0	2
Total business segment pretax operating earnings	1,254	1,233	3,787	3,628
Interest expense, noninsurance operations	(45)	(44)	(134)	(126)
Corporate and eliminations	(15)	(14)	(53)	(43)
Pretax operating earnings	1,194	1,175	3,600	3,459
Realized investment gains (losses)	286	(83)	(177)	(1,330)
Total earnings before income taxes	$1,480	$1,092	$3,423	$2,129
Income taxes applicable to pretax operating earnings	$363	$405	$1,200	$1,196
Effect of foreign currency translation on operating earnings	2	45	28	144

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

Assets were as follows:

(In millions)	September 30, 2012	December 31, 2011
Assets:		
Aflac Japan	$120,712	$101,692
Aflac U.S.	15,785	13,942
Other business segments	144	160
Total business segment assets	136,641	115,794
Corporate	21,486	16,182
Intercompany eliminations	(20,287)	(15,739)
Total assets	$137,840	$116,237

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

3. INVESTMENTS

Investment Holdings

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

	September 30, 2012			
(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	$14,059	$488	$6	$14,541
Mortgage- and asset-backed securities	853	51	1	903
Public utilities	4,026	107	142	3,991
Sovereign and supranational	2,050	53	109	1,994
Banks/financial institutions	4,473	194	369	4,298
Other corporate	6,307	214	256	6,265
Total yen-denominated	31,768	1,107	883	31,992
Dollar-denominated:				
U.S. government and agencies	93	25	0	118
Municipalities	1,049	152	5	1,196
Mortgage- and asset-backed securities	235	67	0	302
Public utilities	3,620	699	3	4,316
Sovereign and supranational	476	121	4	593
Banks/financial institutions	3,526	476	17	3,985
Other corporate	11,883	1,902	39	13,746
Total dollar-denominated	20,882	3,442	68	24,256
Total fixed maturities	52,650	4,549	951	56,248
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	4,214	139	281	4,072
Other corporate	345	26	0	371
Dollar-denominated:				
Banks/financial institutions	269	19	12	276
Total perpetual securities	4,828	184	293	4,719
Equity securities	22	4	2	24
Total securities available for sale	$57,500	$4,737	$1,246	$60,991

(In millions)	September 30, 2012 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	$34,792	$715	$6	$35,501
Municipalities	550	42	0	592
Mortgage- and asset-backed securities	109	5	0	114
Public utilities	5,494	328	66	5,756
Sovereign and supranational	3,712	230	79	3,863
Banks/financial institutions	10,425	272	399	10,298
Other corporate	4,972	239	78	5,133
Total yen-denominated	60,054	1,831	628	61,257
Total securities held to maturity	$60,054	$1,831	$628	$61,257

(In millions)	December 31, 2011 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	$11,108	$670	$0	$11,778
Mortgage- and asset-backed securities	912	43	1	954
Public utilities	3,850	59	226	3,683
Sovereign and supranational	1,704	87	16	1,775
Banks/financial institutions	4,312	74	359	4,027
Other corporate	6,213	120	459	5,874
Total yen-denominated	28,099	1,053	1,061	28,091
Dollar-denominated:				
U.S. government and agencies	31	4	0	35
Municipalities	1,060	107	8	1,159
Mortgage- and asset-backed securities	310	74	0	384
Public utilities	3,052	517	27	3,542
Sovereign and supranational	449	89	5	533
Banks/financial institutions	3,324	223	121	3,426
Other corporate	9,031	1,433	62	10,402
Total dollar-denominated	17,257	2,447	223	19,481
Total fixed maturities	45,356	3,500	1,284	47,572
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	6,217	155	604	5,768
Other corporate	344	17	0	361
Dollar-denominated:				
Banks/financial institutions	336	3	29	310
Total perpetual securities	6,897	175	633	6,439
Equity securities	22	4	1	25
Total securities available for sale	$52,275	$3,679	$1,918	$54,036

(In millions)	December 31, 2011 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	$18,775	$297	$1	$19,071
Municipalities	553	35	4	584
Mortgage- and asset-backed securities	129	5	0	134
Public utilities	5,615	188	166	5,637
Sovereign and supranational	4,200	148	183	4,165
Banks/financial institutions	12,389	170	1,079	11,480
Other corporate	5,348	149	185	5,312
Total yen-denominated	47,009	992	1,618	46,383
Total securities held to maturity	$47,009	$992	$1,618	$46,383

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

During the third quarter of 2012, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of significant declines in the issuer's creditworthiness. At the time of transfer, this security issued by BBVA Subordinated Capital, a financial institution domiciled in Spain, had an amortized cost of $206 million after we recognized an other-than-temporary impairment of $52 million in the third quarter of 2012. During the second quarter of 2012, we reclassified five investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of significant declines in the issuers' creditworthiness. At the time of transfer, the securities had an aggregate amortized cost of $842 million and an aggregate unrealized loss of $268 million. Included in this transfer were securities issued by UniCredit and Bankia SA, financial institutions, and Generalitat de Catalunya and Junta de Andalucia, regional governments in Spain. During the first quarter of 2012, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of a significant decline in the issuer's creditworthiness. At the time of transfer, the security had an amortized cost of $122 million and an unrealized loss of $23 million. This investment was issued by Energias de Portugal SA (EDP), an integrated electric utility domiciled in Portugal.

We did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio during the second or third quarter of 2011. During the first quarter of 2011, we reclassified eight investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of significant declines in the issuers' creditworthiness. At the time of the transfer, the securities had an aggregate amortized cost of $1.6 billion and an aggregate unrealized loss of $270 million. The securities transferred included investments in the Republic of Tunisia and securities associated with financial institutions in Portugal and Ireland. The investments from the financial institutions in Portugal were subsequently sold by the end of the third quarter of 2011.

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at September 30, 2012, 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	$1,812	$1,837	$53	$54
Due after one year through five years	2,519	2,645	336	373
Due after five years through 10 years	4,792	5,177	1,004	1,186
Due after 10 years	32,928	34,042	7,980	9,568
Mortgage- and asset-backed securities	1,044	1,148	44	56
Total fixed maturities available for sale	$43,095	$44,849	$9,417	$11,237
Held to maturity:				
Due in one year or less	$6,575	$6,580	$0	$0
Due after one year through five years	819	885	0	0
Due after five years through 10 years	3,371	3,778	0	0
Due after 10 years	49,180	49,900	0	0
Mortgage- and asset-backed securities	109	114	0	0
Total fixed maturities held to maturity	$60,054	$61,257	$0	$0

At September 30, 2012, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling $138 million at amortized cost and $162 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 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 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 September 30, 2012, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Due in one year or less	$322	$325	$0	$0
Due after one year through five years	1,251	1,304	5	5
Due after five years through 10 years	468	498	0	0
Due after 10 years	2,623	2,422	159	165
Total perpetual securities available for sale	$4,664	$4,549	$164	$170

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 determine the appropriateness of the investment considering portfolio management needs, asset/liability requirements, portfolio diversification, and expected income.

Banks and Financial Institutions

After Japanese government bonds (JGBs), our second largest investment concentration as of September 30, 2012, 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. We achieve some degree of diversification in the bank and financial institution sector through a geographically diverse universe of credit exposures. Within this sector, our credit risk by geographic region or country of issuer at September 30, 2012, based on amortized cost, was: Europe, excluding the United Kingdom (33%); United States (23%); United Kingdom (8%); Japan (8%); and other (28%).

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

	September 30, 2012 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio		December 31, 2011 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	
Fixed maturities:						
Amortized cost	$18,424	15	%	$20,025	20	%
Fair value	18,581	15		18,933	19	
Perpetual securities:						
Upper Tier II:						
Amortized cost	$3,189	3	%	$4,285	5	%
Fair value	3,165	3		4,244	4	
Tier I:						
Amortized cost	1,294	1		2,268	2	
Fair value	1,183	1		1,834	2	
Total:						
Amortized cost	$22,907	19	%	$26,578	27	%
Fair value	22,929	19		25,011	25	

Derisking

During the three- and nine-month periods ended September 30, 2012, we continued our efforts of pursuing strategic investment activities to lower the risk profile of our investment portfolio. During the first nine months of 2012, we have reduced our exposure to perpetual and other subordinated securities of European issuers, particularly in the financial sector. See further details in the Realized Investment Gains and Losses section below.

Realized Investment Gains and Losses

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

(In millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Realized investment gains (losses) on securities:				
Fixed maturities:				
Available for sale:				
Gross gains from sales	$313	$354	$346	$458
Gross losses from sales	(1)	(56)	(37)	(375)
Net gains (losses) from redemptions	0	9	2	15
Other-than-temporary impairment losses	(70)	(44)	(400)	(793)
Held to maturity:				
Net gains (losses) from redemptions	0	0	3	0
Total fixed maturities	242	263	(86)	(695)
Perpetual securities:				
Available for sale:				
Gross gains from sales	12	0	82	54
Gross losses from sales	(36)	0	(98)	(109)
Net gains (losses) from redemptions	0	0	60	0
Other-than-temporary impairment losses	(27)	(122)	(243)	(306)
Total perpetual securities	(51)	(122)	(199)	(361)
Equity securities:				
Other-than-temporary impairment losses	0	0	0	(1)
Total equity securities	0	0	0	(1)
Derivatives and other:				
Derivative gains (losses)	95	(224)	108	(291)
Other	0	0	0	18
Total derivatives and other	95	(224)	108	(273)
Total realized investment gains (losses)	$286	$(83)	$(177)	$(1,330)

During the three- and nine-month periods ended September 30, 2012, sales and redemptions of securities generated a net realized investment gain. This net gain from sales and redemptions primarily resulted from the sale of Japanese government bonds (JGBs) in a bond-swap program executed in the third quarter of 2012. Other gains in the nine-month period resulted from the redemption in the first quarter of 2012 of a previously impaired perpetual security and sales related to our plan to reduce the risk exposure in our investment portfolio (see the Investment Concentrations section above for more information).

During the three- and nine-month periods ended September 30, 2011, we recognized realized investment losses from the sale of securities, primarily a result of a plan to reduce the risk exposure in our investment portfolio. The sales losses were more than offset by the investment gains generated in the third quarter of 2011 from the sale of U.S. Treasury securities and JGBs.

Other-than-temporary Impairment

The fair value of our debt and perpetual security investments fluctuates based on changes in interest rates and credit spreads in the global financial markets. Credit spreads are most impacted by the general and specific credit environment and global market liquidity. We believe that fluctuations in the fair value of our investment securities related to changes in credit spreads have little bearing on whether our investment is ultimately recoverable. Generally, we consider such declines in fair value 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. In this event, we consider such a decline in the investment's fair value, to the extent it is below the investment's

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cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its fair value.

In addition to the usual investment risk associated with a debt instrument, our perpetual security holdings may be subject to the 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 build capital. In addition to 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, sales of securities to meet cash flow needs and decisions to reposition our security portfolio. 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 matching 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. Recently, we have started to reposition our security portfolio in an effort to enhance diversification and our credit profile by reducing our risk exposure through opportunistic investment transactions.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Perpetual securities	$27	$122	$243	$306
Corporate bonds	70	43	253	783
Mortgage- and asset-backed securities	0	1	3	9
Municipalities	0	0	0	1
Sovereign and supranational	0	0	144	0
Equity securities	0	0	0	1
Total other-than-temporary impairment losses realized	$97 [1]	$166 [2]	$643 [1]	$1,100 [2]

[1] Includes $70 and $365 for the three- and nine-month periods ended September 30, 2012, respectively, for credit-related impairments;
$0 and $251 for the three- and nine-month periods ended September 30, 2012, respectively, from change in intent to sell securities; and $27 for the three- and nine-month periods ended September 30, 2012 for impairments due to severity and duration of decline in fair value
[2] Consisted completely of credit-related impairments

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)	September 30, 2012	December 31, 2011
Unrealized gains (losses) on securities available for sale	$3,491	$1,761
Unamortized unrealized gains on securities transferred to held to maturity	24	34
Deferred income taxes	(1,255)	(652)
Shareholders' equity, unrealized gains (losses) on investment securities	$2,260	$1,143

Gross Unrealized Loss Aging

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

	September 30, 2012					
	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
Japan government and agencies:						
Yen-denominated	$7,617	$12	$7,617	$12	$0	$0
Municipalities:						
Dollar-denominated	33	5	0	0	33	5
Mortgage- and asset- backed securities:						
Dollar-denominated	10	0	10	0	0	0
Yen-denominated	152	1	0	0	152	1
Public utilities:						
Dollar-denominated	185	3	145	2	40	1
Yen-denominated	4,030	208	642	24	3,388	184
Sovereign and supranational:						
Dollar-denominated	37	4	6	0	31	4
Yen-denominated	1,796	188	913	104	883	84
Banks/financial institutions:						
Dollar-denominated	304	17	99	1	205	16
Yen-denominated	6,408	768	189	5	6,219	763
Other corporate:						
Dollar-denominated	1,334	39	1,225	24	109	15
Yen-denominated	4,652	334	765	7	3,887	327
Total fixed maturities	26,558	1,579	11,611	179	14,947	1,400
Perpetual securities:						
Dollar-denominated	133	12	118	2	15	10
Yen-denominated	1,751	281	126	2	1,625	279
Total perpetual securities	1,884	293	244	4	1,640	289
Equity securities	8	2	5	1	3	1
Total	$28,450	$1,874	$11,860	$184	$16,590	$1,690

(In millions)	December 31, 2011 Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
Japan government and agencies:						
Yen-denominated	$940	$1	$859	$1	$81	$0
Municipalities:						
Dollar-denominated	54	8	22	1	32	7
Yen-denominated	60	4	0	0	60	4
Mortgage- and asset- backed securities:						
Yen-denominated	151	1	0	0	151	1
Public utilities:						
Dollar-denominated	295	27	110	3	185	24
Yen-denominated	4,995	392	2,404	141	2,591	251
Sovereign and supranational:						
Dollar-denominated	66	5	34	2	32	3
Yen-denominated	2,349	199	749	62	1,600	137
Banks/financial institutions:						
Dollar-denominated	770	121	391	56	379	65
Yen-denominated	10,175	1,438	1,639	46	8,536	1,392
Other corporate:						
Dollar-denominated	834	62	639	27	195	35
Yen-denominated	6,106	644	2,523	110	3,583	534
Total fixed maturities	26,795	2,902	9,370	449	17,425	2,453
Perpetual securities:						
Dollar-denominated	217	29	109	4	108	25
Yen-denominated	2,290	604	630	69	1,660	535
Total perpetual securities	2,507	633	739	73	1,768	560
Equity securities	8	1	6	1	2	0
Total	$29,310	$3,536	$10,115	$523	$19,195	$3,013

Analysis of Securities in Unrealized Loss Positions

The unrealized losses on our investments have been primarily related to changes in foreign exchange rates or the general widening of credit spreads rather than specific issuer credit-related events. The following summarizes our evaluation of investment categories with significant unrealized losses and securities that were rated below investment grade as of September 30, 2012.

Public Utilities

As of September 30, 2012, 56% of the unrealized losses on investments in the public utilities sector was related to investments that were investment grade, compared with 77% at December 31, 2011. This decline is due to the total balance of unrealized losses on public utility investments improving as of September 30, 2012, while the unrealized losses on below-investment-grade investments has remained stable. For any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investment. We have determined that the majority of the unrealized losses on the investments in the public utilities sector was caused by widening credit spreads. Based on

our credit analysis, we believe that the issuers of our investments in this sector have the ability to service their obligations to us.

Sovereign and Supranational

As of September 30, 2012, 41% of the unrealized losses on investment securities in the sovereign and supranational sector were related to investments that were investment grade, compared with 100% at December 31, 2011. This decline is due to a higher balance of unrealized losses on below-investment-grade sovereign and supranational investments as of September 30, 2012, primarily driven by the increase in the unrealized loss on our investment in a certain foreign central bank. For any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, gross domestic product growth projections, balance of payments, foreign currency reserves, and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the sovereign and supranational sector was caused by widening credit spreads. Based on our credit analysis, we believe that the issuers of our investments in this sector have the ability to service their obligations to us.

Bank and Financial Institution Investments

Our efforts during 2011 and the three- and nine-month periods ended September 30, 2012 to reduce risk in our investment portfolio included sales and impairments of certain investments in banks and financial institutions, with an emphasis on reducing our exposure to European financial institutions. The following table shows the composition of our investments in an unrealized loss position in the bank and financial institution sector by fixed-maturity securities and perpetual securities. The table reflects those securities in that sector that were in an unrealized loss position as a percentage of our total investment portfolio in an unrealized loss position. The table also reflects the respective unrealized losses in this sector as a percentage of total unrealized losses in our investment portfolio.

	September 30, 2012		December 31, 2011	
	Percentage of Total Investments in an Unrealized Loss Position	Percentage of Total Unrealized Losses	Percentage of Total Investments in an Unrealized Loss Position	Percentage of Total Unrealized Losses
Fixed maturities	24 %	42 %	37 %	44 %
Perpetual securities:				
Upper Tier II	4	7	4	6
Tier I	2	9	5	12
Total perpetual securities	6	16	9	18
Total	30 %	58 %	46 %	62 %

As of September 30, 2012, 70% of the $1.1 billion in unrealized losses on investments in the bank and financial institution sector, including perpetual securities, was related to investments that were investment grade, compared with 80% at December 31, 2011. Of the $8.6 billion in total investments, at fair value, in this sector in an unrealized loss position at September 30, 2012, only $1.0 billion, which had $325 million in unrealized losses, was below investment grade. Three issuers of investments comprised nearly 98% of the $325 million unrealized loss.

We conduct our own independent credit analysis for investments in the bank and financial institution sector. Our assessment includes analysis of financial statements and other available financial data, timeliness of payment, competitive environment, and any other significant data related to the issuers as well as consultation with the issuers from time to time. Based on our credit analysis, we have determined that the majority of the unrealized losses on the investments in this sector was caused by widening credit spreads, the downturn in the global economic environment and, to a lesser extent, changes in foreign exchange rates. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors

develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that the issuers of our investments in this sector have the ability to service their obligations to us.

Other Corporate Investments

As of September 30, 2012, 63% of the unrealized losses on investments in the other corporate sector was related to investments that were investment grade, compared with 73% at December 31, 2011. This decline is due to the overall improvement in the balance of unrealized losses, primarily on investment-grade securities, as of September 30, 2012. For any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From that review, we evaluate the issuer's continued ability to service our investment. We have determined that the majority of the unrealized losses on the investments in the other corporate sector was caused by widening credit spreads. Based on our credit analysis, we believe that the issuers of our investments in this sector have the ability to service their obligations to us.

Perpetual Securities

As of September 30, 2012, 99% of the unrealized losses on investments in perpetual securities was related to investments that were investment grade, compared with 73% at December 31, 2011. This improvement is primarily a result of sales and the recognition of other-than-temporary impairments during the nine-month period ended September 30, 2012. The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer's capital structure and the regulatory jurisdiction of the issuer.

Details of our holdings of perpetual securities were as follows:

Perpetual Securities

		September 30, 2012			December 31, 2011		
(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Upper Tier II:							
	AA	$0	$0	$0	$196	$204	$8
	A	504	524	20	2,108	2,046	(62)
	BBB	2,317	2,263	(54)	1,791	1,804	13
	BB or lower	368	378	10	190	190	0
Total Upper Tier II		3,189	3,165	(24)	4,285	4,244	(41)
Tier I:							
	A	60	59	(1)	0	0	0
	BBB	1,009	856	(153)	1,684	1,417	(267)
	BB or lower	225	268	43	584	417	(167)
Total Tier I		1,294	1,183	(111)	2,268	1,834	(434)
Other subordinated - non-banks	BBB	345	371	26	344	361	17
Total		$4,828	$4,719	$(109)	$6,897	$6,439	$(458)

An aspect of our efforts during 2011 and the three- and nine-month periods ended September 30, 2012 to reduce risk in our investment portfolio included sales and impairments of certain investments in perpetual securities. With the exception of the Icelandic bank securities that we completely impaired in 2008, none of the perpetual securities we own were in default on interest and principal payments at September 30, 2012. During the second quarter of 2011, we wrote off accrued interest income and stopped accruing further interest income for certain Upper Tier II perpetual securities, which had a deferred coupon and were impaired during that quarter, and we recognized additional

impairments on those securities in the third and fourth quarters of 2011. We collected the deferred coupon upon the sale of those securities as part of our derisking investment activities in the first quarter of 2012. Based on amortized cost as of September 30, 2012, the geographic breakdown of our perpetual securities by issuer was as follows: European countries, excluding the United Kingdom, (64%); the United Kingdom (11%); Japan (15%); and other (10%). To determine any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From

that review, we evaluate the issuer's continued ability to service our investment.

We have determined that the majority of our unrealized losses in the perpetual security category was principally due to widening credit spreads, largely as the result of the contraction of liquidity in the capital markets. Based on our reviews, we concluded that the ability of the issuers to service our investments has not been compromised by these factors. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as the investments near economic maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analyses, we believe that the issuers of our investments in this sector have the ability to service their obligations to us.
Variable Interest Entities (VIEs)

The following table details our investments in VIEs.
Investments in Variable Interest Entities

	September 30, 2012		December 31, 2011	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
VIEs:				
VIEs - consolidated	$6,285	$6,920	$6,997	$7,206
VIEs - not consolidated	13,340	13,976	13,753	13,714
Total VIEs	$19,625	$20,896	$20,750	$20,920

As a condition to 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.

Our involvement with all of the VIEs in which we have an interest is passive in nature, and we are not the arranger of these entities. We have not been involved in establishing these entities, except as it relates to our review and evaluation of the structure of these VIEs in the normal course of our investment decision-making process. Further, we are not, nor have we been, required to purchase any securities issued in the future by these VIEs.

Our ownership interest in the VIEs is limited to holding the obligations issued by them. All of the VIEs in which we invest are static with respect to funding and have no ongoing forms of funding after the initial funding date. 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. The weighted-average lives of our notes are very similar to the underlying collateral held by these VIEs where applicable.

Our risk of loss related to our interests in any of our VIEs is limited to our investment in the debt securities issued by them.

VIEs-Consolidated

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we have the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. We also participate in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding debt and perpetual securities and interest rate, foreign currency, and/or credit default swaps (CDSs), as appropriate, and utilizing the cash flows from these securities to service our investment. Neither we nor any of our creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, we are not a direct counterparty to the swap contracts and have no control

over them. Our loss exposure to these VIEs is limited to our original investment. Our consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of our investment in senior secured bank loans through unit trust structures that we began investing in during the second quarter of 2011, the underlying collateral assets and funding of our consolidated VIEs are generally static in nature and the underlying collateral and the reference corporate entities covered by any CDS contracts were all investment grade at the time of issuance.

We are exposed to credit losses within any consolidated collateralized debt obligations (CDOs) that could result in principal losses to our investments. We have mitigated our risk of credit loss through the structure of the VIE, which contractually requires the subordinated tranches within these VIEs to absorb the majority of the expected losses from the underlying credit default swaps. We currently own only senior mezzanine CDO tranches. Based on our statistical analysis models and the current subordination levels in our CDOs, each of these VIEs can sustain a reasonable number of defaults in the underlying reference entities in the CDSs with no loss to our investment.

VIEs-Not Consolidated

The VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the international 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 (1) the obligation to absorb losses of the entity or (2) 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 156 separate issuers with an average credit rating of BBB.

Securities Lending

We lend fixed-maturity securities to financial institutions in short-term security-lending transactions. These short-term security-lending arrangements increase investment income with minimal risk. Our security lending policy requires that the fair value of the securities and/or unrestricted cash received as collateral be 102% or more of the fair value of the loaned securities. The following table presents our security loans outstanding and the corresponding collateral held:

(In millions)	September 30, 2012	December 31, 2011
Security loans outstanding, fair value	$6,436	$812
Cash collateral on loaned securities	6,591	838

The balance of our security loans outstanding was higher at September 30, 2012, compared with that at December 31, 2011, due to a six-month securities lending program that began in the third quarter of 2012. For this particular securities lending program, we invested the cash collateral in JGBs with maturities that correspond with the termination of the program.

4. DERIVATIVE INSTRUMENTS

Our freestanding derivative financial instruments consist of: (1) interest rate, foreign currency and credit default swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary; (2) foreign currency forward contracts used in hedging foreign exchange risk on U.S. dollar-denominated securities in Aflac Japan's portfolio; and (3) swaps associated with our notes payable, consisting of an interest rate swap for our variable interest rate yen-denominated debt and cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with our senior notes due in February 2017 and February 2022 and subordinated debentures due in September 2052. We do not use derivative financial instruments for trading purposes, nor do we engage in leveraged derivative transactions.

Derivative Types

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. Generally, no cash or principal payments are exchanged at the inception of the contract. Typically, at the time a swap is entered into, the cash flow streams exchanged by the counterparties are equal in value. 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.

Credit default swaps are used to assume credit risk related to an individual security or an index. These contracts entitle the consolidated VIE to receive a periodic fee in exchange for an obligation to compensate the derivative

counterparty should the referenced security issuers experience a credit event, as defined in the contract. The consolidated VIE is also exposed to credit risk due to embedded derivatives associated with credit-linked notes.

Foreign currency swaps exchange an initial principal amount in two currencies, agreeing to re-exchange the currencies at a future date, at an agreed upon exchange rate. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. Foreign currency swaps are used primarily in the consolidated VIEs in our Aflac Japan portfolio to convert foreign-denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. We also use foreign currency swaps to economically convert certain of our dollar-denominated principal and interest senior note and subordinated note obligations into yen-denominated obligations.

Foreign currency forwards with short-term maturities are executed for certain fixed-maturity security investments of our Aflac Japan segment in order to economically convert these dollar-denominated securities into yen. In these 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. The foreign currency forwards are used in fair value hedging relationships to mitigate the foreign exchange risk associated with dollar-denominated investments supporting yen-denominated liabilities.

Credit Risk Assumed through Derivatives

For the interest rate, foreign currency, and credit default swaps associated with our VIE investments for which we are the primary beneficiary, we bear the risk of foreign exchange or interest rate loss due to counterparty default even though we are not a direct counterparty to those contracts. We are a direct counterparty to the interest rate and foreign currency swaps that we have on certain of our senior notes, subordinated debentures, and Samurai notes and the foreign currency forwards on certain fixed-maturity securities, therefore we are exposed to credit risk in the event of nonperformance by the other counterparties in those contracts. The risk of counterparty default for our VIE and senior note and subordinated debenture swaps is mitigated by collateral posting requirements the counterparty must meet. The counterparty risk associated with the foreign currency forwards is the risk that at expiry of the contract, the counterparty is unable to deliver the agreed upon amount of yen at the agreed upon price or delivery date, thus exposing the Company to additional unhedged exposure to U.S. dollars in the Aflac Japan investment portfolio. The counterparties to all these swap agreements are financial institutions with the following credit ratings.

	September 30, 2012		December 31, 2011	
(In millions)	Fair Value of Swaps	Notional Amount of Swaps	Fair Value of Swaps	Notional Amount of Swaps
Counterparty credit rating:				
A	$(63)	$9,199	$(156)	$5,491
Total	$(63)	$9,199	$(156)	$5,491

Certain of our consolidated VIEs have credit default swap contracts that require them to assume credit risk from an asset pool. Those consolidated VIEs will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment by delivery of associated collateral, which consists of highly rated asset-backed securities, if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced obligations. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The diversified portfolios of corporate issuers are established within sector concentration limits.

The following tables present the maximum potential risk, fair value, weighted-average years to maturity, and underlying referenced credit obligation type for credit default swaps within consolidated VIE structures.

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September 30, 2012

(In millions)	Credit Rating	Less than one year		One to three years		Three to five years		Five to ten years		Total	
		Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value
Index exposure:											
Corporate bonds:											
	A	$0	$0	$0	$0	$(147)	$0	$0	$0	$(147)	$0
	BB or lower	0	0	0	0	0	0	(235)	(82)	(235)	(82)
Total		$0	$0	$0	$0	$(147)	$0	$(235)	$(82)	$(382)	$(82)

December 31, 2011

(In millions)	Credit Rating	Less than one year		One to three years		Three to five years		Five to ten years		Total	
		Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value	Maximum potential risk	Estimated fair value
Index exposure:											
Corporate bonds:											
	A	$0	$0	$0	$0	$(146)	$(17)	$0	$0	$(146)	$(17)
	BB or lower	0	0	0	0	0	0	(235)	(113)	(235)	(113)
Total		$0	$0	$0	$0	$(146)	$(17)	$(235)	$(113)	$(381)	$(130)

Accounting for Derivative Financial Instruments

Freestanding derivatives are carried in our consolidated balance sheets either as assets within other assets or as liabilities within other liabilities at estimated fair value. See Note 5 for a discussion on how we determine the fair value of our derivatives. Accruals on derivatives are recorded in accrued investment income or within other liabilities in the consolidated balance sheets.

If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are generally reported within derivative and other gains(losses), which is a component of realized investment gains (losses). The fluctuations in estimated fair value of derivatives that have not been designated for hedge accounting can result in volatility in net earnings.

Hedge Documentation and Effectiveness Testing

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. At the inception of the hedging relationship, we formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. We document the designation of each hedge as either (i) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or the hedge of a forecasted transaction ("cash flow hedge"); (ii) a hedge of the estimated fair value of a recognized asset or liability ("fair value hedge"); or (iii) a hedge of a net investment in a foreign operation. The documentation process includes linking derivatives and nonderivatives that are designated as hedges to specific assets or groups of assets or liabilities on the statement of financial position or to specific forecasted transactions and defining the effectiveness and ineffectiveness testing methods to be used. At the hedge's inception and on an ongoing quarterly basis, we also formally assess whether the derivatives that are used in hedging transactions have been, and are expected to continue to be, highly effective in offsetting their designated risk. Hedge effectiveness is assessed using qualitative and quantitative methods.

For assessing hedge effectiveness of cash flow hedges, qualitative methods may include the comparison of critical terms of the derivative to the hedged item, and quantitative methods include regression or other statistical analysis of changes in cash flows associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the "Hypothetical Derivative Method." For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the

hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings within derivative and other gains (losses). All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

For assessing hedge effectiveness of fair value hedges, qualitative methods review the terms of the hedged item and hedging instrument to ensure the hedge is highly effective at offsetting the designated risk, and quantitative methods include regression or other statistical analysis of changes in the hedging instrument and the hedged item for the risk being hedged. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the dollar offset method. For derivative instruments that are designated and qualify as fair value hedges, changes in the estimated fair value of the derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in current earnings within derivative and other gains (losses).

For the hedge of our net investment in Aflac Japan, we have designated the majority of the Parent Company’s yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans) as non-derivative hedging instruments. If the total of the designated Parent Company yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect on the liabilities is reported in the unrealized foreign currency component of other comprehensive income. Should these designated yen-denominated liabilities exceed our net investment in Aflac Japan, the foreign exchange effect on the portion of the Parent Company yen-denominated liabilities that exceeds our net investment in Aflac Japan would be recognized in current earnings within other income.

Discontinuance of Hedge Accounting

We discontinue hedge accounting prospectively when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative is de-designated as a hedging instrument; or (3) the derivative expires or is sold, terminated or exercised.

When hedge accounting is discontinued on a cash flow hedge or fair value hedge, the derivative is carried in the consolidated balance sheets at its estimated fair value, with changes in estimated fair value recognized in current period earnings. For discontinued cash flow hedges, including those where the derivative is sold, terminated or exercised, amounts previously deferred in other comprehensive income are reclassified into earnings when earnings are impacted by the cash flow of the hedged item.

Derivative Balance Sheet Classification

The tables below summarize the balance sheet classification of our derivative fair value amounts, as well as the gross asset and liability fair value amounts. The fair value amounts presented do not include income accruals. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated. Notional amounts are not reflective of credit risk.

(In millions)	September 30, 2012 Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Interest rate swaps	$71	$0	$0	$0
Foreign currency swaps	75	30	30	0
Total cash flow hedges	146	30	30	0
Fair value hedges:				
Foreign currency forwards	2,502	17	17	0
Total fair value hedges	2,502	17	17	0
Non-qualifying strategies:				
Interest rate swaps	382	34	39	(5)
Foreign currency swaps	5,787	(62)	298	(360)
Credit default swaps	382	(82)	0	(82)
Total non-qualifying strategies	6,551	(110)	337	(447)
Total derivatives	$9,199	$(63)	$384	$(447)
Balance Sheet Location				
Other assets	$5,281	$384	$384	$0
Other liabilities	3,918	(447)	0	(447)
Total derivatives	$9,199	$(63)	$384	$(447)

(In millions)	December 31, 2011 Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Interest rate swaps	$71	$0	$0	$0
Foreign currency swaps	75	36	36	0
Total cash flow hedges	146	36	36	0
Non-qualifying strategies:				
Interest rate swaps	381	30	34	(4)
Foreign currency swaps	4,583	(92)	305	(397)
Credit default swaps	381	(130)	0	(130)
Total non-qualifying strategies	5,345	(192)	339	(531)
Total derivatives	$5,491	$(156)	$375	$(531)
Balance Sheet Location				
Other assets	$1,794	$375	$375	$0
Other liabilities	3,697	(531)	0	(531)
Total derivatives	$5,491	$(156)	$375	$(531)

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 13 years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting have been designated as held for other investment purposes (“non-qualifying strategies”).

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We have an interest rate swap agreement related to 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011 (see Note 6). By entering into this contract, we swapped the variable interest rate to a fixed interest rate of 1.475%. We have designated this interest rate swap as a hedge of the variability in our interest cash flows associated with the variable interest rate Samurai notes. The notional amount and terms of the swap match the principal amount and terms of the variable interest rate Samurai notes, and the swap had no value at inception. Changes in the fair value of the swap contract are recorded in other comprehensive income so long as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that ineffective portion would be reported in net earnings.

The following table presents the components of the gain or loss on derivatives that qualified as cash flow hedges.

Derivatives in Cash Flow Hedging Relationships

(In millions)	Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Derivative Gains (Losses) Recognized in Income (Ineffective Portion)
Three Months Ended September 30, 2012:		
Interest rate swaps	$ 0	$ 0
Foreign currency swaps	2	0
Total	$ 2	$ 0
Nine Months Ended September 30, 2012:		
Interest rate swaps	$ 0	$ 0
Foreign currency swaps	(6)	0
Total	$ (6)	$ 0
Three Months Ended September 30, 2011:		
Interest rate swaps	$ 1	$ 0
Foreign currency swaps	(1)	0
Total	$ 0	$ 0
Nine Months Ended September 30, 2011:		
Interest rate swaps	$ 2	$ 0
Foreign currency swaps	(40)	(2)
Total	$ (38)	$ (2)

In the third quarter of 2011, we de-designated certain of the foreign currency swaps with notional values totaling $500 million used in cash flow hedging strategies as a result of determining that these swaps would no longer be highly effective in offsetting the cash flows of the hedged item. As a result, the net gain recorded in accumulated other comprehensive income for these swaps that are no longer eligible for hedge accounting is being amortized into earnings over the expected life of the respective hedged item. The amount amortized from accumulated other comprehensive income into earnings related to these swaps was immaterial in the three- and nine-month periods ended September 30, 2012. There was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our designated cash flow hedges for the three- and nine-month periods ended September 30, 2012 and 2011. As of September 30, 2012, 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 are immaterial.

Fair Value Hedges

We designate and account for foreign currency forwards as fair value hedges when they meet the requirements for hedge accounting. These foreign currency forwards hedge the foreign currency exposure of certain dollar-denominated fixed maturity securities within the investment portfolio of our Aflac Japan segment. We recognize gains and losses on these derivatives and the related hedged items in current earnings within derivative and

other gains (losses). The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the assessment of hedge effectiveness.
The following table presents the gains and losses on derivatives and the related hedged items in fair value hedges.

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Derivatives in 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	Foreign Currency Gains (Losses)	Ineffectiveness Recognized for Fair Value Hedge
Three and Nine Months Ended September 30, 2012:[1]						
Foreign currency forwards	Fixed-maturity securities	$17	$(3)	$20	$(20)	$0

[1] Fair value hedging program began in September 2012; therefore, the three- and nine-month results are the same

Net Investment Hedge

Our primary exposure to be hedged is our net investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains an investment portfolio of dollar-denominated securities on behalf of Aflac U.S., which serves as an economic currency hedge of a portion of our investment in Aflac Japan. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars. The foreign exchange gains and losses related to this portfolio are taxable in Japan and the U.S. when the securities mature or are sold. Until maturity or sale, deferred tax expense or benefit associated with the foreign exchange gains or losses are recognized in other comprehensive income.

Second, we have designated a majority of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans - see Note 6) as nonderivative hedges of the foreign currency exposure of our investment in Aflac Japan. Our net investment hedge was effective during the three- and nine-month periods ended September 30, 2012, and 2011, respectively.

Non-Derivative Hedging Instruments in Net Investment Hedging Relationships

	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Non-derivative hedging instruments	$(21)	$(65)	$(4)	$(75)

There was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our net investment hedge during the three- and nine-month periods ended September 30, 2012 and 2011, 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 income or perpetual securities associated with these swaps is recorded through other comprehensive income.

We have cross-currency interest rate swap agreements related to $400 million of senior notes due February 2017, and our $350 million senior notes due February 2022 (see Note 6). The notional amounts and terms of the swaps match the principal amount and terms of the senior notes. We entered into these cross-currency interest rate swaps to reduce interest expense by converting the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations. By entering into these cross-currency swaps, we economically converted our $400 million liability into a 30.9 billion yen liability and reduced the interest rate on this debt from 2.65% in dollars to

1.22% in yen. We also economically converted our $350 million liability into a 27.0 billion yen liability and reduced the interest rate on this

debt from 4.00% in dollars to 2.07% in yen.

We also have cross-currency interest rate swap agreements related to our $450 million subordinated debentures due September 2052 (see Note 6). The notional amounts of the swaps matches the principal amount of the subordinated debentures, but the swaps will mature in September 2017. We entered into cross-currency interest rate swaps to convert the dollar-denominated principal and interest on the subordinated debentures we issued into yen-denominated obligations. By entering into these cross-currency swaps, we economically converted our $450 million liability into a 35.3 billion yen liability and reduced the interest rate on this debt from 5.50% in dollars to 4.41% in yen. Subsequent to the end of the third quarter, in October 2012, we issued an additional $50 million of these subordinated debentures (see Note 6) and entered into another cross-currency interest rate swap that will mature in September 2017. By entering into this swap, we economically converted this $50 million liability into a 3.9 billion yen liability and reduced the interest rate from 5.50% in dollars to 4.42% in yen.

The following table presents the gain or loss recognized in income on non-qualifying strategies.

Non-qualifying Strategies

Gain (Loss) Recognized within Derivative Gains (Losses)

(In millions)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Interest rate swaps	$7	$(78)	$4	$(79)
Foreign currency swaps	66	(72)	59	(98)
Credit default swaps	25	(74)	48	(112)
Total	$98	$(224)	$111	$(289)

For additional information on our financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011.

5. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The carrying values and estimated fair values of the Company's financial instruments were as follows:

(In millions)	September 30, 2012 Carrying Value	Fair Value	December 31, 2011 Carrying Value	Fair Value
Assets:				
Fixed-maturity securities	$109,970	$111,172	$88,588	$88,039
Fixed-maturity securities - consolidated variable interest entities	6,332	6,333	5,993	5,916
Perpetual securities	4,132	4,132	5,149	5,149
Perpetual securities - consolidated variable interest entities	587	587	1,290	1,290
Equity securities	24	24	25	25
Derivatives	384	384	375	375
Liabilities:				
Notes payable (excluding capitalized leases)	4,391	5,014	3,275	3,536
Derivatives	447	447	531	531
Obligation to Japanese policyholder protection corporation	26	26	71	71

We determine the fair values of our fixed maturity securities, perpetual securities, privately issued equity securities and our derivatives using four basic pricing approaches or techniques: quoted market prices readily available from public exchange markets, price quotes and valuations from third party pricing vendors, a discounted cash flow (DCF) pricing model, and non-binding price quotes we obtain from outside brokers.

Our DCF pricing model incorporates an option adjusted spread and utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing model is most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads are derived using a bond index to create a credit spread matrix which takes into account the current credit spread, ratings and remaining time to maturity, and subordination levels for securities that are included in the bond index. Our DCF pricing model is based on a widely used global bond index that comprises investments in active markets. The index provides a broad-based measure of the global fixed-income bond market. This index covers bonds issued by European and American issuers, which account for the majority of bonds that we hold. We validate the reliability of the DCF pricing model periodically by using the model to price investments for which there are quoted market prices from active and inactive markets or, in the alternative, are quoted by our custodian for the same or similar securities.

The pricing data and market quotes we obtain from outside sources 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. Based on that analysis, the valuation is confirmed or revised.

The fair values of our publicly issued notes payable were obtained from a limited number of independent brokers, and the fair values of our yen-denominated loans approximate their carrying values. The fair value of the obligation to the Japanese policyholder protection corporation is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation.

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the above table. The preceding table also excludes liabilities for future policy benefits and unpaid policy claims as these liabilities are not financial instruments as defined by GAAP.

Fair Value Hierarchy

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)	September 30, 2012 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	$13,845	$814	$0	$14,659
Municipalities	0	1,196	0	1,196
Mortgage- and asset-backed securities	0	820	385	1,205
Public utilities	0	7,858	449	8,307
Sovereign and supranational	0	2,127	460	2,587
Banks/financial institutions	0	6,860	1,423	8,283
Other corporate	0	18,938	1,073	20,011
Total fixed maturities	13,845	38,613	3,790	56,248
Perpetual securities:				
Banks/financial institutions	0	3,978	370	4,348
Other corporate	0	371	0	371
Total perpetual securities	0	4,349	370	4,719
Equity securities	13	7	4	24
Other assets:				
Interest rate swaps	0	0	39	39
Foreign currency swaps	0	16	312	328
Foreign currency forwards	0	17	0	17
Total other assets	0	33	351	384
Cash and cash equivalents	2,985	0	0	2,985
Total assets	$16,843	$43,002	$4,515	$64,360
Liabilities:				
Interest rate swaps	$0	$0	$5	$5
Foreign currency swaps	0	11	349	360
Credit default swaps	0	0	82	82
Total liabilities	$0	$11	$436	$447

(In millions)	December 31, 2011 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	$11,092	$721	$0	$11,813
Municipalities	0	1,159	0	1,159
Mortgage- and asset-backed securities	0	944	394	1,338
Public utilities	0	6,803	422	7,225
Sovereign and supranational	0	1,874	434	2,308
Banks/financial institutions	0	6,379	1,074	7,453
Other corporate	0	15,171	1,105	16,276
Total fixed maturities	11,092	33,051	3,429	47,572
Perpetual securities:				
Banks/financial institutions	0	5,552	526	6,078
Other corporate	0	361	0	361
Total perpetual securities	0	5,913	526	6,439
Equity securities	15	6	4	25
Other assets:				
Interest rate swaps	0	0	34	34
Foreign currency swaps	0	0	341	341
Total other assets	0	0	375	375
Cash and cash equivalents	2,249	0	0	2,249
Total assets	$13,356	$38,970	$4,334	$56,660
Liabilities:				
Interest rate swaps	$0	$0	$4	$4
Foreign currency swaps	0	0	397	397
Credit default swaps	0	0	130	130
Total liabilities	$0	$0	$531	$531

The following tables present the fair values categorized by hierarchy levels for the Company's assets and liabilities that are carried at cost or amortized cost and for which fair value is disclosed.

(In millions)	September 30, 2012 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	$35,501	$0	$0	$35,501
Municipalities	0	592	0	592
Mortgage- and asset-backed securities	0	35	79	114
Public utilities	0	5,756	0	5,756
Sovereign and supranational	0	3,863	0	3,863
Banks/financial institutions	0	10,298	0	10,298
Other corporate	0	5,133	0	5,133
Total assets	$35,501	$25,677	$79	$61,257
Liabilities:				
Notes payable (excluding capital leases)	$0	$0	$5,014	$5,014
Obligation to Japanese policyholder protection corporation	0	0	26	26
Total liabilities	$0	$0	$5,040	$5,040

(In millions)	December 31, 2011 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	$19,071	$0	$0	$19,071
Municipalities	0	584	0	584
Mortgage- and asset-backed securities	0	39	95	134
Public utilities	0	5,637	0	5,637
Sovereign and supranational	0	4,165	0	4,165
Banks/financial institutions	0	11,480	0	11,480
Other corporate	0	5,312	0	5,312
Total assets	$19,071	$27,217	$95	$46,383
Liabilities:				
Notes payable (excluding capital leases)	$0	$0	$3,536	$3,536
Obligation to Japanese policyholder protection corporation	0	0	71	71
Total liabilities	$0	$0	$3,607	$3,607

As of September 30, 2012, approximately 55% of the fair value, or 77% of the number of holdings, of our available-for-sale fixed income and perpetual investments classified as Level 2 and 3% of the fair value, or 7% of the number of holdings, of our held-to-maturity fixed income investments classified as Level 2 were valued by obtaining quoted market prices from our investment custodian. The custodian obtains price quotes from various third party pricing services that estimate fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets, or other observable market data where available. The fair value of approximately 39% of our Level 2 available-for-sale fixed income and perpetual investments, or 9% of the number of Level 2 available-for-sale holdings, and 94% of our Level 2 held-to-maturity fixed income investments, or 83% of the number of Level 2 held-to-maturity holdings, were determined using our DCF pricing model. The significant valuation inputs to the DCF model are obtained from, or corroborated by, observable market sources from both active and inactive markets. For the remaining 6% of Level 2 available-for-sale investment valuations, or 14% of the number of Level 2 available-for-sale holdings, and the remaining 3% of Level 2 held-to-maturity investment valuations, or 10% of the number of Level 2 held-to-maturity holdings, that were not provided by our custodian and were not priced using the DCF pricing model, we obtain quotes from other pricing services that estimate fair values based on observable market transactions for similar investments in active markets, market transactions for the same investment in inactive markets, or other observable market data where available.

Due to our reliance on third-party pricing services to provide valuations on 55% of our Level 2 available-for-sale portfolio and 3% of our Level 2 held-to-maturity portfolio, we regularly discuss and review pricing methodologies with the investment custodian. We also review the custodians' Service Organization Control (SOC 1) reports for the period covering the current year to gain satisfaction with the controls and control environment of the custodian.

For securities in Level 2 that are below investment grade or have split ratings where the valuation calculated by our DCF model does not conform to current market conditions, a CDS spread is used in lieu of the index spread discussed above. The CDS is chosen based on an average of spreads of issues with the same issuer, rating and subordination, or comparable issues in that particular sector.

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 swaps associated with our senior and subordinated notes and the fair values of the foreign currency forwards associated with certain fixed-maturity securities are based on the amounts we would expect to receive or pay to terminate the swaps. The determination of the fair value of the swaps 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. Prior to the third quarter of 2011, these derivative instruments were reported in Level 2 of the fair value hierarchy, except CDSs and certain foreign currency swaps which were classified as Level 3. The interest rate and certain foreign currency derivative instruments previously classified as Level 2 were priced by broker quotations. In the third quarter of 2011, we changed from receiving valuations from brokers to receiving valuations from a third party pricing vendor for our 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 have been classified as Level 3 of the fair value hierarchy as of September 30, 2011 and thereafter.

The fixed maturities classified as Level 3 consist of securities for which there are limited or no observable valuation inputs. For Level 3 securities that are investment grade, we estimate the fair value of these securities by obtaining non-binding broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. We consider these inputs to be unobservable. For Level 3 investments that are below-investment-grade securities or private placements, we consider a variety of significant valuation inputs in the valuation process, including forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, and certain probability assumptions. In obtaining these valuation inputs, we have determined that certain pricing assumptions and data used by our pricing sources are difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities.

The equity securities classified in Level 3 are related to investments in Japanese businesses, each of which are insignificant and in the aggregate are immaterial. Because fair values for these investments are not readily available, we carry them at their original cost. We review each of these investments periodically and, in the event we determine that any are other-than-temporarily impaired, we write them down to their estimated fair value at that time.

The fair values of our publicly issued notes payable classified as Level 3 were obtained from a limited number of independent brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. We consider these inputs to be unobservable. The fair value of the obligation to the Japanese policyholder protection corporation classified as Level 3 is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years. We consider our inputs for this valuation to be unobservable.

Historically, we have not adjusted the quotes or prices we obtain from the brokers and pricing services we use.

Level 3 Rollforward and Transfers between Hierarchy Levels

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

Three Months Ended
September 30, 2012

	Fixed Maturities					Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$379	$418	$436	$1,114	$1,031	$307	$4	$27	$(113)	$(107)	$3,496
Realized investment gains (losses) included in earnings	0	0	0	0	0	(27)	0	7	76	25	81
Unrealized gains (losses) included in other comprehensive income (loss)	11	31	24	103	42	90	0	0	2	0	303
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0	0	0	0
Settlements	(5)	0	0	0	0	0	0	0	(2)	0	(7)
Transfers into Level 3	0	0	0	206 [2]	0	0	0	0	0	0	206
Transfers out of Level 3	0	0	0	0	0	0	0	0	0	0	0
Balance, end of period	$385	$449	$460	$1,423	$1,073	$370	$4	$34	$(37)	$(82)	$4,079
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	$(27)	$0	$7	$76	$25	$81

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price

Three Months Ended
September 30, 2011

	Fixed Maturities						Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Collateralized Debt Obligations	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 257	$ 0	$ 4	$ 0	$ 398	$ 0	$ 0	$ 4	$ 0	$ 164	$ (253)	$ 574
Realized investment gains (losses) included in earnings	(1)	0	(1)	0	0	0	0	0	0	(138)	(75)	(215)
Unrealized gains (losses) included in other comprehensive income (loss)	18	0	0	0	3	0	0	0	0	(2)	0	19
Purchases, issuances, sales and settlements:												
Purchases	0	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	(3)	0	0	0	0	0	0	0	0	(3)
Settlements	(2)	0	0	0	0	0	0	0	0	0	134	132
Transfers into Level 3[2]	0	0	0	0	0	0	0	0	59	(90)	0	(31)
Transfers out of Level 3[3]	(4)	0	0	0	(376)	0	0	0	0	0	0	(380)
Balance, end of period	$ 268	$ 0	$ 0	$ 0	$ 25	$ 0	$ 0	$ 4	$ 59	$ (66)	$ (194)	$ 96
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized	$ (1)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (138)	$ (31)	$ (170)

investment
gains (losses)

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price
[3] A result of changing our pricing methodology to using a third party pricing vendor for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers

Nine Months Ended
September 30, 2012

	Fixed Maturities					Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$394	$422	$434	$1,074	$1,105	$526	$4	$30	$(56)	$(130)	$3,803
Realized investment gains (losses) included in earnings	(3)	0	0	0	2	22	0	4	58	48	131
Unrealized gains (losses) included in other comprehensive income (loss)	10	27	26	143	0	78	0	0	(6)	0	278
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	0	0	(34)	(256)	0	0	0	0	(290)
Settlements	(16)	0	0	0	0	0	0	0	(33)	0	(49)
Transfers into Level 3	0	0	0	206 [2]	0	0	0	0	0	0	206
Transfers out of Level 3	0	0	0	0	0	0	0	0	0	0	0
Balance, end of period	$385	$449	$460	$1,423	$1,073	$370	$4	$34	$(37)	$(82)	$4,079
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)	$(3)	$0	$0	$0	$0	$(27)	$0	$4	$58	$48	$80

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price

Nine Months Ended
September 30, 2011

(In millions)	Fixed Maturities						Perpetual Securities	Equity Securities	Derivatives [1]			
	Mortgage- and Asset-Backed Securities	Public Utilities	Collateralized Debt Obligations	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$ 267	$ 0	$ 5	$ 0	$ 386	$ 0	$ 0	$ 4	$ 0	$ 241	$ (343)	$ 560
Realized investment gains (losses) included in earnings	(7)	0	(2)	0	1	0	0	0	0	(177)	(113)	(298)
Unrealized gains (losses) included in other comprehensive income (loss)	20	0	0	0	14	0	0	0	0	(40)	0	(6)
Purchases, issuances, sales and settlements:												
Purchases	0	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	(3)	0	0	0	0	0	0	0	0	(3)
Settlements	(8)	0	0	0	0	0	0	0	0	0	262	254
Transfers into Level 3[2]	0	0	0	0	0	0	0	0	59	(90)	0	(31)
Transfers out of Level 3[3]	(4)	0	0	0	(376)	0	0	0	0	0	0	(380)
Balance, end of period	$ 268	$ 0	$ 0	$ 0	$ 25	$ 0	$ 0	$ 4	$ 59	$ (66)	$ (194)	$ 96
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized	$ (7)	$ 0	$ 0	$ 0	$ 1	$ 0	$ 0	$ 0	$ 0	$ (177)	$ (46)	$ (229)

investment
gains (losses)

[1] Derivative assets and liabilities are presented net

[2] Due to a lack of visibility to observe significant inputs to price

[3] A result of changing our pricing methodology to using a third party pricing vendor for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers

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Transfers into and/or out of Level 3 are attributable to a change in the observability of inputs. Transfers into and/or out of any fair value hierarchy level are assumed to occur at the balance sheet date. There were no transfers between Level 1 and 2 for the three- and nine-month periods ended September 30, 2012 and 2011.

Fair Value Sensitivity

DCF Sensitivity

Our DCF pricing model utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields), and, for our callable securities, interest rate volatility. Management believes that under normal market conditions, a movement of 50 basis points (bps) in interest rates and credit spreads and 50 percent in interest rate volatility would be sufficiently reasonable stresses to illustrate the sensitivity of valuations to these risk factors. Therefore, we selected these magnitudes of movement and provided both upward and downward movements in these key assumptions used to estimate fair value. Since the changes in fair value are relatively linear, readers of these financial statements can make their own judgments as to the movement in interest rates and the change in fair value based upon this data. The following scenarios provide a view of the sensitivity of our securities priced by our DCF pricing model.

The fair values of our available-for-sale fixed-maturity and perpetual securities valued by our DCF pricing model totaled $19.1 billion at September 30, 2012. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor Change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	$(986)	+50 bps	$(1,005)	+50 %	$(27)
-50 bps	1,025	-50 bps	1,020	-50 %	5

The fair values of our held-to-maturity fixed-maturity securities valued by our DCF pricing model totaled $24.1 billion at September 30, 2012. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor Change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	$(1,461)	+50 bps	$(1,364)	+50 %	$(126)
-50 bps	1,423	-50 bps	1,341	-50 %	152

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.

September 30, 2012

(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	$385	Consensus pricing	Offered quotes	N/A	(e)
Public utilities	449	Discounted cash flow	Historical volatility	5.30%	
Sovereign and supranational	460	Discounted cash flow	Historical volatility	5.30%	
Banks/financial institutions	613	Discounted cash flow	Historical volatility	5.30%	
	810	Consensus pricing	Offered quotes	N/A	(e)
Other corporate	626	Discounted cash flow	Historical volatility	5.30%	
	447	Consensus pricing	Offered quotes	N/A	(e)
Perpetual securities:					
Banks/financial institutions	370	Discounted cash flow	Historical volatility	5.30%	
Equity securities	4	Net asset value	Offered quotes	$0-$1,051 ($9)	
Other assets:					
Interest rate swaps	39	Discounted cash flow	Base correlation	47% - 59%	(a)
			CDS spreads	84 - 192 bps	
			Recovery rate	20% - 70% (40%)	
Foreign currency swaps	109	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)
			Interest rates (JPY)	.77% - 1.75%	(c)
			CDS spreads	16 - 115 bps	
			Foreign exchange rates	20.22%	(d)
	69	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)
			Interest rates (JPY)	.77% - 1.75%	(c)
			CDS spreads	21 - 128 bps	
	134	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)

		Interest rates (JPY)	.77% - 1.75%	(c)
		Foreign exchange rates	20.22%	(d)
Total assets	$4,515			

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate
(e) 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.

September 30, 2012

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Interest rate swaps	$5	Discounted cash flow	Base correlation	47% - 59%	(a)
			CDS spreads	84 - 192 bps	
			Recovery rate	20% - 70% (40%)	
Foreign currency swaps	72	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)
			Interest rates (JPY)	.77% - 1.75%	(c)
			CDS spreads	24 - 140 bps	
			Foreign exchange rates	20.22%	(d)
	17	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)
			Interest rates (JPY)	.77% - 1.75%	(c)
			CDS spreads	49 - 259 bps	
	260	Discounted cash flow	Interest rates (USD)	1.70% - 2.63%	(b)
			Interest rates (JPY)	.77% - 1.75%	(c)
			Foreign exchange rates	20.22%	(d)
Credit default swaps	82	Discounted cash flow	Base correlations	47% - 59%	(a)
			CDS spreads	84 - 192 bps	
			Recovery rate	20% - 70% (40%)	
Total liabilities	$436				

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate

The following is a discussion of the significant unobservable inputs or valuation technique used in determining the fair value of securities and derivatives classified as Level 3. Listed below each discussion are the asset and derivative categories impacted by the respective input or valuation technique.

Annualized Historical Foreign Exchange Volatility

We own a portfolio of callable reverse dual-currency bonds (RDCs). RDCs are securities that have principal denominated in yen while paying U.S. dollar (USD) coupons. The market standard approach is to use implied volatility to value options or instruments with optionality because historical volatility may not represent current market participants' expectations about future volatility. Our use of historical foreign exchange volatility as an input for valuing these investments could result in a significant increase or decrease in fair value measurement, given the importance of this input to the overall valuation.

- Public utilities, Other corporate, Sovereign and supranational, Banks/financial institutions

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.

- 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.

- Mortgage- and asset-backed securities, Banks/financial institutions, Other corporate, Equity securities

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 USD interest rates 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 USD/JPY foreign exchange rate in this way. In cases where there is no final foreign exchange receivable in JPY and we are paying JPY as interest payments and receiving USD, a decrease in the foreign exchange rate will lead to a decrease in the swap value.

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

Due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and

measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data.

- Foreign currency swaps

Base Correlations, CDS Spreads, Recovery Rate

Our CDOs are tranches on baskets of single-name credit default swaps. The risks in these types of synthetic CDOs come 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 these tranches, these 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 our portfolio underlying the synthetic CDO to be valued, several processing steps are taken to map the securities 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 tranches in our portfolio are junior tranches and, due to the low level of credit support for these tranches, exhibit equity-like behavior. As a result, an increase in recovery rates tends to cause their values to decrease.
Our interest rate swaps are linked to the underlying synthetic CDOs. The valuation of these swaps is performed using a similar approach to that of the synthetic CDOs themselves; that is, the base correlation model is used to ensure consistency between the synthetic CDOs and the swaps.

- Credit default swaps, Interest rate swaps

For additional information on our investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011.

6. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	September 30, 2012		December 31, 2011	
8.50% senior notes due May 2019	$850		$850	
6.45% senior notes due August 2040	448	(1)	448	(1)
6.90% senior notes due December 2039	396	(2)	396	(2)
3.45% senior notes due August 2015	300		300	
2.65% senior notes due February 2017	657	(3)	0	
4.00% senior notes due February 2022	349	(4)	0	
5.50% subordinated debentures due September 2052	450		0	
Yen-denominated Uridashi notes:				
2.26% notes due September 2016 (principal amount 8 billion yen)	103		103	
Yen-denominated Samurai notes:				
1.47% notes due July 2014 (principal amount 28.7 billion yen)	370		369	
1.87% notes paid June 2012 (principal amount 26.6 billion yen)	0		342	
1.84% notes due July 2016 (principal amount 15.8 billion yen)	204		203	
Variable interest rate notes due July 2014 (1.34% in 2012 and 2011, principal amount 5.5 billion yen)	71		71	
Yen-denominated loans:				
3.60% loan due July 2015 (principal amount 10 billion yen)	129		129	
3.00% loan due August 2015 (principal amount 5 billion yen)	64		64	
Capitalized lease obligations payable through 2022	10		10	
Total notes payable	$4,401		$3,285	

(1) $450 issuance net of a $2 underwriting discount that is being amortized over the life of the notes
(2) $400 issuance net of a $4 underwriting discount that is being amortized over the life of the notes
(3) $650 issuance plus $7 of an issuance premium that is being amortized over the life of the notes
(4) $350 issuance net of a $1 underwriting discount that is being amortized over the life of the notes

In September 2012, the Parent Company issued $450 million of subordinated debentures through a U.S. public debt offering. The debentures bear interest at a fixed rate of 5.50% per annum, payable quarterly, and have a 40-year maturity. In five years, on or after September 26, 2017, we may redeem the debentures, in whole or in part, at their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption; provided that if the debentures are not redeemed in whole, at least $25 million aggregate principal amount of the debentures must remain outstanding after giving effect to such redemption. The debentures may only be redeemed prior to September 26, 2017, in whole but not in part, upon the occurrence of certain tax events or certain rating agency events, as specified in the indenture governing the terms of the debentures. We entered into cross-currency interest rate swaps to convert the dollar-denominated principal and interest on the subordinated debentures we issued into yen-denominated obligations. By entering into these swaps, we economically converted our $450 million liability into a 35.3 billion yen liability and reduced the interest rate on this debt from 5.50% in dollars to 4.41% in yen. The swaps will expire after the initial five-year non-callable period for the debentures. In October 2012, the underwriters exercised their option, pursuant to the underwriting agreement, to purchase an additional $50 million principal amount of the debentures discussed above. We entered into a cross-currency interest rate swap to economically convert this $50 million liability into a 3.9 billion yen liability and reduce the interest rate from 5.50% in dollars to 4.42% in yen. The swap will expire after the initial five-year non-callable period for the debentures.

In February 2012, the Parent Company issued two series of senior notes totaling $750 million through a U.S. public debt offering. The first series, which totaled $400 million, bears interest at a fixed rate of 2.65% per annum, payable semi-annually, and has a five-year maturity. The second series, which totaled $350 million, bears interest at a fixed rate of 4.00% per annum, payable semi-annually, and has a ten-year maturity. These notes are redeemable at our

option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the principal amount of the notes or (ii) the present value of the remaining scheduled payments of principal and interest to be redeemed, discounted to the redemption date, plus accrued and unpaid interest. We entered into cross-currency interest rate swaps to reduce interest expense by converting the dollar-denominated principal and interest on the senior notes we issued into yen-

denominated obligations. By entering into these swaps, we economically converted our $400 million liability into a 30.9 billion yen liability and reduced the interest rate on this debt from 2.65% in dollars to 1.22% in yen. We also economically converted our $350 million liability into a 27.0 billion yen liability and reduced the interest rate on this debt from 4.00% in dollars to 2.07% in yen. In July 2012, the Parent Company issued $250 million of senior notes that are an addition to the original first series of senior notes issued in February 2012. These notes have a five-year maturity and a fixed rate of 2.65% per annum, payable semi-annually.

In June 2012, we redeemed 26.6 billion yen (approximately $337 million using the exchange rate on the date of redemption) of our Samurai notes upon their maturity.

In June 2012, the Parent Company and Aflac entered into a 364-day senior unsecured revolving credit facility agreement in the amount of 50 billion yen with a syndicate of financial institutions. This credit agreement provides for borrowings in Japanese yen or the equivalent of Japanese yen in U.S. dollars on a revolving basis. Borrowings will bear interest at LIBOR plus the applicable margin of 1.025%. In addition, the Parent Company and Aflac are required to pay a facility fee of .10% on the commitments. As of September 30, 2012, no borrowings were outstanding under our 50 billion yen revolving credit agreement. Borrowings under the credit agreement may be used for general corporate purposes, including a capital contingency plan for our Japanese operations. Borrowings under the financing agreement mature at the termination date of the credit agreement. The agreement requires compliance with certain financial covenants on a quarterly basis. This credit agreement will expire on the earlier of (a) June 27, 2013, or (b) the date of termination of the commitments upon an event of default as defined in the agreement. The Parent Company and Aflac may request that commitments under the credit agreement be extended for an additional 364-day period from the commitment termination date, subject to terms and conditions which are defined in the agreement.

We were in compliance with all of the covenants of our notes payable and line of credit at September 30, 2012. No events of default or defaults occurred during the nine-month period ended September 30, 2012.

For additional information, see Notes 4 and 8 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011.

7. SHAREHOLDERS' EQUITY

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

(In thousands of shares)	2012		2011	
Common stock - issued:				
Balance, beginning of period	663,639		662,660	
Exercise of stock options and issuance of restricted shares	1,157		818	
Balance, end of period	664,796		663,478	
Treasury stock:				
Balance, beginning of period	197,329		192,999	
Purchases of treasury stock:				
Open market	0		5,100	
Other	270		157	
Dispositions of treasury stock:				
Shares issued to AFL Stock Plan	(1,306	)	(1,253	)
Exercise of stock options	(94	)	(85	)
Other	(127	)	(79	)
Balance, end of period	196,072		196,839	
Shares outstanding, end of period	468,724		466,639	

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

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the calculation of diluted earnings per share for the following periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2012	2011	2012	2011
Anti-dilutive share-based awards	6,289	9,657	6,710	5,498

Share Repurchase Program: During the first nine months of 2012, we did not repurchase any shares of our common stock in the open market. We repurchased 5.1 million shares of our common stock in the open market in the first nine months of 2011.

As of September 30, 2012, a remaining balance of 24.4 million shares of our common stock was available for purchase under a share repurchase authorization by our board of directors in 2008.

8. SHARE-BASED COMPENSATION

As of September 30, 2012, the Company has outstanding share-based awards under two long-term incentive compensation plans.

The first plan, which expired in February 2007, is a stock option plan which allowed grants for incentive stock options (ISOs) to employees and non-qualifying stock options (NQSOs) to employees and non-employee directors. The options have a term of 10 years and generally vest after three years. The exercise price of options granted under this plan is equal to the fair market value of a share of the Company's common stock at the date of grant. Options granted before the plan's expiration date remain outstanding in accordance with their terms.

The second long-term incentive plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, restricted stock, and stock appreciation rights. Generally, the awards vest based upon time-based conditions or time- and performance-based conditions. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. Effective March 14, 2012, the Board of Directors approved to amend and restate the long-term incentive plan. The shareholders approved the amended and restated plan at the annual shareholder meeting in May 2012. The amended and restated plan provides, among other things, an extension of its expiration date from 2014 to 2017, makes clear that option strike prices can be set at the closing price on the date of grant (rather than only at the average high-low sales price), updates the performance factors available for use under awards that are intended to qualify for favorable tax deduction treatment, and adjusts the size of awards that may be granted to incumbent directors. There were no additional shares of common stock authorized for issuance under the amended and restated plan. As of September 30, 2012, approximately 14 million shares were available for future grants under the plan, and the only performance-based awards issued and outstanding were restricted stock awards.

Share-based awards granted to U.S.-based grantees are settled with authorized but unissued Company stock, while those issued to Japan-based grantees are settled with treasury shares.

The following table provides information on stock options outstanding and exercisable at September 30, 2012.

	Stock Option Shares (in thousands)	Weighted-Average Remaining Term (in years)	Aggregate Intrinsic Value (in millions)	Weighted-Average Exercise Price Per Share
Outstanding	13,804	4.8	$82	$44.16
Exercisable	11,595	4.1	79	43.20

We received cash from the exercise of stock options in the amount of $14 million during the first nine months of 2012 and 2011. The tax benefit realized as a result of stock option exercises and restricted stock releases was $17 million in the first nine months of 2012, compared with $12 million in the first nine months of 2011.

As of September 30, 2012, total compensation cost not yet recognized in our financial statements related to restricted stock awards was $36 million, of which $17 million (687 thousand shares) was related to restricted stock awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of

approximately 1.5 years. There are no other contractual terms covering restricted stock awards once vested.

For additional information on our long-term share-based compensation plans and the types of share-based awards, see Note 11 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2011.

9. BENEFIT PLANS

We have funded defined benefit plans in Japan and the United States, which cover substantially all of our full-time employees. Additionally, we maintain non-qualified, unfunded supplemental retirement plans that provide defined pension benefits in excess of limits imposed by federal tax law for certain Japanese, U.S. and former employees.

We provide certain health care benefits for eligible U.S. retired employees, their beneficiaries and covered dependents ("other postretirement benefits"). The health care plan is contributory and unfunded. Substantially all of our U.S. employees may become eligible to receive other postretirement benefits if they retire at age 55 or older with at least 15 years of service or if they retire when their age plus service, in years, equals or exceeds 80. At retirement, an employee is given an opportunity to elect continuation of coverage under our medical plan until age 65. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

Pension and other postretirement benefit expenses, included in acquisition and operating expenses in the consolidated statement of earnings, included the following components:

	Three Months Ended September 30,					
	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
(In millions)	2012	2011	2012	2011	2012	2011
Components of net periodic benefit cost:						
Service cost	$5	$5	$5	$4	$1	$2
Interest cost	3	3	6	6	1	0
Expected return on plan assets	(1)	(1)	(4)	(4)	0	0
Amortization of net actuarial loss	0	0	3	2	1	1
Net periodic (benefit) cost	$7	$7	$10	$8	$3	$3

	Nine Months Ended September 30,					
	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
(In millions)	2012	2011	2012	2011	2012	2011
Components of net periodic benefit cost:						
Service cost	$14	$13	$16	$11	$4	$4
Interest cost	9	7	20	20	3	2
Expected return on plan assets	(3)	(3)	(12)	(11)	0	0
Amortization of net actuarial loss	2	2	7	5	1	1
Net periodic (benefit) cost	$22	$19	$31	$25	$8	$7

During the nine months ended September 30, 2012, Aflac Japan contributed approximately $18 million (using the weighted-average yen/dollar exchange rate for the nine-month period ending September 30, 2012) to the Japanese funded defined benefit plan, and Aflac U.S. contributed $12 million to the U.S. funded defined benefit plan.

For additional information regarding our Japanese and U.S. benefit plans, see Note 13 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011.

10. COMMITMENTS AND CONTINGENT LIABILITIES

We are a defendant in various lawsuits considered to be in the normal course of business. Members of our senior legal and financial management teams review litigation on a quarterly and annual basis. The final results of any litigation cannot be predicted with certainty. Although some of this litigation is pending in states where large punitive damages, bearing little relation to the actual damages sustained by plaintiffs, have been awarded in recent years, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. We desire to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as "expect," "anticipate," "believe," "goal," "objective," "may," "should," "estimate," "intends," "projects," "will," "assumes," "potential," "target" or si well as specific projections of future results, generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements.

We caution readers that the following factors, in addition to other factors mentioned from time to time, could cause actual results to differ materially from those contemplated by the forward-looking statements:

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and credit downgrades of securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac's investment in perpetual securities
- differing judgments applied to investment valuations
- significant valuation judgments in determination of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular single-issuer or sector
- concentration of business in Japan
- ongoing changes in our industry
- exposure to significant financial and capital markets risk
- fluctuations in foreign currency exchange rates
- significant changes in investment yield rates
- deviations in actual experience from pricing and reserving assumptions
- subsidiaries' ability to pay dividends to Aflac Incorporated
- changes in law or regulation by governmental authorities
- ability to attract and retain qualified sales associates and employees
- decreases in our financial strength or debt ratings
- ability to continue to develop and implement improvements in information technology systems
- changes in U.S. and/or Japanese accounting standards
- failure to comply with restrictions on patient privacy and information security
- level and outcome of litigation
- ability to effectively manage key executive succession
- impact of the recent earthquake and tsunami natural disaster and related events at the nuclear plant in Japan and their aftermath
- catastrophic events including, but not necessarily limited to, tornadoes, hurricanes, earthquakes, tsunamis, and damage incidental to such events
- failure of internal controls or corporate governance policies and procedures

MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three- and nine-month periods ended September 30, 2012 and 2011. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2011. This MD&A is divided into the following sections:

- Our Business
- Performance Highlights
- Critical Accounting Estimates
- Results of Operations, consolidated and by segment
- Analysis of Financial Condition, including discussion of market risks of financial instruments
- Capital Resources and Liquidity, including discussion of availability of capital and the sources and uses of cash

OUR 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). Most of Aflac's policies are individually underwritten and marketed through independent agents. 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.

PERFORMANCE HIGHLIGHTS

Reflecting a slightly weaker yen/dollar exchange rate, total revenues rose 14.4% to $6.8 billion in the third quarter of 2012, compared with $6.0 billion in the third quarter of 2011. Net earnings were $1.0 billion, or $2.16 per diluted share, compared with $736 million, or $1.57 per diluted share, in the third quarter of 2011, benefiting from realized investment gains and a lower annual effective tax rate.

Results for the first nine months of 2012 benefited from a slightly stronger yen/dollar exchange rate. Total revenues rose 17.3% to $19.0 billion, compared with $16.2 billion in the first nine months of 2011. Net earnings were $2.3 billion, or $4.87 per diluted share, compared with $1.4 billion, or $2.98 per diluted share, for the first nine months of 2011.

Results in the third quarter of 2012 included pretax net realized investment gains of $286 million ($186 million after-tax), compared with net realized investment losses of $83 million ($34 million after-tax) in the third quarter of 2011. Net investment gains in the third quarter of 2012 included $97 million ($63 million after-tax) of other-than-temporary impairment losses; $288 million of net gains ($187 million after-tax) from the sale or redemption of securities; and $95 million of net gains ($62 million after-tax) from valuing derivatives.

Results for the first nine months of 2012 included pretax net realized investment losses of $177 million ($115 million after-tax), compared with net realized investment losses of $1.3 billion ($864 million after-tax) in the first nine months of 2011. Net investment losses in 2012 included $643 million ($418 million after-tax) of other-than-temporary impairment losses; $358 million of net gains ($233 million after-tax) from the sale or redemption of securities; and $108 million of net gains ($70 million after-tax) from valuing derivatives.

Shareholders' equity included a net unrealized gain on investment securities and derivatives of $2.3 billion at September 30, 2012, compared with a net unrealized gain of $1.2 billion at December 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

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 this MD&A, 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 based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values for which 95% of our assets and 74% of our liabilities are reported as of September 30, 2012, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

Other than the change in the accounting for DAC as discussed in the next section below, there have been no other changes in the items that we have identified as critical accounting estimates during the nine months ended September 30, 2012. For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2011.

New Accounting Pronouncements

On January 1, 2012, we retrospectively adopted amended accounting guidance on accounting for DAC, costs associated with acquiring or renewing insurance contracts. Under the previous guidance, we capitalized costs that varied with and were primarily related to the acquisition of a policy. Under the amended accounting guidance, only incremental direct costs associated with the successful acquisition of new or renewal contracts may be capitalized, and direct-response advertising costs may be capitalized under certain conditions. As of December 31, 2010, approximately 70% of our unadjusted deferred acquisition cost balance was related to compensation paid to third parties for successful sales and was therefore still deferrable under the new rules. The remaining 30% of the deferred acquisition costs balance was evaluated for deferral under the amended accounting guidance. The retrospective adoption of this accounting standard resulted in an after-tax cumulative reduction to retained earnings of $408 million and an after-tax cumulative reduction to unrealized foreign currency translation gains in accumulated other comprehensive income of $108 million, resulting in a total reduction to shareholders' equity of $516 million as of December 31, 2010. The adoption of this accounting standard had an immaterial impact on net income in 2011 and for all preceding years.

For additional information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table is a presentation of items impacting net earnings and net earnings per diluted share.

Items Impacting Net Earnings

	In Millions		Per Diluted Share		In Millions		Per Diluted Share	
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Net earnings	$1,017	$736	$2.16	$1.57	$2,285	$1,399	$4.87	$2.98
Items impacting net earnings, net of tax:								
Realized investment gains (losses):								
Securities transactions and impairments	124	112	.26	.23	(185)	(681)	(.40)	(1.45)
Impact of derivative and hedging activities	62	(146)	.13	(.31)	70	(182)	.15	(.39)

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

Realized Investment Gains and Losses

Our investment strategy is to invest in fixed-income securities to provide a reliable stream of investment income, which is one of the drivers of the Company's profitability. This investment strategy incorporates asset-liability matching (ALM) to align the expected cash flows of the portfolio to the needs of the Company's liability structure. We do not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio maintenance and rebalancing. The realization of investment gains and losses is independent of the underwriting and administration of our insurance products, which are the principal drivers of our profitability.

Securities Transactions and Impairments

During the three-month period ended September 30, 2012, we realized pretax investment gains, net of losses, of $288 million ($187 million after-tax) from sales and redemptions of securities. These net gains primarily resulted from sales of Japanese government bonds (JGBs) in a bond-swap program. We realized pretax investment losses of $97 million ($63 million after-tax) as a result of the recognition of other-than-temporary impairment losses.

During the nine-month period ended September 30, 2012, we realized pretax investment gains, net of losses, of $358 million ($233 million after-tax) from sales and redemptions of securities. These gains primarily resulted from the bond-swap program in the third quarter of 2012 as discussed above. Other gains resulted from the redemption in the first quarter of 2012 of a previously impaired perpetual security and sales related to our plan to reduce the risk exposure in our investment portfolio. We realized pretax investment losses of $643 million ($418 million after-tax) as a result of the recognition of other-than-temporary impairment losses, primarily composed of impairments recognized in the first quarter for two Tier I securities that were sold in the second quarter of 2012, impairments recognized on certain securities issued by Spanish institutions, and further impairments on several securities that had previously been impaired.

During the three- and nine-month periods ended September 30, 2011, we realized pretax investment losses of $166 million ($108 million after-tax) and $1.1 billion ($715 million after-tax), respectively, as a result of other-than-temporary impairments on certain securities, and we realized pretax investment gains, net of losses, of $307 million ($200 million after-tax) and $49 million ($32 million after-tax), respectively, from the sale of securities as we executed our plan to reduce the risk exposure in our investment portfolio.

See Note 3 of the Notes to Consolidated Financial Statements for a more detailed discussion of these investment activities.

The following table details our pretax impairment losses by investment category.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Perpetual securities	$27	$122	$243	$306
Corporate bonds	70	43	253	783
Mortgage- and asset-backed securities	0	1	3	9
Municipalities	0	0	0	1
Sovereign and supranational	0	0	144	0
Equity securities	0	0	0	1
Total other-than-temporary impairment losses realized	$97 [(1)]	$166 [(2)]	$643 [(1)]	$1,100 [(2)]

[(1)] Includes $70 and $365 for the three- and nine-month periods ended September 30, 2012, respectively, for credit-related impairments; $0 and $251 for the three- and nine-month periods ended September 30, 2012, respectively, from change in intent to sell securities; and $27 for the three- and nine-month periods ended September 30, 2012 for impairments due to severity and duration of decline in fair value

[(2)] Consisted completely of credit-related impairments

Impact of Derivative and Hedging Activities

Our derivative activities include foreign currency, interest rate and credit default swaps in variable interest entities that are consolidated, foreign currency forwards on certain fixed-maturity securities, cross-currency interest rate swaps

associated with our senior notes due February 2017 and February 2022 and subordinated debentures due September

2052, and an interest rate swap associated with our variable interest rate yen-denominated debt. We realized pretax investment gains, net of losses, of $95 million ($62 million after-tax) for the three-month period ended September 30, 2012, compared with pretax investment losses, net of gains, of $224 million ($146 million after-tax) for the same period in 2011, as a result of valuing the swaps described above. During the nine-month period ended September 30, 2012, we realized pretax investment gains, net of losses, of $108 million ($70 million after-tax), compared with pretax investment losses, net of gains, of $279 million ($182 million after-tax) for the same period in 2011, as a result of valuing these swaps.

For a description of other items that could be included in the Impact of Derivative and Hedging Activities, see the Hedging Activities subsection of MD&A and Note 4 of the accompanying Notes to the Consolidated Financial Statements.

For additional information regarding realized investment gains and losses, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Foreign Currency Translation

Aflac Japan’s premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate Aflac Japan’s yen-denominated income statement into dollars using an average exchange rate for the reporting period, and we translate its yen-denominated balance sheet using the exchange rate at the end of the period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current period results in relation to the comparable prior period, while yen strengthening has the effect of magnifying current period results in relation to the comparable prior period. As a result, we view foreign currency translation as a financial reporting issue for Aflac and not an economic event to our Company or shareholders. Because changes in exchange rates distort the growth rates of our operations, management evaluates Aflac’s financial performance excluding the impact of foreign currency translation.

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 31.3% and 33.2% for the three- and nine-month periods ended September 30, 2012, compared with 32.6% and 34.3% for the three-and nine-month periods ended September 30, 2011, respectively. The decrease in the effective income tax rate for the three- and nine-month periods ended September 30, 2012 reflected the revision to our estimate of the full-year effective tax rate, which lowered income tax expense by $17.5 million. In addition, the favorable outcome of a routine tax exam for the years 2008 and 2009 reduced income tax expense by $29.5 million.

Earnings Guidance

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management’s control may have a significant impact on actual results. Therefore, our comparison of net earnings includes certain assumptions to reflect the limitations that are inherent in projections of net earnings. In comparing period-over-period results, we exclude the effect of realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items. We also assume no impact from foreign currency translation on the Aflac Japan segment and the Parent Company’s yen-denominated interest expense for a given period in relation to the prior period.

Subject to the preceding assumptions, we expect net earnings per diluted share for 2012 to increase in the range of 3% to 6% over 2011. If the yen averages 80 for the last three months of the year, we would expect fourth quarter net earnings per diluted share of $1.46 to $1.51. Using that same exchange rate assumption, we would expect net earnings per diluted share to be $6.58 to $6.63 for the full year. Based on our stated objective for 2012, the following table shows the likely results for 2012 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2012 Net Earnings Per Share (EPS) Scenarios[1]

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share	% Growth Over 2011	Yen Impact on EPS
70.00	$7.06 - 7.25	12.6 - 15.6%	$.60
75.00	6.73 - 6.92	7.3 - 10.4	.27
79.75[2]	6.46 - 6.65	3.0 - 6.1	.00
80.00	6.45 - 6.64	2.9 - 5.9	(.01)
85.00	6.21 - 6.40	(1.0) - 2.1	(.25)

[1]Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items in 2012 and 2011
[2]Actual 2011 weighted-average exchange rate

Our objective for 2013 is to increase net earnings per diluted share by 4% to 7% over 2012, excluding the effect of realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities), nonrecurring items, and foreign currency translation.

INSURANCE OPERATIONS

Aflac's insurance business consists of two segments: Aflac Japan and Aflac U.S. Aflac Japan, which operates as a branch of Aflac, is the principal contributor to consolidated earnings. GAAP financial reporting requires that a company report financial and descriptive information about operating segments in its annual and interim period financial statements. Furthermore, we are required to report a measure of segment profit or loss, certain revenue and expense items, and segment assets.

We measure and evaluate our insurance segments' financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our operations before realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items. We believe that an analysis of segment pretax operating earnings is vitally important to an understanding of the underlying profitability drivers and trends of our insurance business. Furthermore, because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

We evaluate our sales efforts using new annualized premium sales, an industry operating measure. New annualized premium sales, which include both new sales and the incremental increase in premiums due to conversions, represent the premiums that we would collect over a 12-month period, assuming the policies remain in force. For Aflac Japan, new annualized premium sales are determined by applications submitted during the reporting period. For Aflac U.S., new annualized premium sales are determined by applications that are issued during the reporting period. Premium income, or earned premiums, is a financial performance measure that reflects collected or due premiums that have been earned ratably on policies in force during the reporting period.

AFLAC JAPAN SEGMENT

Aflac Japan Pretax Operating Earnings

Changes in Aflac Japan's pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac Japan.

Aflac Japan Summary of Operating Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Premium income	$4,405	$4,018	$12,769	$11,490
Net investment income:				
Yen-denominated investment income	492	461	1,439	1,327
Dollar-denominated investment income	221	234	695	653
Net investment income	713	695	2,134	1,980
Other income (loss)	22	7	38	33
Total operating revenues	5,140	4,720	14,941	13,503
Benefits and claims	3,219	2,813	9,231	8,027
Operating expenses:				
Amortization of deferred policy acquisition costs	181	173	535	488
Insurance commissions	299	302	884	880
Insurance and other expenses	447	413	1,293	1,190
Total operating expenses	927	888	2,712	2,558
Total benefits and expenses	4,146	3,701	11,943	10,585
Pretax operating earnings[1]	$994	$1,019	$2,998	$2,918
Weighted-average yen/dollar exchange rate	78.64	77.78	79.47	80.50

Percentage change over previous period:	In Dollars Three Months Ended September 30,		Nine Months Ended September 30,		In Yen Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011	2012	2011	2012	2011
Premium income	9.6 %	16.3 %	11.1 %	16.7 %	10.7 %	5.4 %	9.4 %	5.1 %
Net investment income	2.7	11.3	7.8	9.4	3.7	.9	6.4	(1.6)
Total operating revenues	8.9	15.5	10.7	15.5	10.0	4.8	9.0	4.1
Pretax operating earnings[1]	(2.5)	18.6	2.7	18.3	(1.4)	7.6	1.4	6.6

[1] See the Insurance Operations section of this MD&A for our definition of segment operating expenses.

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

The percentage increases in premium income in yen reflect the growth of premiums in force. Annualized premiums in force increased 11.5% to 1.46 trillion yen as of September 30, 2012, compared with 1.31 trillion yen as of September 30, 2011. The increase in annualized premiums in force in yen reflects the sales of new policies combined with the high persistency of Aflac Japan's business. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were $18.8 billion at September 30, 2012, compared with $17.1 billion a year ago.

Aflac Japan's portfolios include dollar-denominated securities and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 33% of Aflac Japan's investment income in the first nine months of 2012 and 2011. In periods when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms.

In periods when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. Excluding foreign currency

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changes from the prior period, dollar-denominated investment income accounted for approximately 33% of Aflac Japan’s investment income during the first nine months of 2012, compared with 35% a year ago.
The following table illustrates the effect of translating Aflac Japan’s dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the comparable period in the prior year.
Aflac Japan Percentage Changes Over Previous Period
(Yen Operating Results)
For the Periods Ended September 30,

	Including Foreign Currency Changes				Excluding Foreign Currency Changes[2]			
	Three Months		Nine Months		Three Months		Nine Months	
	2012	2011	2012	2011	2012	2011	2012	2011
Net investment income	3.7 %	.9 %	6.4 %	(1.6)%	3.2 %	4.4 %	6.8 %	2.0 %
Total operating revenues	10.0	4.8	9.0	4.1	9.7	5.4	9.0	4.7
Pretax operating earnings[1]	(1.4)	7.6	1.4	6.6	(2.6)	10.6	1.2	9.2

[1] See the Insurance Operations section of this MD&A for our definition of segment operating earnings.
[2] Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current period as the comparable period in the prior year.
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

The following table presents a summary of operating ratios for Aflac Japan.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Ratios to total revenues:	2012	2011	2012	2011
Benefits and claims	62.6 %	59.6 %	61.8 %	59.5 %
Operating expenses:				
Amortization of deferred policy acquisition costs	3.5	3.7	3.6	3.6
Insurance commissions	5.8	6.4	5.9	6.5
Insurance and other expenses	8.8	8.7	8.6	8.8
Total operating expenses	18.1	18.8	18.1	18.9
Pretax operating earnings[1]	19.3	21.6	20.1	21.6

[1] See the Insurance Operations section of this MD&A for our definition of segment operating earnings.
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs.

Aflac Japan’s financial results for the first nine months of 2011 reflected a provision of 3.0 billion yen, or $37 million, for claims related to the earthquake and tsunami that occurred in Japan on March 11, 2011. These claims were offset by reserve releases and reinsurance of 2.0 billion yen, or $25 million, resulting in a net income statement impact of 1.0 billion yen, or $12 million, in 2011. The financial results also reflected .7 billion yen, or $8 million, of operating expenses in the first quarter of 2011 resulting from the earthquake and tsunami. Based on our claims experience to date and our claims estimates, we believe that our initial provision is adequate. The natural disaster and its related events have not had a material impact on our financial position or results of operations.
In the past several years, the benefit ratio for our health products has been positively impacted by favorable claim trends, primarily in our cancer product line. We expect this downward claim trend to continue. However, over the last several years, the rate of decline in Aflac Japan's benefit ratio has moderated, due primarily to strong sales results in our ordinary products, including WAYS and child endowment. These products have higher benefit ratios and lower expense ratios than our health products. The benefit ratio has also been impacted by the effect of low investment yields and portfolio derisking, both of which impact our profit margin by reducing the spread between investment yields and required interest on policy reserves. In the three- and nine-month periods ended September 30, 2012, the

benefit ratio increased and the operating expense ratio decreased, resulting in a lower pretax operating profit margin, compared with the same respective periods in 2011. For the full year of 2012, we expect to achieve our profit objectives through better-than-average premium growth associated with the life products and somewhat lower profit margins due to the change in

business mix discussed above.

Aflac Japan Sales

Aflac Japan's new annualized premium sales exceeded our expectations in the third quarter of 2012 and increased 31.7% in yen, compared with the same period in 2011. This third quarter 2012 production set a new annualized premium sales record for the fifth consecutive quarter. The following table presents Aflac Japan's new annualized premium sales for the periods ended September 30.

	In Dollars				In Yen			
	Three Months		Nine Months		Three Months		Nine Months	
(In millions of dollars and billions of yen)	2012	2011	2012	2011	2012	2011	2012	2011
New annualized premium sales	$692	$544	$1,980	$1,400	55.7	42.3	161.3	112.5
Increase (decrease) over comparable period in prior year	27.2 %	34.8 %	41.5 %	26.7 %	31.7 %	22.2 %	43.4 %	13.9 %

The following table details the contributions to new annualized premium sales by major insurance product for the periods ended September 30.

	Three Months		Nine Months	
	2012	2011	2012	2011
Medical	17 %	20 %	17 %	24 %
Cancer	12	19	13	20
Ordinary life:				
Child endowment	9	16	11	18
WAYS	50	32	47	23
Other ordinary life	8	9	8	11
Other	4	4	4	4
Total	100 %	100 %	100 %	100 %

The bank channel generated new annualized premium sales of 26.9 billion yen in the third quarter of 2012, an increase of 85.3% over the third quarter of 2011. Bank channel sales accounted for 48% of new annualized premium sales for Aflac Japan in the third quarter of 2012, compared with 34% during the same period a year ago. WAYS, a unique hybrid whole-life product that we first launched in 2006 and introduced to the bank channel in 2009, has been a significant contributor to bank sales growth. The average premium for WAYS sold through the bank channel, the primary distribution outlet for this product, is about ten times the average premium for cancer and medical products, making it a strong contributor to revenue growth. The WAYS profit margin is lower than our traditional health insurance products, however the profit margin is significantly enhanced when policyholders elect to pay premiums upfront using the discounted advance premium option. More than 90% of customers at banks choose this payment option. Beginning on October 22, 2012, the profit margin for WAYS was enhanced even further through a reduction in the interest rate credit for discounted advance premium, which essentially increases the total premium paid. Additionally, we will be repricing products in April 2013, reflecting Japan's Financial Services Agency's (FSA) reduction in the Japan Standard Interest Rate, which is used to determine FSA-based policy reserves. Sales of WAYS of 27.9 billion yen during the third quarter of 2012, an increase of 108.3% over the third quarter of 2011, represented 50% of total third quarter 2012 Aflac Japan sales.

The foundation of Aflac Japan's product portfolio has been, and continues to be, our cancer and medical products. Medical insurance sales increased 11.7% during the third quarter of 2012, compared with the same period a year ago, benefiting from the introduction of our revised non-standard medical product in July 2012. With continued cost pressure on Japan's health care system, we expect the need for medical products will continue to rise in the future, and we remain encouraged about the outlook for the medical insurance market.

Cancer insurance sales decreased 20.0% during the third quarter of 2012, compared with the same period a year ago, reflecting a difficult comparison to prior year sales, which had benefited from the favorable consumer response to our new base cancer policy, DAYS, that was introduced at the end of March 2011. We remain convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

At September 30, 2012, we had agreements to sell our products at 373 banks, or more than 90% of the total number of banks in Japan. We have seen sales steadily improve at many of these bank branches as training has taken place and

as many banks expand their offerings of Aflac products. We believe we have significantly more banks selling our supplemental health insurance products than any other insurer operating in Japan. Japanese consumers rely on banks not only to provide traditional bank services, but also to provide insurance solutions, among other services. Approximately 70% of our customers at banks are new customers to Aflac. We believe our long-standing and strong relationships within the Japanese banking sector, along with our strategic preparations, have proven to be an advantage as this channel opened up for our types of products. Our partnership with banks provides us with a wider demographic of potential customers than we would otherwise have been able to reach, and it also allows banks to expand their product and service offerings to consumers. Our access through the bank channel gives us the opportunity to cross-sell our more profitable medical and cancer policies along with WAYS and child endowment policies.

We also remain committed to selling through our traditional channels. These channels, consisting of affiliated corporate agencies, independent corporate agencies and individual agencies, accounted for 50% of total new annualized premium sales for Aflac Japan in the third quarter of 2012. During the three-month period ended September 30, 2012, we recruited nearly 650 new sales agencies. At September 30, 2012, Aflac Japan was represented by approximately 19,300 sales agencies and more than 125,200 licensed sales associates employed by those agencies.

Overall, Aflac Japan performed well in the third quarter of 2012. We believe that there is a continued need for our products in Japan. We anticipate fourth quarter sales to be somewhat suppressed due to the consumer response to the reduction in the interest rate credit for discounted advance premium that took effect on October 22, 2012. Facing difficult sales comparisons, we expect new annualized premium sales in the fourth quarter of 2012 to be in the range of flat to up 15%, compared with 2011. Combining this sales expectation with the results we produced in the first nine months of the year, we are upwardly revising our sales expectation for Aflac Japan and expect a full year 2012 sales increase of 30% to 35%.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has invested in privately issued securities to secure higher yields than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards for credit quality. All of the privately issued securities we purchase are rated investment grade at the time of purchase. These securities are generally issued with documentation consistent with standard medium-term note programs. In addition, many of these investments have protective covenants appropriate to the specific issuer, industry and country. These covenants often require the issuer to adhere to specific financial ratios and give priority to repayment of our investment under certain circumstances.

The following table presents the results of Aflac Japan’s investment yields for the periods ended September 30.

	Three Months		Nine Months	
	2012	2011	2012	2011
New money yield	2.76 %	2.26 %	2.27 %	2.66 %
Return on average invested assets, net of investment expenses	2.78	3.17	2.96	3.21

At September 30, 2012, the yield on Aflac Japan’s investment portfolio, including dollar-denominated investments, was 2.84%, compared with 3.42% a year ago. In order to address our challenge of investing in Japan's low-interest-rate environment, in the third quarter of 2012 we started increasing the amount Aflac Japan invests in higher-yielding U.S. dollar-denominated publicly-traded corporate fixed-maturity securities, and we began entering into foreign currency forward swaps to economically convert these dollar-denominated investments into yen-denominated investments. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments and hedging strategies.

Japanese Economy

The Bank of Japan's October 2012 Monthly Report of Recent Economic Developments stated that Japan's economic activity is leveling off. Exports and production have been relatively weak as overseas economies have moved deeper into a deceleration phase. However, public investment has continued to increase, and housing investment and private consumption have shown signs of improvement. The report projected that Japan's economy is expected to level off for

the time being, and thereafter return to a moderate recovery path as domestic demand remains resilient and overseas economies gradually emerge from a deceleration phase. Exports and production are expected to remain relatively weak and increase moderately thereafter as overseas economies improve. Public investment and housing investment are expected to continue to increase, mainly supported by reconstruction demand related to the tsunami and earthquake disaster. For additional information, see the Japanese Economy subsection of MD&A in our annual report to shareholders

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for the year ended December 31, 2011.

Japanese Regulatory Environment

Japan’s Financial Services Agency (FSA) maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The FSA has applied a revised method of calculating the solvency margin ratio for life insurance companies as of fiscal year-end 2011 (March 31, 2012). The FSA had commented that the revision would generally reduce life insurance companies’ solvency margin ratios to approximately half the level of those reported under the former calculation method. Aflac Japan's solvency margin ratio, most recently reported as of June 30, 2012, was 597.8% under the new standards. As expected, based on the results of the calculation of the solvency margin ratio under the new standards, Aflac Japan’s relative position within the industry has not materially changed.

In 2005, legislation aimed at privatizing Japan’s postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four operating entities that began operations in October 2007. In 2007, one of these entities selected Aflac Japan as its provider of cancer insurance to be sold through its post offices, and, in 2008, we began selling cancer insurance through these post offices. Japan Post has historically been a popular place for consumers to purchase insurance products. Currently, our products are being offered in approximately 1,000 post offices. Legislation to reform the postal system passed the Diet in April 2012 and resulted in the merger of two of the postal operating entities (the one that delivers the mail and the one that runs the post offices) on October 1, 2012. At the current time, it is not possible to predict with any degree of certainty what impact, if any, this legislation will have on Aflac Japan's operations. Regardless, we believe that postal reform is unlikely to change Aflac Japan's relationship with the post office company.

AFLAC U.S. SEGMENT

Aflac U.S. Pretax Operating Earnings

Changes in Aflac U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac U.S.

Aflac U.S. Summary of Operating Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Premium income	$1,254	$1,192	$3,736	$3,547
Net investment income	153	147	457	439
Other income	5	3	10	8
Total operating revenues	1,412	1,342	4,203	3,994
Benefits and claims	712	704	2,110	2,022
Operating expenses:				
Amortization of deferred policy acquisition costs	101	91	302	287
Insurance commissions	143	136	425	407
Insurance and other expenses	196	197	577	570
Total operating expenses	440	424	1,304	1,264
Total benefits and expenses	1,152	1,128	3,414	3,286
Pretax operating earnings[1]	$260	$214	$789	$708
Percentage change over previous period:				
Premium income	5.2 %	3.7 %	5.3 %	3.2 %
Net investment income	3.5	7.1	4.2	8.5
Total operating revenues	5.2	4.0	5.2	3.7
Pretax operating earnings[1]	21.5	(5.2)	11.5	1.7

[1] See the Insurance Operations section of this MD&A for our definition of segment operating earnings.