AFLAC INC
Form 10-K
February 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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)

Registrant's telephone number, including area code: 706.323.3431

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 Par Value	New York Stock Exchange
	Tokyo Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No

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 (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2012, was $19,621,073,731.

The number of shares of the registrant's common stock outstanding at February 19, 2013, with $.10 par value, was 467,739,570.

Documents Incorporated By Reference

Certain information contained in the Notice and Proxy Statement for the Company's Annual Meeting of Shareholders to be held on May 6, 2013, is incorporated by reference into Part III hereof.

Aflac Incorporated
Annual Report on Form 10-K
For the Year Ended December 31, 2012
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PART I

ITEM 1. BUSINESS

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). This report includes certain forward-looking information that is based on current expectations and is subject to a number of risks and uncertainties. For details on forward-looking information, see Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Part II, Item 7, of this report.

Aflac Incorporated qualifies as a large accelerated filer within the meaning of Exchange Act Rule 12b 2. Our Internet address is aflac.com. The information on the Company's Web site is not incorporated by reference in this annual report on Form 10 K. We make available, free of charge on our Web site, our annual report on Form 10 K, quarterly reports on Form 10 Q, current reports on Form 8 K and amendments thereto as soon as reasonably practicable after those forms have been electronically filed with or furnished to the Securities and Exchange Commission (SEC).

General Description

Aflac Incorporated (the Parent Company) was incorporated in 1973 under the laws of the state of Georgia. Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, 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.

Aflac offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including products designed to protect individuals from depletion of assets (accident, cancer, critical illness/ critical care, hospital intensive care, hospital indemnity, fixed-benefit dental, and vision care plans) and loss-of-income products (life and short-term disability plans).

We are authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 77% of the Company's total revenues in 2012, compared with 75% in 2011 and 2010. The percentage of the Company's total assets attributable to Aflac Japan was 87% at December 31, 2012, and 2011.

Results of Operations

For information on our results of operations and financial information by segment, see MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

Foreign Currency Translation

For information regarding the effect of currency fluctuations on our business, see the Foreign Currency Translation and Market Risks of Financial Instruments - Currency Risk subsections of MD&A and Notes 1 and 2 of the Notes to the Consolidated Financial Statements in this report.

Insurance Premiums

The growth of earned premiums is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates. Consolidated earned premiums were $22.1 billion in 2012, $20.4 billion in 2011, and $18.1 billion in 2010. For additional information on the composition of earned premiums by segment, see Note 2 of the Notes to the Consolidated Financial Statements in this report. The following table presents the changes in annualized premiums in force for Aflac's insurance business for the years ended December 31.

(In millions)	2012	2011	2010
Annualized premiums in force, beginning of year	$22,472	$20,380	$17,990
New sales, including conversions	4,129	3,503	2,935
Change in unprocessed new sales	183	35	(73)
Premiums lapsed and surrendered	(2,173)	(2,204)	(2,226)
Other	(9)	(3)	15
Foreign currency translation adjustment	(1,913)	761	1,739
Annualized premiums in force, end of year	$22,689	$22,472	$20,380

Insurance - Japan

We translate Aflac Japan's annualized premiums in force into dollars at the respective end-of-period exchange rates. Changes in annualized premiums in force are translated at weighted-average exchange rates. The following table presents the changes in annualized premiums in force for Aflac Japan for the years ended December 31.

	In Dollars			In Yen		
(In millions of dollars and billions of yen)	2012	2011	2010	2012	2011	2010
Annualized premiums in force, beginning of year	$17,284	$15,408	$13,034	1,344	1,256	1,200
New sales, including conversions	2,641	2,027	1,554	211	161	136
Change in unprocessed new sales	183	35	(73)	14	3	(6)
Premiums lapsed and surrendered	(845)	(847)	(766)	(68)	(68)	(67)
Other	(112)	(100)	(80)	(9)	(8)	(7)
Foreign currency translation adjustment	(1,913)	761	1,739	0	0	0
Annualized premiums in force, end of year	$17,238	$17,284	$15,408	1,492	1,344	1,256

For further information regarding Aflac Japan's financial results, sales and the Japanese economy, see the Aflac Japan Segment subsection of MD&A in this report.

Insurance - U.S.

The following table presents the changes in annualized premiums in force for Aflac U.S. for the years ended December 31.

(In millions)	2012	2011	2010
Annualized premiums in force, beginning of year	$5,188	$4,973	$4,956
New sales, including conversions	1,488	1,476	1,382
Premiums lapsed	(1,328)	(1,357)	(1,460)
Other	103	96	95
Annualized premiums in force, end of year	$5,451	$5,188	$4,973

For further information regarding Aflac's U.S. financial results, sales and the U.S. economy, see the Aflac U.S. Segment subsection of MD&A in this report.

Insurance Products - Japan

Aflac Japan's insurance products are designed to help consumers pay for medical and nonmedical costs that are not reimbursed under Japan's national health insurance system. Changes in Japan's economy and an aging population have put increasing pressure on Japan's national health care system. As a result, more costs are being shifted to Japanese

consumers, who in turn have become increasingly interested in insurance products that help them manage those costs. Aflac Japan has responded to this consumer need by enhancing existing products and developing new products.
Aflac Japan's product portfolio has expanded beyond traditional health-related products to include more life products. Some of the life products that we offer in Japan provide death benefits and cash surrender values. These products are available as stand-alone policies and riders. Some plans, such as our WAYS product, have features that allow policyholders to convert a portion of their life insurance to medical, nursing care, or fixed annuity benefits at a predetermined age. Our child endowment product offers a death benefit until a child reaches age 18. It also pays a lump-sum benefit at the time of the child's entry into high school, as well as an educational annuity for each of the four years during his or her college education. We believe that life insurance products provide further opportunities for us to sell our third sector cancer and medical products.
Aflac Japan's stand-alone medical product, EVER, offers a basic level of hospitalization coverage with an affordable premium. Since its initial introduction in 2002, we have expanded our suite of EVER product offerings to appeal to specific types of Japanese consumers and achieve greater market penetration. New EVER, introduced in 2009, offers enhanced surgical benefits and gender-specific premium rates. The most recent upgrade to our New EVER product, released in January 2012, includes more advanced medical treatment options than its predecessor. Gentle EVER, our non-standard medical product, is designed to meet the needs of certain consumers who cannot qualify for our base EVER plan. The most recent upgrade to our Gentle EVER product, released in July 2012, includes expanded benefits and a newly attached advanced medical care rider. We continue to believe that the entire medical category will remain an important part of our product portfolio in Japan.
The cancer insurance plans we offer in Japan provide a lump-sum benefit upon initial diagnosis of internal cancer and benefits for treatment received due to internal cancer such as fixed daily benefits for hospitalization, outpatient services and convalescent care, and surgical and terminal care benefits. In March 2011, we introduced a new cancer policy, DAYS, and a bridge policy, DAYS PLUS, which upgrades older cancer policies. The enhancements in these new policies reflect the changes in cancer treatment. As the number one provider of cancer insurance in Japan, we believe this product further strengthens our brand, and most importantly, provides valuable benefits to consumers who are looking for solutions to manage cancer-related costs. We are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.
We also offer traditional fixed-income annuities and care policies. For additional information on Aflac Japan's products and composition of sales, see the Aflac Japan Segment subsection of MD&A in this report.
Insurance Products - U.S.
We design our U.S. insurance products to provide supplemental coverage for people who already have major medical or primary insurance coverage. Most of our U.S. policies are individually underwritten and marketed through independent agents. Additionally, we started to market and administer group insurance products in 2009.
Our individually issued policies are portable and pay regardless of other insurance. Most products' benefits are paid in cash directly to policyholders; therefore, our customers have the opportunity to use this cash to help with expenses of their choosing. Our individually issued health insurance plans are typically guaranteed-renewable for the lifetime of the policyholder (to age 75 for short-term disability policies). Our group insurance policies are underwritten on a group basis and often have some element of guaranteed issue. This coverage is generally not portable, which means the insurance coverage may terminate upon separation from employment or affiliation with the entity holding the group contract or upon termination of the master policy group contract.
Aflac U.S. offers accident coverage on both an individual and group basis. These policies are designed to protect against losses resulting from accidents. The accident portion of the policy includes lump-sum benefits for accidental death, dismemberment and specific injuries as well as fixed benefits for hospital confinement. In addition, other benefits such as short-term disability are available as riders.

Aflac U.S. offers coverage for critical illnesses on both an individual and group basis. These policies are designed to protect against losses resulting from critical illnesses such as heart attack, stroke, or cancer. We offer cancer coverage on an individually underwritten basis; critical illness/critical care policies on both an individual and group basis; critical care and recovery (formerly called specified health event) on an individual basis; and hospital intensive care plans on an individual basis.

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Aflac U.S. offers hospital indemnity coverage on both an individual and group basis. Our hospital indemnity products may provide fixed daily benefits for hospitalization due to accident or sickness, or just sickness alone. Indemnity benefits for inpatient and outpatient surgeries, as well as various other diagnostic expenses, are also available.

Aflac U.S. offers fixed-benefit dental coverage on both an individual and group basis. Aflac U.S. also offers Vision Now[SM], an individually issued policy which provides benefits for serious eye health conditions and loss of sight. Vision Now includes coverage for corrective eye materials and exam benefits. Aflac U.S. offers term and whole-life policies and short-term disability benefits on both an individual and group basis.

For additional information on Aflac's U.S. products and composition of sales, see the Aflac U.S. Segment subsection of MD&A in this report.

Distribution - Japan

The traditional channels through which we have sold our products are independent corporate agencies, individual agencies and affiliated corporate agencies. The independent corporate agencies and individual agencies that sell our products give us better access to workers at a vast number of small businesses in Japan. Agents' activities are primarily focused on insurance sales, with customer service support provided by the Aflac Contact Center. Independent corporate agencies and individual agencies contributed 34.7% of new annualized premium sales in 2012, compared with 44.0% in 2011 and 51.1% in 2010. Affiliated corporate agencies are formed when companies established subsidiary businesses to sell our insurance products to their employees as part of a benefit package, and then expanded to sell our products to suppliers and customers. These agencies help us reach employees at large worksites, and some of them are also successful in approaching customers outside their business groups. Affiliated corporate agencies contributed 18.5% of new annualized premium sales in 2012, compared with 25.1% in 2011 and 31.0% in 2010. During 2012, we recruited more than 3,200 new sales agencies. As of December 31, 2012, Aflac Japan was represented by more than 18,400 sales agencies, with more than 125,200 licensed sales associates employed by those agencies. We believe that new agencies will continue to be attracted to Aflac Japan's high commissions, attractive products, superior customer service and strong brand image.

We have sold our products to employees of banks since our entry into Japan in 1974. However, December 2007 marked the first time it was permissible for banks to sell our type of insurance products to their customers. By the end of 2012, we had agreements with 372 banks, approximately 90% of the total number of banks in Japan, to sell our products. We have significantly more banks selling our third sector insurance products than any of our competitors. We believe our long-standing and strong relationships within the Japanese banking sector, along with our strategic preparations, have proven to be an advantage, particularly starting when this channel opened up for our products. Banks contributed 45.6% of Aflac Japan new annualized premium sales in 2012, compared with 28.9% in 2011 and 14.6% in 2010.

For additional information on Aflac Japan's distribution, see the Aflac Japan Segment subsection of MD&A in this report.

Distribution - U.S.

Our U.S. sales force comprises sales associates and brokers who are independent contractors licensed to sell accident and health insurance. Many are also licensed to sell life insurance. Sales associates and brokers are paid commissions based on first-year and renewal premiums from their sales of insurance products. In addition to receiving commissions on personal production, district, regional and state sales coordinators may also receive override commissions and incentive bonuses. Administrative personnel in Georgia, New York, Nebraska, and South Carolina handle policyholder service functions, including issuance of policies, premium collection, payment notices and claims.

We concentrate on marketing our insurance products at the worksite. This method offers policies to individuals through employment, trade and other associations. Historically, our policies have been individually underwritten with premiums generally paid by the employee. Additionally, Aflac's individual policies are portable, meaning that individuals may retain their full insurance coverage upon separation from employment or such affiliation, generally at the same premium. We collect a major portion of premiums on such sales through payroll deduction or other forms of centralized billing. With our brokerage sales expansion and the acquisition of CAIC, branded as Aflac Group Insurance, we offer group voluntary insurance products desired by many large employers. These products are sold on a group basis and often have some element of guaranteed issue. This coverage is generally not portable, which means the insurance coverage may terminate upon separation from employment or affiliation with the entity holding the group contract.

Worksite marketing enables sales associates and brokers to reach a greater number of prospective policyholders and lowers distribution costs, compared with individually marketed business.

At the end of 2012, our distribution network comprised more than 76,400 licensed sales associates and brokers. To enhance the recruiting of sales associates, the bonus structure for our state and regional coordinators incorporates a people development component. In addition, we hold national recruiting contests to incentivize producer recruitment. We also partner with our field offices for recruiting workshops that focus on improving coordinator productivity by emphasizing candidate sourcing, interviewing, and contract acceptance.

Insurance brokers have been a historically underleveraged sales channel for Aflac, but in the past several years, we have been developing relationships with brokers that complement our traditional distribution system. We have assembled a management team experienced in broker sales, and we are supporting this initiative with streamlined products, targeted broker-specific advertising campaigns, customized enrollment technology, and competitive compensation. We have more than 100 broker development coordinators who are single points of contact for brokers across the country. Broker development coordinators are responsible for building relationships with new brokers as well as strengthening relationships with our current brokers. These coordinators are assisted by a team of certified case managers whose role is to coordinate and manage the account enrollments for brokers. Aflac Group Insurance equips us with a platform for offering voluntary group insurance products for distribution by insurance brokers at the worksite. Expanding our product portfolio with group products also greatly enhances the sales opportunities for our traditional sales force of individual associates.

In 2012 we launched Aflac Benefits Solutions (ABS), a separate subsidiary focused on providing dedicated and specialized services to our largest broker relationships. ABS is designed to foster new and expanded partnerships supported by an experienced national team of business developers. As the market leader in voluntary insurance, Aflac will help enable the largest benefits brokerage firms to offer a more compelling suite of offerings to large employers.

For additional information on Aflac's U.S. distribution, see the Aflac U.S. Segment subsection of MD&A in this report.

Competition - Japan

In 1974, Aflac was granted an operating license to sell life insurance in Japan, making Aflac the second non-Japanese life insurance company to gain direct access to the Japanese insurance market. Through 1981, we faced limited competition for cancer insurance policy sales. However, Japan has experienced two periods of deregulation since we entered the market. The first came in the early 1980s, when nine mid-sized insurers, including domestic and foreign companies, were allowed to sell cancer insurance products for the first time. In 2001, all life and non-life insurers were allowed to sell stand-alone cancer and medical insurance products as well as other stand-alone health insurance products. As a result, the number of insurance companies offering stand-alone cancer and medical insurance has more than doubled since the market was deregulated in 2001. However, based on our growth of annualized premiums in force and agencies, we do not believe that our market-leading position has been significantly impacted by increased competition. Furthermore, we believe the continued development and maintenance of operating efficiencies will allow us to offer affordable products that appeal to consumers. Aflac is the largest life insurer in Japan in terms of individual policies in force. As of December 31, 2012, we exceeded 22 million individual policies in force in Japan.

Aflac has had substantial success selling cancer policies in Japan, with more than 14 million cancer policies in force as of December 31, 2012. Aflac continued to be the number one seller of cancer insurance policies in Japan throughout 2012. We believe we will remain a leading provider of cancer insurance coverage in Japan, principally due to our experience in the market, low-cost operations, expansive marketing system (see Distribution - Japan above) and product expertise.

We have also experienced substantial success selling medical insurance in Japan. While other companies have recognized the opportunities that we have seen in the medical insurance market and offered new products, we believe our products stand out for their value to consumers.

In addition to third sector products, in 2011 and 2012, Aflac Japan experienced substantial growth in sales of life insurance products such as WAYS (described in the Products section of this report). These sales were generated largely through the bank channel. The market for ordinary life products is highly competitive. We will continue to pursue the development and marketing of specialty products that meet specific needs within the general life insurance market.

Competition - U.S.
Aflac competes against several voluntary supplemental insurance carriers on a national and regional basis. We believe our policies, premium rates, and sales commissions are competitive by product type. Moreover, we believe that Aflac products are distinct from competitive offerings given our product focus (including features, benefits, and our claims service model), distribution capabilities, and brand awareness. For many companies with which we compete, voluntary supplemental insurance products are sold as a secondary business. For Aflac, supplemental insurance products are our primary business and are sold via a large distribution network of independent sales associates and brokers. Aflac's advertising campaigns have increased our name awareness and understanding by consumers and businesses of the value our products provide.

Both private and publicly-traded insurers offer major medical insurance for hospitalization and medical expenses. Much of this insurance is sold on a group basis to accounts that are both fully and self-insured. The federal and state governments also pay substantial costs of medical treatment through various programs. Major medical insurance generally covers a substantial portion of the medical expenses incurred by an insured. Aflac policies are designed to provide coverage that supplements major medical insurance by paying cash directly to the policyholder to use for expenses their major medical insurance is not designed to cover. Thus, we do not compete directly with major medical insurers. Any reduction of coverage, increase in employee participation costs, or increased deductibles and copayments by major medical commercial or government insurance carriers could favorably affect our business opportunities. With the implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (PPACA), we anticipate a larger burden of the cost of care will be borne by some consumers, potentially creating a favorable impact on key markets for Aflac products. We also expect the PPACA potentially will result in a more competitive landscape for Aflac, as major medical carriers face profitability erosion in some of their core lines of business and seek competitive entry into Aflac's supplemental product segments to offset this impact.

Investments and Investment Results
Net investment income was $3.5 billion in 2012, $3.3 billion in 2011 and $3.0 billion in 2010. The growth rate of net investment income has been negatively impacted by the low level of investment yields for new money in both Japan and the United States. In particular, Japan's life insurance industry has contended with low investment yields for a number of years. For information on our investments and investment results, see the Insurance Operations and Analysis of Financial Condition sections of MD&A and Notes 3, 4 and 5 of the Notes to the Consolidated Financial Statements in this report.

Regulation - Japan

The financial and business affairs of Aflac Japan are subject to examination by Japan's Financial Services Agency (FSA). Aflac Japan files annual reports and financial statements for the Japanese insurance operations based on a March 31 fiscal year end, prepared in accordance with Japanese regulatory accounting practices prescribed or permitted by the FSA. Japanese regulatory basis earnings are determined using accounting principles that differ materially from U.S. GAAP. Under Japanese regulatory accounting practices, policy acquisition costs are expensed immediately; deferred income tax liabilities are recognized on a different basis; policy benefit and claim reserving methods and assumptions are different; the carrying value of securities transferred to held-to-maturity is different; policyholder protection corporation obligations are not accrued; premium income is recognized on a cash basis; and different consolidation criteria apply to variable interest entities. Capital and surplus of Aflac Japan, based on Japanese regulatory accounting practices, was $3.9 billion at December 31, 2012, compared with $2.7 billion at December 31, 2011.

The 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 (SMR) 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. As of December 31, 2012, Aflac Japan's solvency margin ratio was 669.1% using 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.

We typically repatriate a portion of Aflac Japan's annual earnings, as determined on a Japanese regulatory accounting basis, annually to Aflac U.S. provided that Aflac Japan has adequately protected policyholders' interests as measured by its SMR. These repatriated profits represent a portion of Aflac Japan's after-tax earnings reported to the FSA on a March 31 fiscal year basis. The FSA may not allow profit repatriations to Aflac U.S. if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of Japanese policyholders. In the near term, we do not expect these requirements to adversely affect the funds available for profit repatriations, nor do we expect these requirements to adversely affect the funds available for payments of allocated expenses to Aflac U.S. and management fees to the Parent Company.

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 Japan Post.

The Japanese insurance industry has a policyholder protection corporation that provides funds for the policyholders of insolvent insurers. For additional information regarding the policyholder protection fund, see the Policyholder Protection Corporation subsection of MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

As a branch of our principal insurance subsidiary, Aflac Japan is also subject to regulation and supervision in the United States (see Regulation - U.S.). For additional information regarding Aflac Japan's operations and regulations, see the Aflac Japan Segment subsection of MD&A and Notes 2 and 12 of the Notes to the Consolidated Financial Statements in this report.

Regulation - U.S.

The Parent Company and its insurance subsidiaries, Aflac (a Nebraska-domiciled insurance company), American Family Life Assurance Company of New York (Aflac New York, a New York-domiciled insurance company) and CAIC (a South Carolina-domiciled insurance company) are subject to state regulations in the United States as an insurance holding company system. Such regulations generally provide that transactions between companies within the holding company system must be fair and equitable. In addition, transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries, and material transactions between companies within the system, including management fees, loans and advances are subject to prior notice to, or approval by, state regulatory authorities. These laws generally require, among other things, the insurance holding company and each insurance company directly owned by the holding company to register with the insurance departments of their respective domiciliary states and to furnish annually financial and other information about the operations of companies within the holding company system.

Like all U.S. insurance companies, Aflac is subject to regulation and supervision in the jurisdictions in which it does business. In general, the insurance laws of the various jurisdictions establish supervisory agencies with broad administrative powers relating to, among other things:

- granting and revoking licenses to transact business
- regulating trade and claims practices
- licensing of insurance agents and brokers
- approval of policy forms and premium rates
- standards of solvency and maintenance of specified policy benefit reserves and minimum loss ratio requirements
- capital requirements
- limitations on dividends to shareholders
- the nature of and limitations on investments
- deposits of securities for the benefit of policyholders
- filing of financial statements prepared in accordance with statutory insurance accounting practices prescribed or permitted by regulatory authorities
- periodic examinations of the market conduct, financial, and other affairs of insurance companies

The insurance laws of Nebraska that govern Aflac's activities provide that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the Nebraska Department of Insurance. A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company (in the case of Aflac, the Parent Company) must generally file with the Nebraska Department of Insurance an application for change of control containing certain information required by statute and published regulations and provide a copy to Aflac. In Nebraska, control is generally

presumed to exist if any person, directly or indirectly, acquires 10% or more of an insurance company or of any other person or entity controlling the insurance company. The 10% presumption is not conclusive and control may be found to exist at less than 10%. Similar laws apply in New York and South Carolina, the domiciliary jurisdictions of the Parent Company's other insurance subsidiaries, Aflac New York and CAIC.
Additionally, the National Association of Insurance Commissioners (NAIC) continually reviews regulatory matters and recommends changes and revisions for adoption by state legislators and insurance departments.
The NAIC uses a risk-based capital formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon the types and mix of risk inherent in the insurer's operations. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital to its authorized control level risk-based capital as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The levels are company action, regulatory action, authorized control, and mandatory control. Aflac's NAIC risk-based capital ratio remains high and reflects a very strong capital and surplus position. As of December 31, 2012, based on year-end statutory accounting results, Aflac's company action level RBC ratio was 630%.

New federal legislation and administrative policies in several areas, including health care reform legislation, financial services reform legislation, securities regulation, pension regulation, privacy, tort reform legislation and taxation, can significantly and adversely affect insurance companies. Various forms of federal oversight and regulation of insurance have been passed by the U.S. Congress and signed into law by the President. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (PPACA), federal health care reform legislation, gives the U.S. federal government direct regulatory authority over the business of health insurance. The reform includes major changes to the U.S. health care insurance marketplace. Among other changes, the reform legislation includes an individual medical insurance coverage mandate, provides for penalties on certain employers for failing to provide adequate coverage, creates health insurance exchanges, and addresses coverage and exclusions as well as medical loss ratios. The legislation also includes changes in government reimbursements and tax credits for individuals and employers and alters federal and state regulation of health insurers. These changes, directed toward major medical health insurance coverage which Aflac does not offer, have already begun and will continue to be phased in over the next several years. We believe that the PPACA, as enacted, does not materially affect the design of our insurance products. However, indirect consequences of the legislation and regulations could present challenges and/or opportunities that could potentially have an impact on our sales model, financial condition and results of operations.
In 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Dodd-Frank Act, which, among other things, created a Financial Stability Oversight Council (the Council). The Council may designate by a two-thirds vote whether certain nonbank financial companies, including potentially insurance companies and insurance holding companies, could pose a threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the Board of Governors of the U.S. Federal Reserve System (the Board), including capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit such company’s ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. In April 2012, the Council released a final rule describing the general process the Council will follow in determining whether to designate a nonbank financial company for supervision by the Board. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. The director of the Federal Insurance Office has the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. We believe that Aflac would not likely be considered a company that

would pose a systemic risk to the financial stability of the United States. However, at the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will have on our U.S. business, financial condition, or results of operations.

For further information concerning Aflac U.S. operations, regulation, change of control and dividend restrictions, see the Aflac U.S. Segment subsection of MD&A and Notes 2 and 12 of the Notes to the Consolidated Financial Statements in this report.

Other Operations

Our other operations include the Parent Company and a printing subsidiary. For additional information on our other operations, see the Other Operations subsection of MD&A.

Employees

As of December 31, 2012, Aflac Japan had 4,349 employees, Aflac U.S. had 4,324 employees, and our other operations, the Parent Company and printing subsidiary, had 292 employees. We consider our employee relations to be excellent.

Executive Officers of the Registrant

NAME	PRINCIPAL OCCUPATION[1]	AGE
Daniel P. Amos	Chairman, Aflac Incorporated and Aflac; Chief Executive Officer, Aflac Incorporated and Aflac	61
Paul S. Amos II	President, Aflac; Chief Operating Officer, U.S. Operations, Aflac	37
Koji Ariyoshi	Executive Vice President, Director of Marketing and Sales, Aflac Japan, since January 2012; First Senior Vice President, Director of Marketing and Sales, Aflac Japan, from January 2010 until January 2012; Senior Vice President, Deputy Director of Marketing and Sales, from October 2008 until January 2010; Executive Director, AXA Life Insurance Company Ltd., until October 2008	59
Susan R. Blanck	Executive Vice President, Corporate Actuary, Aflac, since January 2011; Executive Vice President, Aflac Japan, since March 2012; First Senior Vice President, Aflac Japan, from June 2008 until March 2012; Senior Vice President, Corporate Actuary, Aflac, until January 2011	46
Kriss Cloninger III	President, Aflac Incorporated; Chief Financial Officer, Aflac Incorporated and Aflac; Treasurer, Aflac Incorporated; Executive Vice President, Aflac	65
Masahiko Furutani	Executive Vice President, Planning, Administration Management, Customer Services Promotion, Actuarial Product Development, Corporate Actuarial, Financial Management, Financial Accounting, Investment Risk Management, Investments, and Compliance Promotion, Aflac Japan, since April 2012; Executive Director, Mizuho Bank, from April 2011 until March 2012; Senior Vice President, Mizuho Bank, from April 2009 until March 2011; General Manager, Mizuho Bank, from April 2007 until March 2009	55
June Howard	Chief Accounting Officer, Aflac Incorporated and Aflac, since November 2010; Treasurer, Aflac, since February 2011; Senior Vice President, Financial Services, Aflac Incorporated and Aflac, since March 2010; Vice President, Financial Services, Aflac, from June 2009 until March 2010; Head of IFRS and U.S. GAAP for ING's U.S. operations until June 2009	46
Kenneth S. Janke Jr.	Executive Vice President, Deputy Chief Financial Officer, Aflac Incorporated, since October 2010; Senior Vice President, Investor Relations, Aflac Incorporated, until October 2010	54
Eric M. Kirsch	Executive Vice President, Global Chief Investment Officer, Aflac, since July 2012; First Senior Vice President, Global Chief Investment Officer, Aflac, from November 2011 until July 2012; Managing Director, Global Head of Insurance Asset Management, Goldman Sachs Asset Management, until November 2011	52

Charles D. Lake II	Chairman, Aflac Japan, since July 2008; Vice Chairman, Aflac Japan, until July 2008	51
Joey M. Loudermilk	Executive Vice President, General Counsel, Aflac Incorporated and Aflac; Director, Legal and Governmental Relations, Aflac; Corporate Secretary, Aflac Incorporated and Aflac, until January 2012	59
Audrey B. Tillman	Executive Vice President, Corporate Services, Aflac Incorporated, since January 2008; Senior Vice President, Corporate Services, Aflac Incorporated, until January 2008	48
Tohru Tonoike	President, Chief Operating Officer, Aflac Japan	62

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NAME	PRINCIPAL OCCUPATION[1]	AGE
Teresa L. White	Executive Vice President, Chief Service Officer, Aflac, since October 2012; Executive Vice President, Chief Administrative Officer, Aflac, from March 2008 until October 2012; Senior Vice President, Deputy Chief Administrative Officer, Aflac, until March 2008	46
Robin Y. Wilkey	Senior Vice President, Investor and Rating Agency Relations, Aflac Incorporated, since October 2010; Vice President, Investor Relations, Aflac Incorporated, until October 2010	54
Hiroshi Yamauchi	Executive Vice President, Planning, Government Affairs & Research, Legal, Risk Management, Human Resources, General Affairs, Infrastructure Services, User Services, System Development, IT Administration Management, and IT Strategic Project Promotion, Aflac Japan, since January 2012; First Senior Vice President, Planning, Government Affairs & Research, Legal, Risk Management, Human Resources, General Affairs, Infrastructure Services, User Services, System Development, IT Administration Management, and IT Strategic Project Promotion, Aflac Japan, from January 2011 until January 2012; First Senior Vice President, Planning, Government Affairs and Research, Legal, Risk Management, and Compliance Promotion, Aflac Japan, from January 2010 until January 2011; First Senior Vice President, Chief Administrative Officer, Aflac Japan, until January 2010	61
Michael W. Zuna	Executive Vice President, Chief Marketing and Sales Officer, Aflac, since June 2012; Senior Vice President, Chief Marketing Officer, Aflac, from October 2010 until June 2012; Vice President, Marketing, Aflac, from September 2009 until October 2010; Managing Director, Saatchi & Saatchi NY, from January 2008 until September 2009	44

[1]Unless specifically noted, the respective executive officer has held the occupation(s) set forth in the table for at least the last five years. Each executive officer is appointed annually by the board of directors and serves until his or her successor is chosen and qualified, or until his or her death, resignation or removal.

ITEM 1A. RISK FACTORS
We face a wide range of risks, and our continued success depends on our ability to identify, prioritize and appropriately manage our enterprise risk exposures. Readers should carefully consider each of the following risks and all of the other information set forth in this Form 10-K. These risks and other factors may affect forward-looking statements, including those in this document or made by the Company elsewhere, such as in earnings release webcasts, investor conference presentations or press releases. The risks and uncertainties described herein may not be the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks and uncertainties develop into actual events, there could be a material impact on the Company.
Difficult conditions in global capital markets and the economy could have a material adverse effect on our investments, capital position, revenue, profitability, and liquidity and harm our business.
Our results of operations are materially affected by conditions in the global capital markets and the economy generally, in the United States and Japan and elsewhere. Global capital markets experienced extreme disruption during the latter part of 2008 and much of 2009 driven by concerns with overall economic conditions originating largely from the U.S. mortgage and housing market. Economic risks continued to rise as business and consumer confidence declined amid concerns with the availability and cost of credit, the weak U.S. mortgage market, and a declining real estate market in the United States. Rising energy costs, volatile commodity prices, increasing unemployment and geopolitical issues further contributed to the extreme volatility of this period. This financial market volatility resulted in a dramatic reduction in the availability of credit and substantially increased the cost of borrowing.
As the financial crisis continued, beginning in early 2010, the risk of sovereign defaults or restructurings, combined with decreased valuations and reduced liquidity for certain entities in the European banking sector, negatively impacted securities issued by these entities. Although recent actions by the European Central Bank (ECB) and other Euro-wide institutions have helped reduce many of the major risk fears of investors, these developments continue to impact the market for financial products. Many European economies are projected to remain in recession in 2013 as the austerity programs required to appease markets start to take hold. As we hold in our investment portfolio a significant amount of fixed maturity and perpetual securities, including a large portion issued by banks and financial institutions, sovereigns and other corporate borrowers based throughout Europe, our financial condition could be adversely affected by these developments. A continuation or worsening of the European crisis could adversely affect our capital position and our overall profitability. Recessionary pressures could result in an increase in credit losses due to severe price declines of our portfolio, default in payment of interest, and credit rating downgrades.

We need liquidity to pay our operating expenses, dividends on our common stock, interest on our debt, and liabilities. For a further description of our liquidity needs, including maturing indebtedness, see Item 7 of this Form 10-K - Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity. In the event our current resources do not meet our needs, we may need to seek additional financing. Our access to additional funding will depend on a variety of factors such as market conditions, the general availability of credit to the financial services industry and our credit rating. Should investor concern with the European sovereign crisis increase overall market volatility and reduce access to market financing, we could be severely impacted given our large exposure to European securities in our investment portfolio. There is a possibility that lenders or debt investors may develop a negative perception of us if we incur large investment losses or if the level of our business activity decreases due to a market downturn or there are further adverse economic trends in the United States or Japan. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.
Broad economic factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, indirectly, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. This adverse effect could be particularly significant for companies such as ours that distribute supplemental, discretionary insurance products primarily through the worksite in the event that economic conditions result in a decrease in the number of new hires and total employees. Adverse

changes in the economy could potentially lead our customers to be less inclined to purchase supplemental insurance coverage or to decide to cancel or modify existing insurance coverage, which could adversely affect our premium revenue, results of operations and financial condition. We are unable to predict the likely duration and severity of the current disruptions in financial markets and adverse economic conditions in the United States, Japan and other countries, which may have an adverse effect on us, in part because we are dependent upon customer behavior and spending.

The effect that governmental actions for the purpose of stabilizing the financial markets will have on such markets generally, or on us specifically, is difficult to determine at this time.

In response to the severity of the financial crisis affecting the banking system and financial markets and concern about financial institutions' viability, numerous regulatory and governmental actions have been taken or proposed. In the United States, this includes aggressive expansionary monetary policy actions by the Federal Reserve, including conventional measures such as reducing the Federal Funds rate to near zero, and less conventional measures such as expanding the eligible collateral for loans and multiple rounds of quantitative easing. The result of the actions of the Federal Reserve has been to keep interest rates, as measured by the U.S. Treasury curve and other relevant market rates, at very low levels for an extended period of time in an attempt to stimulate the economy.

As many of these steps by the Federal Reserve are unprecedented, considerable risks exist surrounding the amount of monetary stimulus provided. These risks could include heightened inflation, increased volatility of interest rates, significantly higher interest rates, and overall increased volatility in the fair value of investment securities. These factors could negatively impact our business by reducing the value of our existing portfolio, negatively impacting our opportunities for new investments as the risk of new credit investments is heightened and market volatility increases, increasing the risk of default in our credit portfolio, and reducing the demand for our products should the broader economy be negatively impacted by withdrawal of monetary stimulus.

The ECB has undertaken a series of steps designed to mitigate the effects of the European Sovereign Debt crisis. These steps include reductions in the main lending rate, and introduced a long-term refinancing operation (LTRO). The program provides collateralized three-year low interest loans to financial institutions to provide much needed liquidity to Eurozone financial institutions. During August of 2012, the ECB announced further steps through a program they labeled Outright Monetary Transactions (OMT). This program would involve the ECB buying on a potentially unlimited basis government bonds issued in the secondary market by those European sovereign nations requesting official aid from the European Financial Stability Fund.

Several European governments have passed resolution regime legislation that provides regulators with expanded powers intended to limit the negative impact of large bank failures and protect depositors and taxpayers from further losses. Some of these powers enable the regulator to impose "burden sharing" upon all providers of capital, including senior unsecured lenders. Burden sharing imposes losses on investments in going-concern issuers as a result of an involuntary change in terms or a reduction in principal or interest. Currently, this legislation is in effect in a few Euro area countries, but it may be adopted across the Euro area in the coming years.

Many of these governmental interventions have helped create an environment of extremely low interest rates for an extended period of time. There can be no assurance as to the effect that these governmental actions, other governmental actions taken in the future, or the ceasing of these governmental actions will have on the financial markets generally or on our competitive position, business and financial condition.

Defaults, downgrades, widening credit spreads or other events impairing the value of the fixed maturity securities and perpetual securities in our investment portfolio may reduce our earnings.

We are subject to the risk that the issuers, guarantors, and/or counterparties of fixed maturity securities and perpetual securities we own may default on principal, interest and other payments they owe us. A significant portion of our portfolio represents an unsecured obligation of the issuer. In these cases, many factors can influence the overall creditworthiness of the issuer and ultimately its ability to service and repay our holdings. This can include changes in the global economy, the company's assets, strategy, or management, shifts in the dynamics of the industries in which they compete, their access to additional funding, and the overall health of the credit markets. Factors unique to our securities including contractual protections such as financial covenants or relative position in the issuer's capital structure also influence the value of our holdings.

Most of our holdings carry a rating by one or more of the Nationally Recognized Statistical Rating Organizations (NRSROs, or “rating agencies”). Any change in the rating agencies' approach to evaluating credit and assigning an opinion could negatively impact the fair value of our portfolio. We also employ a team of credit analysts globally to

monitor the creditworthiness of the issuers in our portfolio. Any credit-related declines in the fair value of positions held in our portfolio we believe are not temporary in nature will negatively impact our net income through impairment and other credit related losses.
We are also subject to the risk that any collateral providing credit enhancement to our positions could deteriorate. These instruments include loan-backed securities such as: collateralized debt obligations (CDOs) and mortgage-backed

securities (MBS), where the underlying collateral notes may default on principal, interest, or other payments, causing an adverse change in cash flows to the positions held in our investment portfolio.

Our portfolio includes holdings of perpetual securities. Most of these are issued by global banks and financial institutions. Following the financial crisis, rating agencies have been reviewing and modifying the rating criteria for financial institutions. This has caused multiple downgrades of many bank and financial issuers, but perpetual securities have been more negatively impacted as their lower position in the capital structure represents relatively more risk than other more senior obligations of the issuer. Further downgrades of issuers of securities we own will have a negative impact on our portfolio and could reduce our earnings.

We are exposed to sovereign credit risk through instruments issued directly by governments and government entities as well as banks and other institutions that rely in part on the strength of the underlying government for their credit quality. Many governments, especially in Europe, have been subject to rating downgrades due to reduced economic activity, increased fiscal spending, and investment needed to support banks or other systematically important entities. Further downgrades will have a negative impact on our portfolio and could reduce our earnings.

In addition to our exposure to the underlying credit strength of various issuers of fixed maturity and perpetual securities, we are also exposed to credit spreads, primarily related to market pricing and variability of future cash flows associated with credit spreads. A widening of credit spreads could reduce the value of our existing portfolio and create unrealized losses on our investment portfolio. This could, however, increase the net investment income on new credit investments. Conversely, a tightening of credit spreads could increase the value of our existing portfolio and create unrealized gains on our investment portfolio. This could reduce the net investment income available to us on new credit investments. Increased market volatility also makes it difficult to value certain of our investment holdings (see the Critical Accounting Estimates section in Item 7 of this Form 10-K - Management's Discussion and Analysis). For more information regarding credit risk, see the Market Risks of Financial Instruments - Credit Risk subsection of Item 7 of this Form 10-K (Management's Discussion and Analysis).

The impairment of other financial institutions' creditworthiness could adversely affect us.

We have exposure to and routinely execute transactions with counterparties in the financial services industry, including broker dealers, commercial banks and other institutions. Additionally, one of the largest sector concentrations in our investment portfolio is banks and financial institutions. Many of these transactions expose us to credit risk in the event of default of the obligor or the counterparty. Any losses or impairments to the carrying value of these assets may materially and adversely impact our business and results of operations. Further, we have agreements with various financial institutions for the distribution of our insurance products. For example, at December 31, 2012, we had agreements with 372 banks to market Aflac's products in Japan. Sales through these banks represented 45.6% of Aflac Japan's new annualized premium sales in 2012. Any material adverse effect on these or other financial institutions could also have an adverse effect on our sales.

We are subject to certain risks as a result of our investments in perpetual securities.

As of December 31, 2012, we held $4.2 billion of perpetual securities, at amortized cost, which represented 3.8% of our total portfolio of debt and perpetual securities. Perpetual securities have characteristics of both debt and equity instruments. These securities do not have a stated maturity date, but generally have a stated interest coupon that was fixed at the time of issuance but then changes to a floating rated security at some predetermined date. Most perpetual securities have call features including the ability of the issuer to retire the debt at par upon the change to a floating rate security. Generally, the mechanics of the floating rate change were intended at the time of issuance to incent the borrower to call the instrument, having the effect of creating an expected economic maturity date. We believe many of the issuers of our perpetual securities will call the instruments upon a change in payment structure but there are no assurances the issuers will do so. Further, there can be no assurance the issuers will have the ability to repay the outstanding principal amount.

Perpetual securities may contain provisions allowing the borrower to defer paying interest for a time. In some cases, we have contractual provisions that stipulate any deferred interest payment accumulates for our benefit and must be paid in the future. There is no assurance such issuers will not choose to defer making payments or will be able to honor a cumulative deferral feature.

There is also a risk that the accounting for these perpetual securities could change in a manner that would have an adverse impact on the reporting for these securities. At the date of filing this Form 10-K, the SEC does not object to the

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use of a debt impairment model for impairment recognition of these securities as long as there is no significant deterioration in the credit condition of the perpetual securities. The debt impairment model allows the holder to consider whether or not interest and principal payments will be received in accordance with contractual terms and the holder's intent and ability to hold the perpetual security until there is a recovery in value. The equity impairment model, by contrast, looks at the length of time a security's fair value has been below its cost basis and the percentage decline to determine whether an impairment should be recorded, without consideration to the holder's intent and ability to hold the security until recovery in value. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are also working on the financial instruments project which addresses classification and measurement, impairment and hedging. The IASB exposed for comment limited amendments to International Financial Reporting Standards (IFRS) 9 regarding classification and measurement in November 2012. In December 2012, the FASB issued an exposure draft proposing a new impairment model. The revisions will cause investment losses to be recognized sooner and will result in changes in the classification and measurement of certain types of investments. The ultimate outcome and timing of these events is uncertain at this time. The adoption of IFRS and/or the effects of accounting standards convergence could significantly alter the presentation of our financial position and results of operations in our financial statements. The outcome and timing of this project is uncertain but could result in changes to the current accounting model for perpetual securities, including the possible recognition of some or all of unrealized losses through earnings rather than equity. Although this change would not affect total shareholders' equity as the unrealized loss is already recorded in shareholders' equity, it would reduce net income in the period the change occurred and in future periods. Statutory accounting principles account for these securities using the debt model. Additionally, these securities are carried at amortized cost for statutory reporting purposes, with the exception of any securities that are assigned the lowest NAIC rating (i.e. NAIC 6) or are determined to be impaired (i.e. the issuer will not be able to pay interest and principal as contractually due). Should the statutory accounting requirements change regarding the method of recognizing impairments or the values at which the securities should be carried in the financial statements, it could adversely affect our statutory capital, depending upon the changes adopted.

The valuation of our investments and derivatives includes methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may adversely affect our results of operations or financial condition.

The vast majority of our financial instruments are subject to the fair value classification provisions under GAAP, which specifies a hierarchy of valuation techniques based on observable or unobservable inputs to valuations, and relates to our investment securities classified as available for sale in our investment portfolio, which comprised $61.6 billion (52%) of our total cash and invested assets at December 31, 2012. In accordance with GAAP, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). It gives the next priority to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets or liabilities and other inputs that can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities (Level 2). The lowest priority represents unobservable inputs supported by little or no market activity and that reflect the reporting entity's understanding about the assumptions that market participants would use in pricing the asset or liability (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

At December 31, 2012, approximately 20%, 75% and 5% of our total available-for-sale securities represented Level 1, Level 2 and Level 3 securities, respectively. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the securities in our investment portfolio, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In addition, prices provided by independent pricing services and independent broker quotes can vary widely even for the same security. In such cases, more securities may be transferred to Level 3 from Levels 1 and 2.

As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated, thereby resulting in values which may be greater or less than the value at which the investments may be ultimately sold. Rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Further, the Company has entered into an agreement with an independent third party to value certain securities within our investment portfolio, primarily perpetual and privately issued holdings. These securities are currently being valued using a discounted cash flow pricing model and are classified as Level 2. We expect to receive valuation information from the third party to be evaluated by management by the end of the first quarter of 2013. At this time, it is not possible to estimate the impact of this new valuation approach. Changes in value may have a material effect on our financial condition and results of operations.

For further discussion on investment and derivative valuations, see Notes 1, 3, 4, and 5 of the Notes to the Consolidated Financial Statements in this report.

The determination of the amount of impairments taken on our investments is based on significant valuation judgments and could materially impact our results of operations or financial position.

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investments. The determination of the amount of impairments under this model is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective securities. Such evaluations and assessments are revised as conditions change and new information becomes available.

An investment in a fixed maturity or perpetual security is impaired if the fair value falls below book value. We regularly review our entire investment portfolio for declines in value. For our fixed maturity and perpetual securities reported in the available-for-sale portfolio, we report the investments at fair value in the statement of financial condition and record any unrealized gain or loss in the value of the asset in accumulated other comprehensive income. For our held-to-maturity portfolio, we report the investments at amortized cost. The determination of whether an impairment in value is other than temporary is based largely on our evaluation of the issuer's creditworthiness. Our team of experienced credit professionals must apply considerable judgment in determining the likelihood of the security recovering in value while we own it. Factors that may influence this include the overall level of interest rates, credit spreads, the credit quality of the underlying issuer, and other factors. If we determine it is unlikely we will recover our book value of the instrument prior to our disposal of the security, we will reduce the carrying value of the security to its fair value and recognize any associated impairment loss in our consolidated statement of earnings.

Our investments in perpetual securities that are rated below investment grade are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model focuses on the severity of a security's decline in fair value coupled with the length of time the fair value of the security has been below amortized cost and the financial condition and near-term prospects of the issuer.

Our management updates its evaluations regularly as conditions change and as new information becomes available and reflects impairment losses in the Company's income statement when considered necessary. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

Lack of availability of acceptable yen-denominated investments could adversely affect our profits.

We attempt to match the duration of our assets with our liabilities and for Aflac Japan this can be very challenging due to the fact that the Japan investment marketplace is not very broad or deep. Historically, the Company has been heavily focused on investing cash flows in Japanese Government Bonds (JGBs), and utilizing private placement and perpetual securities to extend the duration of the investment portfolio. The investment in private placements and perpetual securities has led to increased risks associated with illiquidity. Starting in the third quarter of 2012, the Company augmented its investment strategy to include U.S. securities which are then hedged back to yen. This strategy is meant to improve diversification, income yields and liquidity. As of December 31, 2012, the Company held approximately $7.0 billion in U.S. fixed income securities, at amortized cost, and approximately $7.0 billion of notional in foreign currency forwards to hedge the related currency risks. This strategy has led to economic risk associated with the roll-over of the currency forwards which hold tenors that are shorter than the corresponding hedged U.S. securities. This risk can significantly impact the Company's consolidated financial position and earnings.

The concentration of our investment portfolios in any particular single-issuer or sector of the economy may have an adverse effect on our financial position or results of operations.

Negative events or developments affecting any particular single issuer, industry, group of related industries or geographic sector may have a greater adverse effect on our investment portfolios to the extent that the portfolios are concentrated rather than diversified. Therefore, the degree of concentration of our investment portfolios in any particular single issuer, industry, group of related industries or geographic sector could have an adverse effect on our investment portfolios and, consequently, on our results of operations and financial position. Beginning in 2005, we have generally limited our investment exposures to individual issuers to no more than 5% of total adjusted capital

(TAC) on a statutory accounting basis, with the exception of obligations of the Japanese and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this guidance was adopted, or exposures that may exceed this threshold from time to time through merger and consolidation activity, are not automatically reduced through sales of the issuers' securities but rather are reduced over time consistent with our investment policy. At December 31, 2012, with the

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exception of investments in JGBs, we did not have any single-issuer investments that exceeded the upper bound of our investment risk exposure limits, which is considered to be 10% of total adjusted capital (TAC) on a U.S. statutory accounting basis. At December 31, 2012, approximately 18% of our total portfolio of debt and perpetual securities, on an amortized cost basis, was in the bank and financial institution sector.

For further details on the concentrations within our investment portfolios see the Analysis of Financial Condition section of MD&A in this report.

Our concentration of business in Japan poses risks to our operations.
Our operations in Japan, including realized gains and losses on Aflac Japan's investment portfolio, accounted for 77% of our total revenues for 2012, compared with 75% in 2011 and 2010. The Japanese operations accounted for 87% of our total assets at December 31, 2012 and 2011. The Bank of Japan's January 2013 Monthly Report of Recent Economic and Financial Developments stated that Japan's economic activity as of the end of 2012 remains relatively weak. The report projected that Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient and overseas economies gradually emerge from the deceleration phase. Exports are expected to decrease at a reduced pace for the time being and start picking up thereafter, housing investment is expected to continue to generally increase, public investment is expected to continue trending upward, and private consumption is expected to remain resilient.

Further, because of the concentration of our business in Japan and our need for long-dated yen denominated assets, we have a substantial concentration of JGBs in our investment portfolio. As such we have material exposure to the Japanese economy, geo-political climate, political regime, and other elements that generally determine a country's creditworthiness.

We seek to match the investment currency and interest rate risk to our yen liabilities. The low level of interest rates available on yen securities has a negative effect on our overall net investment income. A large portion of the cash available for reinvestment each year is deployed in yen-denominated instruments and subject to the low level of yen interest rates.

Any potential deterioration in Japan's credit quality, market access, the overall economy of Japan, or Japanese market volatility could adversely impact the business of Aflac Japan and our related results of operations and financial condition.

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 financial position and results of operations. 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, however, translated into dollars for financial reporting purposes. Accordingly, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported financial position and results of operations. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. Any unrealized foreign currency translation adjustments are reported in accumulated other comprehensive income. As a result, yen weakening has the effect of suppressing current year results in relation to the prior year, while yen strengthening has the effect of magnifying current year results in relation to the prior year. In addition, the weakening of the yen relative to the dollar will generally adversely affect the value of our yen-denominated investments in dollar terms. Foreign currency translation also impacts the computation of our risk-based capital ratio because Aflac Japan is consolidated in our U.S. statutory filings due to its status as a branch. Our required capital, as determined by the application of risk factors to our assets and liabilities, is proportionately more sensitive to changes in the exchange rate than our total adjusted capital. As a result, when the yen strengthens relative to the dollar, our risk-based capital ratio is suppressed. We engage in certain foreign currency hedging activities for the purpose of hedging the yen exposure to our net investment in our branch operations in Japan. These hedging activities are limited in scope and we cannot provide assurance that these activities will be effective.

Additionally, we are exposed to economic currency risk when yen cash flows are converted into dollars, resulting in an increase or decrease in our earnings when exchange gains or losses are realized. This primarily occurs when we repatriate funds from Aflac Japan to Aflac U.S., which is generally done on an annual basis. The exchange rates prevailing at the time of repatriation may differ from the exchange rates prevailing at the time the yen profits were earned.
For more information regarding foreign currency risk, see the Currency Risk subsection within the Market Risks of Financial Instruments section of MD&A in this report.

For more information regarding foreign currency risk, see the Currency Risk subsection within the Market Risks of Financial Instruments section of MD&A in this report.

We are subject to various risks associated with increased derivative activities.

We use derivative instruments to mitigate various risks associated with our investment portfolio and notes payable. We enter into a variety of agreements involving assorted instruments including forward contracts, interest rate and currency swaps. To provide additional alternatives to increase our overall portfolio yield while managing our overall currency risk, in the third quarter of 2012, we began investing most of the investable cash flow generated by Aflac Japan into U.S. dollar-denominated investment grade public bonds and hedging these bonds to yen through the use of currency forward contracts. At December 31, 2012, we were hedging approximately $7.0 billion of notional through this program. The derivative forward contracts are of a shorter maturity than the hedged bonds which creates roll-over risks within the hedging program. Due to changes in market environments, there is a risk the hedges become ineffective and lose the corresponding hedge accounting treatment. Further, the Company only holds a certain number of executed International Swaps and Derivatives Association (ISDA) master agreements so our ability to diversify derivative counterparties is currently limited. At December 31, 2012, we held interest rate and cross-currency swaps of $1.3 billion notional associated with our notes payable, and currency forwards of approximately $7.0 billion notional associated with the Company's fair value hedging program. As such, the Company's increased use of derivatives has increased financial exposures to our current derivative counterparties. If our counterparties fail or refuse to honor their obligations under these derivative instruments our hedges of the risks will be ineffective. Further, if markets move negatively to our hedging position, the Company may be required to post collateral to support the derivative contracts and/or pay cash to settle the contracts at maturity which could strain the Company's liquidity. All of these risks could adversely impact our consolidated results of operations and financial condition.

We operate in an industry that is subject to ongoing changes.
We operate in a competitive environment and in an industry that is subject to ongoing changes from market pressures brought about by customer demands, legislative reform, marketing practices and changes to health care and health insurance delivery. These factors require us to anticipate market trends and make changes to differentiate our products and services from those of our competitors. We also face the potential of competition from existing or new companies in the United States and Japan that have not historically been active in the supplemental health insurance industry. Failure to anticipate market trends and/or to differentiate our products and services can affect our ability to retain or grow profitable lines of business.

We are exposed to significant interest rate risk, which may adversely affect our results of operations, financial condition and liquidity.
We have substantial investment portfolios that support our policy liabilities. Low levels of interest rates on investments, such as those experienced in Japan and the United States during recent years, have reduced the level of investment income earned by the Company. Our overall level of investment income will be negatively impacted if a low-interest-rate environment persists. While we generally seek to maintain a diversified portfolio of fixed-income investments that reflects the cash flow and duration characteristics of the liabilities it supports, we may not be able to fully mitigate the interest rate risk of our assets relative to our liabilities. Our exposure to interest rate risk relates primarily to the ability to invest future cash flows to support the interest rate assumption made at the time our products were priced and the related reserving assumptions were established. A rise in interest rates could improve our ability to earn higher rates of return on funds that we reinvest. Conversely, a decline in interest rates could impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued. Further, changes in interest rates have direct impacts on the values of fixed securities in our investment portfolio; however, they do not have direct impact on the related valuation of the corresponding liabilities.
We also have exposure to interest rates related to the value of the substantial investment portfolios that support our policy liabilities. Prolonged periods of low interest rates, as have been experienced in recent years, heighten the risk of future increases in interest rates because of an increasing proportion of our investment portfolio includes investments

that bear low rates of return. A rise in interest rates could increase the net unrealized loss position of our debt and perpetual securities. Conversely, a decline in interest rates could decrease the net unrealized loss position of our debt and perpetual securities. While we generally invest our assets to match the duration and cash flow characteristics of our policy liabilities, and therefore would not expect to realize most of these gains or losses, our risk is that unforeseen events or economic conditions, such as changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control, reduce the effectiveness of this strategy and

either cause us to dispose of some or all of these investments prior to their maturity, or cause the issuers of these securities to default, both of which could result in our having to recognize such gains or losses.
Rising interest rates also negatively impact the solvency margin ratio since unrealized losses on the available-for-sale investment portfolio are included in the calculation. While we closely monitor the solvency margin ratio and have taken steps to reduce the sensitivity of Aflac Japan's available-for-sale portfolio to increases in interest rates, there is no assurance that these measures will be fully effective, particularly for sharp increases in interest rates.
Significant changes in interest rates could have a material adverse effect on our consolidated results of operations, financial condition or cash flows through realized losses, impairments, changes in unrealized positions, and liquidity. For more information regarding interest rate risk, see the Interest Rate Risk subsection within the Market Risks of Financial Instruments section of MD&A in this report.

If future policy benefits, claims or expenses exceed those anticipated in establishing premiums and reserves, our financial results would be adversely affected.

We establish and carry, as a liability, reserves based on estimates of how much will be required to pay for future benefits and claims. We calculate these reserves using various assumptions and estimates, including premiums we will receive over the assumed life of the policy; the timing, frequency and severity of the events covered by the insurance policy; and the investment returns on the assets we purchase with a portion of our net cash flow from operations. These assumptions and estimates are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove inadequate. As a result, we would incur a charge to earnings in the period in which we determine such a shortfall exists, which could have a material adverse effect on our business, results of operations and financial condition.
As a holding company, the Parent Company depends on the ability of its subsidiaries to transfer funds to it to meet its debt service and other obligations and to pay dividends on its common stock.
The Parent Company is a holding company and has no direct operations or significant assets other than the stock of its subsidiaries. Because we conduct our operations through our operating subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our debt service and other obligations and to pay dividends on our common stock. Aflac is domiciled in Nebraska and is subject to insurance regulations that impose certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. In addition, the FSA may not allow profit repatriations or other transfers from Aflac Japan if they would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders.
The ability of Aflac to pay dividends or make other payments to the Parent Company could also be constrained by our dependence on financial strength ratings from independent rating agencies. Our ratings from these agencies depend to a large extent on Aflac's capitalization level. Any inability of Aflac to pay dividends or make other payments to the Parent Company could have a material adverse effect on our financial condition and results of operations. There is no assurance that the earnings from, or other available assets of, our operating subsidiaries will be sufficient to make distributions to us to enable us to operate.
Extensive regulation and changes in legislation can impact profitability and growth.
Aflac's insurance subsidiaries are subject to complex laws and regulations that are administered and enforced by a number of governmental authorities, including state insurance regulators, the SEC, the NAIC, the FSA and Ministry of Finance (MOF) in Japan, the U.S. Department of Justice, state attorneys general, and the U.S. Treasury, including the Internal Revenue Service, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal or regulatory issue may not result in compliance with another regulator's or enforcement authority's interpretation of the

same issue, particularly when compliance is judged in hindsight. There is also a risk that any particular regulator's or enforcement authority's interpretation of a legal or regulatory issue may change over time to our detriment. In addition, changes in the overall legal or regulatory environment may, even absent any particular regulator's or enforcement authority's interpretation of an issue changing, cause us to change our views regarding the actions we need to take from a legal or regulatory risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow or otherwise negatively impact the profitability of our business.

The primary purpose of insurance company regulatory supervision is the protection of insurance policyholders, rather than investors. The extent of regulation varies, but generally is governed by state statutes in the United States and by the FSA and the MOF in Japan. These systems of supervision and regulation cover, among other things:

- standards of establishing and setting premium rates and the approval thereof
- standards of minimum capital requirements and solvency margins, including risk-based capital measures
- restrictions on, limitations on and required approval of certain transactions between our insurance subsidiaries and their affiliates, including management fee arrangements
- restrictions on the nature, quality and concentration of investments
- restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations
- limitations on the amount of dividends that insurance subsidiaries can pay or foreign profits that can be repatriated
- the existence and licensing status of a company under circumstances where it is not writing new or renewal business
- certain required methods of accounting
- reserves for unearned premiums, losses and other purposes
- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies
- administrative practices requirements
- imposition of fines and other sanctions

Governmental authorities periodically re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, could have a material adverse effect on our financial condition and results of operations.

New federal legislation and administrative policies in several areas, including health care reform legislation, financial services reform legislation, securities regulation, pension regulation, privacy, tort reform legislation and taxation, can significantly and adversely affect insurance companies. Various forms of federal oversight and regulation of insurance have been passed by the U.S. Congress and signed into law by the President. For example, the PPACA, federal health care reform legislation, gives the U.S. federal government direct regulatory authority over the business of health insurance. The reform includes major changes to the U.S. health care insurance marketplace. Among other changes, the reform legislation includes an individual medical insurance coverage mandate, provides for penalties on certain employers for failing to provide adequate coverage, creates health insurance exchanges, and addresses coverage and exclusions as well as medical loss ratios. The legislation also includes changes in government reimbursements and tax credits for individuals and employers and alters federal and state regulation of health insurers. These changes, directed toward major medical health insurance coverage which Aflac does not offer, have already begun and will continue to be phased in over the next several years. We believe that the PPACA, as enacted, does not materially affect the design of our insurance products. However, indirect consequences of the legislation and regulations could present challenges and/or opportunities that could potentially have an impact on our sales model, financial condition and results of operations.

In 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Dodd-Frank Act, which, among other things, created a Financial Stability Oversight Council (the Council). The Council may designate by a two-thirds vote whether certain nonbank financial companies, including potentially insurance companies and insurance holding companies, could pose a threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the Board of Governors of the U.S. Federal Reserve System (the Board), including capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit such company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. In April 2012, the Council released a final rule describing the general process the Council will follow in determining whether to designate a nonbank financial company for supervision by the Board. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and

crop insurance. The director of the Federal Insurance Office has the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. We believe that Aflac would
not likely be considered a company that would pose a systemic risk to the financial stability of the United States. However,
at the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will
have on our U.S. business, financial condition, or results of operations.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition and results of operations.

Sales of our products and services are dependent on our ability to attract, retain and support a network of qualified sales associates.
Our sales could be adversely affected if our sales networks deteriorate or if we do not adequately provide support, training and education for our existing network. Competition exists for sales associates with demonstrated ability. We compete with other insurers and financial institutions primarily on the basis of our products, compensation, support services and financial rating. An inability to attract and retain qualified sales associates could have a material adverse effect on sales and our results of operations and financial condition. Our sales associates are independent contractors and may sell products of our competitors. If our competitors offer products that are more attractive than ours, or pay higher commissions than we do, these sales associates may concentrate their efforts on selling our competitors' products instead of ours.
Any decrease in our financial strength or debt ratings may have an adverse effect on our competitive position.
Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on the business of insurance companies. On an ongoing basis NRSROs review the financial performance and condition of insurers and may downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management; or other considerations that may or may not be under the insurer's control.
In addition to financial strength ratings, various NRSROs also publish ratings on our debt. These ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner and are important factors in our ability to access liquidity in the debt markets. Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital markets, increasing the cost of debt, and causing termination of certain derivative agreements.
In view of the difficulties experienced in the last several years by many financial institutions, including in the insurance industry, the NRSROs have heightened the level of scrutiny that they apply to such institutions, increased the frequency and scope of their reviews, requested additional information from the companies that they rate, including additional information regarding the valuation of investment securities held, and, in certain cases, have increased the capital and other requirements employed in their models for maintenance of certain rating levels.
A downgrade in any of these ratings could have a material adverse effect on agent recruiting and retention, sales, competitiveness and the marketability of our products which could negatively impact our liquidity, operating results and financial condition. Additionally, sales through the bank channel in Japan could be adversely affected as a result of their reliance and sensitivity to ratings levels.
We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notice by any NRSRO.

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The success of our business depends in part on effective information technology systems and on continuing to develop and implement improvements in technology.
Our business depends in large part on our technology systems for interacting with employers, policyholders, sales associates, and brokers, and our business strategy involves providing customers with easy-to-use products to meet their needs and ensuring employees have the technology in place to support those needs. Some of our information technology systems and software are older, legacy-type systems that are less efficient and require an ongoing commitment of significant resources to maintain or upgrade to current standards (including adequate business continuity procedures). We are in a continual state of upgrading and enhancing our business systems; however, these changes are always challenging in our complex integrated environment. Our success is dependent in large part on maintaining or improving the effectiveness of existing systems and continuing to develop and enhance information systems that support our business processes in a cost-efficient manner.
Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

We depend heavily on our telecommunication, information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses and service our customers. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Despite our implementation of a variety of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to customers, or in the misappropriation of our intellectual property or proprietary information. Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, subject us to regulatory sanctions and other claims, lead to a loss of customers and revenues and otherwise adversely affect our business.

Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) or other standard-setting bodies may adversely affect our financial statements.
Our financial statements are subject to the application of generally accepted accounting principles in both the United States and Japan, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.
The FASB and IASB have announced their commitment to achieving a single set of high-quality global accounting standards, and the SEC continues to encourage the convergence of U.S. GAAP and IFRS in order to narrow the differences between the two sets of standards. In 2010, the SEC announced a work plan, the results of which would aid the Commission in its evaluation of the impact that the use of IFRS by U.S. companies would have on the U.S. securities market. Included in this work plan is consideration of IFRS, as it exists today and after the completion of various convergence projects currently underway between U.S. and international accounting standards-setters. In October 2010, the SEC issued its first progress report on the work plan, summarizing the objectives as well as the efforts and preliminary observations as of that time. In November 2011, the SEC released two staff papers. The papers help to address whether IFRS has developed sufficiently enough to be used in the United States. These papers were designed to aid the SEC in determining whether or not to incorporate IFRS into the U.S. financial reporting system. For the insurance industry, key components of the convergence between U.S. GAAP and IFRS have yet to be clarified. In 2012, the SEC issued the final report which stated that adopting IFRS would present challenges and that the majority of the U.S. capital market participants did not support adopting IFRS. However, the report also stated there was significant support for other methods of incorporating IFRS through endorsement into U.S. GAAP. The FASB and IASB are currently working on a joint insurance contracts project that will change the way insurance liabilities are determined and reported. The insurance contracts exposure draft is expected to be released in the second

quarter of 2013. The FASB and IASB are also working on the financial instruments project, which addresses classification and measurement, impairment and hedging. The IASB exposed for comment limited amendments to IFRS 9 regarding classification and measurement in November 2012. In December 2012, the FASB issued an exposure draft proposing a new impairment model. The revisions will cause investment losses to be recognized sooner and will result in changes in the classification and measurement of certain types of investments. The ultimate outcome and timing of these events are uncertain at this time. The adoption of IFRS and/or the effects of accounting standards convergence could significantly alter the presentation of our financial position and results of operations in our financial statements.

See Note 1 of the Notes to the Consolidated Financial Statements in this report for a discussion of recent changes in accounting standards and those that are pending adoption.

If we fail to comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality, our reputation and business operations could be materially adversely affected.

The collection, maintenance, use, disclosure and disposal of individually identifiable data by our businesses are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the use and disclosure of individually identifiable health data to the extent they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act of 1999 (GLBA) and in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA also requires that we impose privacy and security requirements on our business associates (as such term is defined in the HIPAA regulations).

Even though we provide for appropriate protections through our contracts with business associates, we still have limited control over their actions and practices. In addition, despite the security measures we have in place to ensure compliance with applicable laws and rules, our facilities and systems, and those of our third-party providers may be vulnerable to security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. The U.S. Congress and many states are considering new privacy and security requirements that would apply to our business. Compliance with new privacy and security laws, requirements, and new regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models, the development of new administrative processes, and the effects of potential noncompliance by our business associates. They also may impose further restrictions on our collection, disclosure and use of patient identifiable data that are housed in one or more of our administrative databases. Noncompliance with any privacy laws or any security breach involving the misappropriation, loss or other unauthorized disclosure of sensitive or confidential member information, whether by us or by one of our vendors, could have a material adverse effect on our business, reputation and results of operations, including: material fines and penalties; compensatory, special, punitive and statutory damages; consent orders regarding our privacy and security practices; adverse actions against our licenses to do business; and injunctive relief.

We face risks related to litigation.

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. However, litigation could adversely affect us because of the costs of defending these cases, costs of settlement or judgments against us or because of changes in our operations that could result from litigation.

Managing key executive succession is critical to our success.

We would be adversely affected if we fail to adequately plan for succession of our senior management and other key executives. While we have succession plans and employment arrangements with certain key executives, these plans cannot guarantee that the services of these executives will be available to us, and our operations could be adversely affected if they are not.

Catastrophic events could adversely affect our financial condition and results of operations.

Our insurance operations are exposed to the risk of catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, and acts of terrorism. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Certain events such as earthquakes, tsunamis, hurricanes and man-made catastrophes could cause substantial damage or loss of life in larger areas, especially those that are heavily populated. Claims resulting from natural or man–made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition, as well as affect our ability to write new business.

Although the impact of the March 2011 earthquake and tsunami and its related events in Japan have not had a material impact on our financial position or results of operations, actual claims may vary from our estimates and may further negatively impact our financial results. We will continue to monitor the business and economic conditions in Japan in light of these events and will continue to update our assessment of the natural disaster impact on our results of operations.

Any event, including one external to our operations, could damage our reputation.
Because insurance products are intangible, we rely to a large extent on consumer trust in our business. The perception of financial weakness could create doubt regarding our ability to honor the commitments we have made to our policyholders. Maintaining our stature as a responsible corporate citizen, which helps support the strength of our unique brand, is critical to our reputation and the failure or perceived failure to do so could adversely affect us.

We also face other risks that could adversely affect our business, results of operations or financial condition, which include:

- any requirement to restate financial results in the event of inappropriate application of accounting principle
- failure of our processes to prevent and detect unethical conduct of employees
- a significant failure of internal controls over financial reporting
- failure of our prevention and control systems related to employee compliance with internal policies and regulatory requirements
- failure of corporate governance policies and procedures

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

In the United States, Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as our worldwide headquarters and house administrative support and information technology functions for our U.S. operations. Aflac also owns land and office buildings in Columbia, South Carolina, which house our CAIC subsidiary. Aflac leases office space in New York that houses our global investment division. Aflac leases additional administrative office space in Georgia, South Carolina, New York, and Nebraska.
In Tokyo, Japan, Aflac has two primary campuses. The first campus includes a building, owned by Aflac, for the customer call center, information technology departments, and training facility. It also includes a leased property, which houses our policy administration and customer service departments. The second campus comprises leased space, which serves as our Japan branch headquarters and houses administrative support functions for the Japan branch. Aflac also leases additional office space in Tokyo, along with regional offices located throughout the country.

ITEM 3. LEGAL PROCEEDINGS

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 4. MINE SAFETY DISCLOSURES
Not applicable.

PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER
PURCHASES OF EQUITY SECURITIES
Market Information
Aflac Incorporated's common stock is principally traded on the New York Stock Exchange under the symbol AFL. Our stock is also listed on the Tokyo Stock Exchange. The quarterly high and low market prices for the Company's common stock, as reported on the New York Stock Exchange for the two years ended December 31 were as follows:
Quarterly Common Stock Prices

2012	High	Low
4th Quarter	$54.93	$47.25
3rd Quarter	50.24	40.97
2nd Quarter	46.58	38.14
1st Quarter	50.33	42.30

2011	High	Low
4th Quarter	$47.98	$32.74
3rd Quarter	47.50	31.25
2nd Quarter	57.39	44.15
1st Quarter	59.54	48.00

Holders

As of February 19, 2013, there were 87,757 holders of record of the Company's common stock.
Dividends

	2012	2011
4th Quarter	$.35	$.33
3rd Quarter	.33	.30
2nd Quarter	.33	.30
1st Quarter	.33	.30

In February 2013, the board of directors declared the first quarter 2013 cash dividend of $.35 per share. The dividend is payable on March 1, 2013 to shareholders of record at the close of business on February 15, 2013. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. There can be no assurance that we will declare and pay any additional or future dividends. For information concerning dividend restrictions, see Regulatory Restrictions in the Capital Resources and Liquidity section of the MD&A and Note 12 of the Notes to the Consolidated Financial Statements presented in this report.

Stock Performance Graph

The following graph compares the five-year performance of the Company's common stock to the Standard & Poor's 500 Index (S&P 500) and the Standard & Poor's Life and Health Insurance Index (S&P Life and Health). The Standard & Poor's Life and Health Insurance Index includes: Aflac Incorporated, Lincoln National Corporation, MetLife Inc., Principal Financial Group Inc., Prudential Financial Inc., Torchmark Corporation and Unum Group.

Performance Graphic Index
December 31,

	2007	2008	2009	2010	2011	2012
Aflac Incorporated	100.00	74.52	77.83	97.20	76.49	96.65
S&P 500	100.00	63.00	79.67	91.67	93.61	108.59
S&P Life & Health Insurance	100.00	51.68	59.73	74.82	59.32	67.98

Issuer Purchases of Equity Securities
During the year ended December 31, 2012, we repurchased shares of Aflac common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	872	$47.53	0	24,370,254
February 1 - February 29	145,086	48.48	0	24,370,254
March 1 - March 31	2,332	46.78	0	24,370,254
April 1 - April 30	628	45.04	0	24,370,254
May 1 - May 31	0	0.00	0	24,370,254
June 1 - June 30	4,782	38.69	0	24,370,254
July 1 - July 31	0	0.00	0	24,370,254
August 1 - August 31	0	0.00	0	24,370,254
September 1 - September 30	0	0.00	0	24,370,254
October 1 - October 31	250,000	49.63	250,000	24,120,254
November 1 - November 30	1,060,000	50.23	1,060,000	23,060,254
December 1 - December 31	638,050	53.84	638,050	22,422,204
Total	2,101,750 [2]	$51.10	1,948,050	22,422,204 [1]

[1]The total remaining shares available for purchase at December 31, 2012, consisted of 22,422,204 shares related to a 30,000,000
share repurchase authorization by the board of directors announced in January 2008.
[2]During the year ended December 31, 2012, 153,700 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

ITEM 6. SELECTED FINANCIAL DATA
Aflac Incorporated and Subsidiaries
Years Ended December 31,

(In millions, except for share and per-share amounts)	2012	2011	2010	2009	2008
Revenues:					
Premiums, principally supplemental health insurance	$22,148	$20,362	$18,073	$16,621	$14,947
Net investment income	3,473	3,280	3,007	2,765	2,578
Realized investment gains (losses)	(349)	(1,552)	(422)	(1,212)	(1,007)
Other income	92	81	74	80	36
Total revenues	25,364	22,171	20,732	18,254	16,554
Benefits and expenses:					
Benefits and claims	15,330	13,749	12,106	11,308	10,499
Expenses	5,732	5,472	5,065	4,711	4,141
Total benefits and expenses	21,062	19,221	17,171	16,019	14,640
Pretax earnings	4,302	2,950	3,561	2,235	1,914
Income taxes	1,436	1,013	1,233	738	660
Net earnings	$2,866	$1,937	$2,328	$1,497	$1,254
Share and Per-Share Amounts					
Net earnings (basic)	$6.14	$4.16	$4.96	$3.21	$2.65
Net earnings (diluted)	6.11	4.12	4.92	3.19	2.62
Cash dividends paid	1.34	1.23	1.14	1.12	.96
Cash dividends declared	1.34	1.23	1.14	.84	1.24
Weighted-average common shares used for basic EPS (In thousands)	466,868	466,519	469,038	466,552	473,405
Weighted-average common shares used for diluted EPS (In thousands)	469,287	469,370	473,085	469,063	478,815
Supplemental Data					
Yen/dollar exchange rate at year-end (yen)	86.58	77.74	81.49	92.10	91.03
Weighted-average yen/dollar exchange rate (yen)	79.81	79.75	87.73	93.49	103.46

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs. Adjustments to balances in years 2009 and 2008 were immaterial and are not reflected in the table above.

Aflac Incorporated and Subsidiaries
December 31,

(In millions)	2012	2011	2010	2009	2008
Assets:					
Investments and cash	$118,219	$103,462	$88,230	$73,192	$68,550
Other	12,875	12,775	12,013	10,914	10,781
Total assets	$131,094	$116,237	$100,243	$84,106	$79,331
Liabilities and shareholders' equity:					
Policy liabilities	$97,949	$94,593	$82,456	$69,245	$66,219
Income taxes	3,858	2,308	1,689	1,653	1,201
Notes payable	4,352	3,285	3,038	2,599	1,721
Other liabilities	8,957	3,105	2,520	2,192	3,551
Shareholders' equity	15,978	12,946	10,540	8,417	6,639
Total liabilities and shareholders' equity	$131,094	$116,237	$100,243	$84,106	$79,331

Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy acquisition costs. Adjustments to balances in years 2009 and 2008 were immaterial and are not reflected in the table above.

ITEM 7. 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
- increased derivative activities
- 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
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such 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

- catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, acts of terrorism 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-year period ended December 31, 2012. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes. 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

Total revenues in 2012 rose 14.4% to $25.4 billion, compared with $22.2 billion in 2011. Net earnings in 2012 were $2.9 billion, or $6.11 per diluted share, compared with $1.9 billion, or $4.12 per diluted share, in 2011.

Results for 2012 included pretax net realized investment losses of $349 million ($226 million after-tax), compared with net realized investment losses of $1.6 billion ($1.0 billion after-tax) in 2011. Net investment losses in 2012 consisted of $977 million ($635 million after-tax) of other-than-temporary impairment losses; $474 million of net gains ($309 million after-tax) from the sale or redemption of securities; and $154 million of net gains ($100 million after-tax) from valuing derivatives. Shareholders' equity included a net unrealized gain on investment securities and derivatives of $2.6 billion at December 31, 2012, compared with a net unrealized gain of $1.2 billion at December 31, 2011.

In 2012, the Parent Company issued a total of $1.0 billion senior notes and $500 million subordinated debentures through U.S. public debt offerings. The Parent Company entered into cross-currency interest rate swap agreements for $750 million of these senior notes and the $500 million subordinated debentures to economically convert the dollar-denominated principal and interest into yen-denominated obligations. In June 2012, we paid $337 million to redeem 26.6 billion yen of our Samurai notes upon their maturity, and the Parent Company and Aflac entered into a 364-day senior unsecured revolving credit facility agreement with a syndicate of financial institutions that provides for borrowings of 50 billion yen or the equivalent of Japanese yen in U.S. dollars. For further information regarding these capital transactions, see Note 8 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A.

We repurchased 1.9 million shares of our common stock in the open market during 2012.

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 at which 96% of our assets and 73% of our liabilities are reported as of December 31, 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.

Investments and Derivatives

Aflac's investments in debt, perpetual and equity securities include both publicly issued and privately issued securities. For publicly issued securities, we determine the fair values from quoted market prices readily available from public exchange markets and price quotes and valuations from third party pricing vendors. For privately issued securities, we determine the majority of the fair values using a discounted cash flow pricing model and for the remaining securities, we use non-binding price quotes from outside brokers. We also routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. The identification of distressed investments, the determination of fair value if not publicly traded, and the assessment of whether a decline is other than temporary involve significant management judgment.

Our team of experienced credit professionals must apply considerable judgment in determining the likelihood of the security recovering in value while we own it. Factors that may influence this include the overall level of interest rates, credit spreads, the credit quality of the underlying issuer, and other factors. This process requires consideration of risks which can be controlled to a certain extent, such as credit risk, and risks which cannot be controlled, such as interest rate risk. Management updates its evaluations regularly and reflects impairment losses in the Company's income statement as such evaluations are revised.

Our derivative activities include foreign currency, interest rate and credit default swaps in variable interest entities (VIEs) 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. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility. For derivatives associated with VIEs where we are the primary beneficiary, we receive valuations from a third party pricing vendor. The fair values of the foreign currency forwards associated with certain fixed-maturity securities and the fair values of the swaps associated with our senior notes and subordinated debentures and yen-denominated notes are based on the amounts we would expect to receive or pay to terminate the swaps as determined with observable market inputs.

See Notes 1, 3, 4 and 5 of the Notes to the Consolidated Financial Statements for additional information.

Deferred Policy Acquisition Costs and Policy Liabilities

Aflac's products are generally long-duration fixed-benefit indemnity contracts. We make estimates of certain factors that affect the profitability of our business to match expected policy benefits and deferrable acquisition costs with expected policy premiums. These factors include persistency, morbidity, mortality, investment yields and expenses. If actual results match the assumptions used in establishing policy liabilities and the deferral and amortization of acquisition costs, profits are expected to emerge ratably over the life of the policy. However, because actual results will vary from the assumptions, profits as a percentage of earned premiums will vary from year to year.

We measure the adequacy of our policy reserves and recoverability of deferred policy acquisition costs (DAC) annually by performing gross premium valuations on our business. Our testing indicates that our insurance liabilities are adequate and that our DAC is recoverable.

Deferred Policy Acquisition Costs

Certain costs of acquiring new business are deferred and amortized over the policy's premium payment period in proportion to anticipated premium income. Future amortization of DAC is based upon our estimates of persistency, interest and future premium revenue generally established at the time of policy issuance. However, the unamortized balance of DAC reflects actual persistency. See Note 1 of the Notes to the Consolidated Financial Statements and the New Accounting Pronouncements discussion in this section of MD&A for information on changes to the accounting policy for costs associated with acquiring or renewing insurance contracts that we adopted retrospectively as of January 1, 2012.

As presented in the following table, the ratio of unamortized DAC to annualized premiums in force for Japan decreased in 2012 and 2011 after having an upward trend in 2010. This decrease was due to the lower expense ratio of the first sector products that generated high volumes of sales in Japan. The upward trend in the ratio of unamortized DAC to annualized premiums in force in Japan in 2010 was a result of a greater proportion of our annualized premiums being under the alternative commission schedule, which pays a higher commission on first year premiums and lower commissions on renewal premiums.

The ratio of unamortized DAC to annualized premiums in force has increased for Aflac U.S. for the last three years. The increase has been primarily driven by a greater proportion of our annualized premiums being under an accelerated commission schedule for new associates.

Deferred Policy Acquisition Cost Ratios

	Aflac Japan			Aflac U.S.		
(In millions)	2012	2011	2010	2012	2011	2010
Deferred policy acquisition costs	$6,801	$7,102	$6,390	$2,857	$2,687	$2,549
Annualized premiums in force	17,238	17,284	15,408	5,451	5,188	4,973
Deferred policy acquisition costs as a percentage of annualized premiums in force	39.5 %	41.1 %	41.5 %	52.4 %	51.8 %	51.3 %

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

Policy Liabilities

The following table provides details of policy liabilities by segment and in total as of December 31.

Policy Liabilities

(In millions)	2012	2011
Japan segment:		
Future policy benefits	$69,530	$72,792
Unpaid policy claims	2,756	2,786
Other policy liabilities	17,052	10,944
Total Japan policy liabilities	$89,338	$86,522
U.S. segment:		
Future policy benefits	$6,931	$6,484
Unpaid policy claims	1,278	1,195
Other policy liabilities	399	390
Total U.S. policy liabilities	$8,608	$8,069
Consolidated:		
Future policy benefits	$76,463	$79,278
Unpaid policy claims	4,034	3,981
Other policy liabilities	17,452	11,334
Total consolidated policy liabilities	$97,949	$94,593

Our policy liabilities, which are determined in accordance with applicable guidelines as defined under GAAP and Actuarial Standards of Practice, include two components that involve analysis and judgment: future policy benefits and unpaid policy claims, which accounted for 78% and 4% of total policy liabilities as of December 31, 2012, respectively.

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

Unpaid policy claims include those claims that have been incurred and are in the process of payment as well as an estimate of those claims that have been incurred but have not yet been reported to us. We compute unpaid policy claims on a non-discounted basis using statistical analyses of historical claims payments, adjusted for current trends and changed conditions. We update the assumptions underlying the estimate of unpaid policy claims regularly and incorporate our historical experience as well as other data that provides information regarding our outstanding liability.

Our insurance products provide fixed-benefit amounts per occurrence that are not subject to medical-cost inflation. Furthermore, our business is widely dispersed in both the United States and Japan. This geographic dispersion and the nature of our benefit structure mitigate the risk of a significant unexpected increase in claims payments due to epidemics and events of a catastrophic nature. Claims incurred under Aflac's policies are generally reported and paid in a relatively short time frame. The unpaid claims liability is sensitive to morbidity assumptions, in particular, severity and frequency of claims. Severity is the ultimate size of a claim, and frequency is the number of claims incurred. Our claims experience is primarily related to the demographics of our policyholders.

As a part of our established financial reporting and accounting practices and controls, we perform actuarial reviews of our policyholder liabilities on an ongoing basis and reflect the results of those reviews in our results of operations and financial condition as required by GAAP.

Our review in 2012 indicated that we needed to strengthen the liability associated primarily with a block of care policies and a closed block of dementia policies in Japan, primarily due to low investment yields. We strengthened our future policy benefits liability by $81 million in 2012 as a result of this review. Our review in 2011 indicated that we needed to strengthen the liability associated primarily with a closed block of cancer policies and a block of care policies in Japan, primarily due to low investment yields. We strengthened our future policy benefits liability by $123 million in 2011 as a result of this review.

The table below reflects the growth of the future policy benefits liability for the years ended December 31.

Future Policy Benefits

(In millions of dollars and billions of yen)	2012		2011		2010	
Aflac U.S.	$6,931		$6,484		$6,078	
Growth rate	6.9	%	6.7	%	5.2	%
Aflac Japan	$69,530		$72,792		$66,023	
Growth rate	(4.5	)%	10.3	%	18.5	%
Consolidated	$76,463		$79,278		$72,103	
Growth rate	(3.6	)%	10.0	%	17.2	%
Yen/dollar exchange rate (end of period)	86.58		77.74		81.49	
Aflac Japan (in yen)	6,020		5,659		5,380	
Growth rate	6.4	%	5.2	%	4.8	%

As of December 31, 2012, the decrease in total consolidated future policy benefits liability in dollars was primarily driven by the weakening of the yen against the U.S. dollar, compared with December 31, 2011. The growth of the future policy benefits liability in yen for Aflac Japan and in dollars for Aflac U.S. has been due to the aging of our in-force block of business and the addition of new business.

In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2012, to changes in severity and frequency of claims. For the years 2010 through 2012, our assumptions changed on average by approximately 1% in total, and we believe that a variation in assumptions in a range of plus or minus 1% in total is reasonably likely to occur.

Sensitivity of Unpaid Policy Claims Liability

(In millions)	Total Severity				
Total Frequency	Decrease by 2%	Decrease by 1%	Unchanged	Increase by 1%	Increase by 2%
Increase by 2%	$0	$25	$51	$77	$103
Increase by 1%	(25)	0	26	51	77
Unchanged	(50)	(25)	0	26	51
Decrease by 1%	(75)	(50)	(25)	0	25
Decrease by 2%	(99)	(75)	(50)	(25)	0

Other policy liabilities, which accounted for 18% of total policy liabilities as of December 31, 2012, consisted primarily of discounted advance premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan insurance products. These advanced premiums are deferred upon collection and recognized as premium revenue over the contractual premium payment period. Advanced premiums represented 56% and 43% of the December 31, 2012 and 2011 other policy liabilities balances, respectively. The increase in 2012 of other policy liabilities was due to the increase in sales of policies in Japan that have discounted advance premiums. See the Aflac Japan segment subsection of this MD&A for further information.

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. The evaluation of a tax position in accordance with GAAP is a two-step process. Under the first step, the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities. The second step is measurement, whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

New Accounting Pronouncements

As of January 1, 2012, we retrospectively adopted the 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. Approximately 70% of our deferred acquisition costs balance prior to the adoption of this guidance was related to compensation paid to third party agents for successful sales and remains deferrable under the amended accounting guidance. 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 $391 million and an after-tax cumulative reduction to unrealized foreign currency translation gains in accumulated other comprehensive income of $67 million, resulting in a total reduction to shareholders' equity of $458 million as of December 31, 2009, the opening balance sheet date presented in this report. The adoption of this accounting standard had an immaterial impact on net income in 2011 and all preceding years.

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. 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 discussion includes references to our performance measures, operating earnings and operating earnings per diluted share, that are not based on accounting principles generally accepted in the United States of America ("GAAP"). After-tax operating earnings (operating earnings) is the measure of segment profit or loss we use to evaluate segment performance and allocate resources. Consistent with GAAP accounting guidance for segment reporting, operating earnings is our measure of segment performance. Aflac believes that an analysis of operating earnings is vitally important to an understanding of our underlying profitability drivers.

Aflac defines operating earnings (a non-GAAP financial measure) as the profits derived from operations before realized investment gains and losses (securities transactions, impairments, and derivative and hedging activities) as well as nonrecurring items. Aflac's derivative activities include: foreign currency, interest rate and credit default swaps in variable interest entities that are consolidated; foreign currency swaps associated with our senior notes and subordinated debentures; and foreign currency forwards used in hedging foreign exchange risk on U.S. dollar-denominated securities. Nonrecurring items are infrequent activities that are not directly associated with the company's insurance operations.

Our management uses operating earnings to evaluate the financial performance of Aflac's insurance operations because realized investment gains and losses (securities transactions, impairments, and derivative and hedging activities) as well as nonrecurring items, tend to be driven by general economic conditions and events or are related to infrequent activities not directly associated with our insurance operations, and therefore may obscure the underlying fundamentals and trends in Aflac's insurance operations.

The following table is a reconciliation of items impacting operating and net earnings and operating and net earnings per diluted share for the years ended December 31.

Reconciliation of Operating Earnings to Net Earnings

	In Millions			Per Diluted Share		
	2012	2011	2010	2012	2011	2010
Operating earnings	$3,097	$2,946	$2,602	$6.60	$6.27	$5.50
Items impacting net earnings, net of tax:						
Realized investment gains (losses):						
Securities transactions and impairments	(326)	(850)	(273)	(.69)	(1.81)	(.58)
Impact of derivative and hedging activities:						
Hedge costs related to foreign currency investments	(5)	0	0	(.01)	.00	.00
Other derivative and hedging activities	105	(159)	(1)	.22	(.34)	.00
Other non-operating income (loss)	(5)	0	0	(.01)	.00	.00
Net earnings	$2,866	$1,937	$2,328	$6.11	$4.12	$4.92

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 2012, we recognized pretax other-than-temporary impairment losses of $977 million ($635 million after-tax). We realized pretax investment gains, net of losses, of $474 million ($309 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 in the third quarter of 2012 and sales resulting from our efforts to reduce risk exposure in our investment portfolio.

In 2011, we recognized pretax other-than-temporary impairment losses of $1.9 billion ($1.2 billion after-tax). We realized pretax investment gains, net of losses, of $594 million ($386 million after-tax) from the sale of securities. The impairments and many of the sales were the result of an implemented plan to reduce the risk exposure in our investment portfolio, coupled with the continued decline in the creditworthiness of certain issuers. The sales gains were primarily driven by the sale of U.S. Treasury strips and JGBs that were part of a bond-swap program.

In 2010, we recognized pretax other-than-temporary impairment losses of $459 million ($298 million after-tax). We realized pretax investment gains, net of losses, of $38 million ($25 million after-tax) from securities sold or redeemed in the normal course of business.

See Note 3 of the Notes to the Consolidated Financial Statements for more details on these investment activities.

The following table details our pretax impairment losses by investment category for the years ended December 31.

(In millions)	2012	2011	2010
Perpetual securities	$243	$565	$160
Corporate bonds	345	1,316	285
Mortgage- and asset-backed securities	3	17	12
Municipalities	0	2	0
Sovereign and supranational	386	0	0
Equity securities	0	1	2
Total other-than-temporary impairment losses realized	$977 (1)	$1,901 (1)	$459 (2)

(1) Includes $597 and $1,286 for the years ended December 31, 2012 and 2011, respectively, for credit-related impairments;
$353 and $615 for the years ended December 31, 2012 and 2011, respectively, from change in intent to sell securities;
and $27 for the year ended December 31, 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 VIEs 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 $154 million ($100 million after-tax) in 2012, compared with pretax investment losses, net of gains, of $245 million ($159 million after-tax) in 2011 and $1 million ($.7 million after-tax) in 2010 as a result of valuing these derivatives. 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 have yen-denominated assets that 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.

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 33.4% in 2012, 34.3% in 2011 and 34.6% in 2010. The effective income tax rate for 2012 decreased primarily due to the favorable outcome of a routine tax exam for the years 2008 and 2009, which reduced income tax expense by $29.5 million. Total income taxes were $1.4

billion in 2012, compared with $1.0 billion in 2011 and $1.2 billion in 2010. Japanese income taxes on Aflac Japan's results account for most of our consolidated income tax expense. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

Earnings Guidance

Certain items that cannot be predicted or that are outside of management's control may have a significant impact on net earnings. Therefore, in comparing period-over-period results, we also analyze operating earnings (a non-GAAP financial measure) which excludes realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items from net earnings. 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.

Our objective for 2012 was to increase operating earnings per diluted share in the range of 3% to 6% over 2011. We reported 2012 net earnings per diluted share of $6.11. Adjusting that number for after-tax realized investment losses ($.48 per diluted share), other non-operating losses ($.01 per diluted share), and foreign currency translation (a benefit of $.01 per diluted share), we finished the year toward the high end of our target range. Net earnings per diluted share in 2012 benefited from a lower effective tax rate and the one-time receipt of a previously written off deferred coupon negotiated as part of our investment derisking activities in the first quarter.

Our objective for 2013 is to increase operating earnings per diluted share by 4% to 7% over 2012, excluding the effect of foreign currency translation. We believe that 2013 earnings comparisons to 2012 will be more difficult because earnings in 2012 were significantly better than we originally anticipated. If we achieve our objective for 2013, the following table shows the likely results for operating earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2013 Operating Earnings Per Diluted Share Scenarios[1]

Weighted-Average Yen/Dollar Exchange Rate	Operating Earnings Per Diluted Share	% Growth Over 2012	Yen Impact
79.81[2]	$6.86 - 7.06	3.9 - 7.0 %	$ .00
85	6.60 - 6.80	.0 - 3.0	(.26)
90	6.37 - 6.57	(3.5) - (.5)	(.49)
95	6.17 - 6.37	(6.5) - (3.5)	(.69)
100	5.99 - 6.19	(9.2) - (6.2)	(.87)

[1]Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities)
and nonrecurring items in 2013 and 2012

[2]Actual 2012 weighted-average exchange rate

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 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 for the years ended December 31.

Aflac Japan Summary of Operating Results

(In millions)	2012	2011	2010
Premium income	$17,151	$15,619	$13,487
Net investment income:			
Yen-denominated investment income	1,902	1,799	1,645
Dollar-denominated investment income	943	889	808
Net investment income	2,845	2,688	2,453
Other income (loss)	57	46	37
Total operating revenues	20,053	18,353	15,977
Benefits and claims	12,496	11,037	9,553
Operating expenses:			
Amortization of deferred policy acquisition costs	716	650	563
Insurance commissions	1,174	1,179	1,103
Insurance and other expenses	1,763	1,658	1,498
Total operating expenses	3,653	3,487	3,164
Total benefits and expenses	16,149	14,524	12,717
Pretax operating earnings[1]	$3,904	$3,829	$3,260
Weighted-average yen/dollar exchange rate	79.81	79.75	87.73

	In Dollars			In Yen		
Percentage change over previous year:	2012	2011	2010	2012	2011	2010
Premium income	9.8 %	15.8 %	10.8 %	9.9 %	5.4 %	3.8 %
Net investment income	5.8	9.6	8.3	6.1	(.4)	1.6
Total operating revenues	9.3	14.9	10.3	9.4	4.5	3.4
Pretax operating earnings[1]	2.0	17.5	16.4	2.0	6.8	9.3

[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.

The percentage increases in premium income in yen reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 11.1% in 2012, 7.0% in 2011 and 4.6% in 2010 reflect the sales of new policies combined with the high persistency of Aflac Japan's business. Annualized premiums in force at December 31, 2012, were 1.49 trillion yen, compared with 1.34 trillion yen in 2011 and 1.26 trillion yen in 2010. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $17.2 billion in 2012, $17.3 billion in 2011, and $15.4 billion in 2010.

Aflac Japan's investment 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 2012, 2011 and 2010. In years 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 years 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 changes from the respective prior year, dollar-denominated investment income accounted for approximately 33% of Aflac Japan's investment income during 2012, compared with 35% in 2011 and 34% in 2010.

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 prior year.

Aflac Japan Percentage Changes Over Prior Year
(Yen Operating Results)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes[2]		
	2012	2011	2010	2012	2011	2010
Net investment income	6.1 %	(.4)%	1.6 %	5.9 %	3.0 %	3.8 %
Total operating revenues	9.4	4.5	3.4	9.3	5.1	3.8
Pretax operating earnings[1]	2.0	6.8	9.3	1.7	9.2	11.4

[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 year as each respective 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 in yen terms for Aflac Japan for the years ended December 31.

Ratios to total revenues:	2012	2011	2010
Benefits and claims	62.3 %	60.1 %	59.8 %
Operating expenses:			
Amortization of deferred policy acquisition costs	3.6	3.5	3.5
Insurance commissions	5.9	6.4	6.9
Insurance and other expenses	8.7	9.1	9.4
Total operating expenses	18.2	19.0	19.8
Pretax operating earnings[1]	19.5	20.9	20.4

[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.

In the past several years, the ratio of benefits and claims to total revenues (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 (see table and discussion in the Interest Rate Risk subsection of this MD&A). In 2012, the benefit ratio increased and the operating expense ratio decreased, resulting in a lower pretax operating profit margin, compared with 2011, primarily due to the change in business mix discussed above. We expect this trend to continue in 2013.

Aflac Japan Sales

In 2012, Aflac Japan generated its largest annual production in its 37-year history. Our upwardly revised objective for 2012 was for sales to increase 30% to 35%, and Aflac Japan met that objective with an increase of 30.8% in yen, compared with 2011. The following table presents Aflac Japan's new annualized premium sales for the years ended December 31.

	In Dollars			In Yen		
(In millions of dollars and billions of yen)	2012	2011	2010	2012	2011	2010
New annualized premium sales	$2,641	$2,027	$1,554	210.6	161.0	135.8
Increase (decrease) over prior year	30.3 %	30.5 %	18.6 %	30.8 %	18.6 %	11.0 %

The following table details the contributions to new annualized premium sales by major insurance product for the years ended December 31.

	2012	2011	2010
Medical	17.5 %	22.3 %	34.2 %
Cancer	13.1	19.6	22.0
Ordinary life:			
Child endowment	11.6	17.0	18.6
WAYS	44.9	26.2	8.9
Other ordinary life	8.5	10.3	12.6
Other	4.4	4.6	3.7
Total	100.0 %	100.0 %	100.0 %

The bank channel generated new annualized premium sales of 95.9 billion yen in 2012, an increase of 106.4% over 2011. Bank channel sales accounted for 45.6% of new annualized premium sales for Aflac Japan in 2012, compared with 28.9% in 2011 and 14.6% in 2010. 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 94.5 billion yen during 2012, an increase of 124.2% over 2011, represented 44.9% of total sales for Aflac Japan in 2012.
The foundation of Aflac Japan's product portfolio has been, and continues to be, our cancer and medical products. Medical insurance sales increased 2.5% during 2012, compared with 2011, benefiting from the introduction of our upgraded new EVER product in January 2012 and our revised non-standard medical product, Gentle EVER, 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 12.7% during 2012, compared with 2011, reflecting a difficult comparison to prior year sales, which had benefited from the favorable consumer response to our new 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 December 31, 2012, we had agreements to sell our products at 372 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 have proven to be advantageous to us in this channel. 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 medical and cancer policies along with WAYS and child endowment policies.

We remain committed to selling through our traditional channels. These channels, consisting of affiliated corporate agencies, independent corporate agencies and individual agencies, accounted for 53.2% of total new annualized premium sales for Aflac Japan in 2012. In 2012, we recruited more than 3,200 new sales agencies. At December 31, 2012, Aflac Japan was represented by more than 18,400 sales agencies and more than 125,200 licensed sales associates employed by those agencies.

We believe that there is still a continued need for our products in Japan. Our strong sales results in 2012 and the pending premium rate increases for life insurance products will create difficult comparisons in 2013. However, we expect Aflac Japan sales of third sector cancer and medical products to be flat to up 5% in 2013.

Japanese Economy

The Bank of Japan's January 2013 Monthly Report of Recent Economic and Financial Developments stated that Japan's economy remained relatively weak at end of 2012. However, signs of improvement are still present, as housing investment and public investment have generally increased and private consumption has remained firm. The report projected that Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient and overseas economies gradually emerge from the deceleration phase. Exports are expected to decrease at a reduced pace for the time being and start picking up thereafter, housing investment is expected to continue to generally increase, public investment is expected to continue trending upward, and private consumption is expected to remain resilient.

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. As of December 31, 2012, Aflac Japan's solvency margin ratio was 669.1% 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 entities that began operating 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 Japan Post.

Aflac Japan Investments

The level 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 primarily has invested in Japanese Government Bonds (JGBs) and privately issued securities. Privately issued securities generally have higher yields than those available on JGBs and other publicly traded debt instruments. All of the privately issued securities we purchase were rated investment grade at the time of purchase. These securities were 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.

In order to address our challenge of investing in Japan's low-interest-rate environment and reduce the amount of privately issued securities in our overall portfolio, in the third quarter of 2012, we began investing in higher-yielding U.S. dollar-denominated publicly-traded investment grade corporate fixed-maturity securities, and entered into foreign currency forwards to economically convert these dollar-denominated investments into yen-denominated investments.

Funds available for investment include cash flows from operations, investment income, and funds generated from bond swaps, maturities and redemptions. Aflac Japan purchased debt security investments at aggregate acquisition cost of approximately 2,700.1 billion yen in 2012 (approximately $34.4 billion), 2,012.0 billion yen in 2011 (approximately $25.5 billion) and 790.4 billion yen in 2010 (approximately $9.1 billion). During the three-year period ended December 31, 2012, there were no purchases of perpetual securities, and equity security purchases were immaterial.

The following table presents the composition of debt security purchases for Aflac Japan by sector, as a percentage of acquisition cost, for the years ended December 31.

Composition of Purchases by Sector

	2012		2011		2010	
Debt security purchases, at cost:						
Banks/financial institutions	2.3	%	3.9	%	8.5	%
Government and agencies	73.8		83.7		55.1	
Municipalities	.0		.7		2.5	
Public utilities	3.4		2.4		11.4	
Sovereign and supranational	.1		.5		5.8	
Mortgage- and asset-backed securities	.0		.0		2.3	
Other corporate	20.4		8.8		14.4	
Total	100.0	%	100.0	%	100.0	%

The change in allocation of purchases from year to year is based on broad business and portfolio management objectives and the relative value and availability of investment opportunities. The decrease in purchases of securities in the government and agencies sector in 2012 is directly related to our purchase of U.S. dollar-denominated publicly traded investment grade debt as mentioned above. The increase in 2011 was due to an increased investment in JGBs as part of bond-swap programs and the reinvestment of proceeds from sales of other securities.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. The ratings referenced in the two tables below are based on the ratings designations provided by the major credit rating agencies (Moody's Investors Service (“Moody's”), Standard & Poor's Ratings Services (“S&P”), and Fitch Ratings (“Fitch”)) or, if not rated, are determined based on the ratings assigned by the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) and/or our internal credit analysis of such securities. For investment-grade securities where the ratings assigned by the major credit agencies are not equivalent, in periods prior to the first quarter of 2012 we used the highest rating that was assigned; as of the first quarter of 2012, we are using the second lowest rating that is assigned. Periods prior to the first quarter of 2012 have been adjusted to reflect this new rating methodology for comparative purposes. For a description of the ratings methodology that we use when a security is split-rated (one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade), see “Market Risks of Financial Instruments - Below-Investment-Grade and Split-Rated Securities” in the Analysis of Financial Condition section of this MD&A.

The distributions by credit rating of Aflac Japan's purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating[1]

	2012		2011		2010	
AAA	.3	%	6.9	%	.8	%
AA	74.9		79.3		68.9	
A	8.5		7.5		18.5	
BBB	15.1		5.7		11.8	
BB or Lower	1.2		.6		.0	
Total	100.0	%	100.0	%	100.0	%

[1] See the discussion in the Credit Risk subsection of this MD&A regarding the change in credit rating methodology effective
March 31, 2012.

Our purchases of securities are determined through an evaluation of multiple factors including underlying risk including credit risk, relative pricing and return potential of the security, liquidity of the instrument, broad business and portfolio considerations, and other market based and company specific factors.The increase in purchases of AAA rated securities during 2011 was due to purchases of U.S. Treasury strips that were subsequently sold prior to the end of the year. Higher purchases of AA rated securities during 2012 and 2011, compared with 2010 were primarily due to the purchase of JGBs as discussed above. The increase in purchases of BBB rated securities in 2012 was related primarily to the purchase of U.S. dollar-denominated corporate fixed-income publicly traded securities for the Aflac Japan portfolio as discussed above. The purchases of BB or lower rated securities during 2012 and 2011 were related to a limited program that we initiated in 2011 to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. For more information on this program, see the Credit Risk subsection of this MD&A.

The following table presents the results of Aflac Japan's investment yields for the years ended and as of December 31.

	2012[1]		2011		2010	
New money yield	2.40	%	2.48	%	2.63	%
Return on average invested assets, net of investment expenses	2.89		3.18		3.48	
Portfolio yield, including dollar-denominated investments, end of year	2.87		3.29		3.56	

(1) Yields are reported before the cost of the foreign currency forwards that hedge foreign exchange risk of U.S. dollar-denominated publicly-traded corporate bonds.

The following table presents the composition of total investments by sector, at amortized cost, and cash for Aflac Japan ($102.6 billion in 2012 and $91.9 billion in 2011) as of December 31.

Composition of Portfolio by Sector

	2012		2011	
Debt and perpetual securities, at amortized cost:				
Banks/financial institutions[1]	17.8	%	26.8	%
Government and agencies	43.5		32.5	
Municipalities	.8		.9	
Public utilities	10.5		11.8	
Sovereign and supranational	4.7		6.8	
Mortgage- and asset-backed securities	1.0		1.4	
Other corporate[2]	21.0		18.0	
Total debt and perpetual securities	99.3		98.2	
Equity securities and other	.2		.2	
Cash and cash equivalents	.5		1.6	
Total investments and cash	100.0	%	100.0	%

(1)Includes 3.6% and 6.9% of perpetual securities at December 31, 2012 and 2011, respectively.
(2)Includes .3% and .4% of perpetual securities at December 31, 2012 and 2011.

Historically, our highest sector concentrations have been in government and agencies and banks and financial institution securities. Due to a combination of our existing portfolio concentration, the U.S. financial crisis, the European debt crisis, and other factors, we severely limited additional investment in banks and financial institutions. In regards to banks and financial institutions, our investment discipline began with a top-down approach. We first approved each country we invest in, and within those countries, we primarily invested in financial institutions that are strategically crucial to each country's economy. The banks and financial institutions sector is a highly regulated industry and plays a strategic role in the global economy. While this is our second largest sector concentration, we achieved some degree of diversification through a geographically diverse universe of credit exposures.

Beginning in the third quarter of 2012, we began investing in U.S. dollar-denominated publicly-traded corporate fixed-maturity securities, and entered into foreign currency forwards to economically convert these dollar-denominated investments into yen-denominated investments. This strategy allows us to realize an investment yield greater than that available on JGBs and improve overall portfolio liquidity and diversification. See Note 3 of the Notes to the Consolidated Financial Statements and the Market Risks of Financial Instruments - Credit Risk subsection of MD&A for more information regarding the sector concentrations of our investments.

Yen-denominated debt and perpetual securities accounted for 84.2% of Aflac Japan's total debt and perpetual securities at December 31, 2012 and 2011, at amortized cost.

The distributions of debt and perpetual securities owned by Aflac Japan, by credit rating, as of December 31 were as follows:

Composition of Portfolio by Credit Rating[1]

	2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	1.6 %	1.7 %	2.0 %	2.1 %
AA	49.8	49.6	41.9	43.2
A	20.6	21.2	28.3	28.7
BBB	23.3	23.0	21.8	20.8
BB or lower	4.7	4.5	6.0	5.2
Total	100.0 %	100.0 %	100.0 %	100.0 %

(1) See the discussion in the Credit Risk subsection of this MD&A regarding the change in credit rating methodology effective
March 31, 2012.

The overall credit quality of Aflac Japan's investments remained high. At the end of 2012, 95.3% of Aflac Japan's debt and perpetual securities were rated investment grade, on an amortized cost basis.

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.

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. for the years ended December 31.

Aflac U.S. Summary of Operating Results

(In millions)	2012	2011	2010
Premium income	$4,996	$4,743	$4,586
Net investment income	613	588	549
Other income	19	10	11
Total operating revenues	5,628	5,341	5,146
Benefits and claims	2,834	2,713	2,553
Operating expenses:			
Amortization of deferred policy acquisition costs	400	383	395
Insurance commissions	570	546	534
Insurance and other expenses	827	795	742
Total operating expenses	1,797	1,724	1,671
Total benefits and expenses	4,631	4,437	4,224
Pretax operating earnings[1]	$997	$904	$922
Percentage change over previous year:			
Premium income	5.4 %	3.4 %	3.2 %
Net investment income	4.2	7.1	9.9
Total operating revenues	5.4	3.8	3.9
Pretax operating earnings[1]	10.3	(1.9)	18.9

(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.

Annualized premiums in force increased 5.1% in 2012, 4.3% in 2011 and .3% in 2010. Annualized premiums in force at December 31 were $5.5 billion in 2012, compared with $5.2 billion in 2011 and $5.0 billion in 2010.

The following table presents a summary of operating ratios for Aflac U.S. for the years ended December 31.

Ratios to total revenues:	2012	2011	2010
Benefits and claims	50.3 %	50.8 %	49.6 %
Operating expenses:			
Amortization of deferred policy acquisition costs	7.1	7.2	7.7
Insurance commissions	10.1	10.2	10.4
Insurance and other expenses	14.8	14.9	14.4
Total operating expenses	32.0	32.3	32.5
Pretax operating earnings[1]	17.7	16.9	17.9

[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.

In 2010, the pretax operating profit margin and benefit ratio were positively impacted by the loss of a large payroll account, which resulted in the release of the future policy benefit reserves and amortization of the deferred policy acquisition costs for policies associated with the account. As expected, the benefit ratio returned to a more normal level in 2011. The benefit and expense ratios decreased in 2012 due primarily to lower claims experience and effective cost management, resulting in an expansion in the pretax operating profit margin, compared with 2011. In 2013, we expect the benefit and expense ratios and pretax operating profit margin to be similar to those experienced in 2012.

Aflac U.S. Sales

In 2012, Aflac's U.S. new annualized premium sales experienced a slight increase compared with 2011. The following table presents Aflac's U.S. new annualized premium sales for the years ended December 31.

(In millions)	2012	2011	2010
New annualized premium sales	$1,488	$1,476	$1,382
Increase (decrease) over prior year	.8 %	6.8 %	(4.9)%

The following table details the contributions to new annualized premium sales by major insurance product category for the years ended December 31.

	2012	2011	2010
Income-loss protection:			
Short-term disability	20.3 %	18.0 %	17.1 %
Life	5.4	5.7	6.0
Asset-loss protection:			
Accident	29.5	30.0	30.5
Critical care [1]	23.1	24.1	23.2
Supplemental medical:			
Hospital indemnity	15.3	15.7	17.8
Dental/vision	6.1	6.5	5.4
Other	.3	.0	.0
Total	100.0 %	100.0%	100.0 %

[1] Includes cancer, critical illness and hospital intensive care products

New annualized premium sales for accident insurance, our leading product category, decreased 1.0%, short-term disability sales increased 13.3%, critical care insurance sales (including cancer insurance) decreased 3.5%, and hospital indemnity insurance sales decreased 1.9% in 2012, compared with 2011. While new sales growth has been constrained, Aflac U.S. revenue growth was positive in 2012, primarily reflecting an improvement in persistency with each quarter.

In 2012, we revised several of our existing product offerings, including a new cancer insurance product that incorporates several benefits into the base plan coverage that were previously offered through riders, including wellness and initial diagnosis benefits. This allows us to provide a simplified benefit structure that customers are better able to understand and makes the sales process easier for our sales force. We also introduced a revised vision product that offers more benefits, including increased coverage for eye exams, glasses and contact lenses. Cognizant of the economic situation that many consumers face, we created policies with various price levels and corresponding benefit levels to address the need for lower-priced product options.

As part of our U.S. sales strategy, we continue to focus on growing and enhancing the effectiveness of our U.S. sales force. As of December 31, 2012, our distribution network was made up of more than 76,400 licensed sales associates and brokers. Beyond expanding the size and capabilities of our traditional sales force, we remain encouraged about establishing and developing relationships with insurance brokers that typically handle the larger-case market. In 2012, we continued to develop our national insurance broker initiative that specifically targets the large national brokers and enrollment firms in the U.S. We developed sales and marketing strategies that brokers can use to complement and enhance the marketing methods they use to sell to their customers. This initiative is not only beneficial to our broker channel, but it also helps our traditional sales channels because each distribution avenue receives focus and attention, opening up the doors for future growth potential.

The addition of group products has expanded our reach and enabled us to generate more sales opportunities with larger employers, brokers, and our traditional sales agents. In 2012, sales of our group products through Aflac Group Insurance increased 6.6%, compared with 2011, to $193 million, representing 13.0% of new annualized premium sales for Aflac U.S. We anticipate that the appeal of our group products will continue to enhance our opportunities to connect with larger businesses and their employees. Our portfolio of group and individual products offers businesses the opportunity to give their employees a more valuable and comprehensive selection of benefit options.

Although we remain somewhat cautious in the short-term sales outlook for Aflac U.S. due to the relatively weak economic environment, our longer-term view has not changed. We believe the need for the products we sell remains strong, and that the United States provides a vast and accessible market for our products. For 2013, our objective is for Aflac U.S. new annualized premium sales to be in the range of flat to up 5%.

U.S. Economy

Operating in the U.S. economy continues to be challenging. Our group products and growing relationships with insurance brokers that handle the larger-case market are helping us as we expand our reach selling to larger businesses. However, more than 90% of our products are sold in the small business segment, consisting of accounts with fewer than 100 employees. Small businesses, in particular, have proven to be especially vulnerable to ongoing economic weakness. Although we believe that the weakened U.S. economy has dampened our sales growth, we also believe our products remain affordable to the average American consumer. We believe that consumers' underlying need for our U.S. product line remains strong, and that the United States remains a sizeable and attractive market for our products.

U.S. Regulatory Environment

In March 2010, President Barack Obama signed into law the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 (PPACA) to give Americans of all ages and income levels access to comprehensive major medical health insurance. The primary subject of the new legislation is major medical insurance; therefore, we believe that the PPACA, as enacted, does not materially affect the design of our insurance products. However, indirect consequences of the legislation and regulations could present challenges and/or opportunities that could potentially have an impact on our sales model, financial condition and results of operations.

Our experience with Japan's national health care environment leads us to believe that the need for our products will only increase over the coming years.

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Dodd-Frank Act, which, among other things, created a Financial Stability Oversight Council (the Council). The Council may designate by a two-thirds vote whether certain nonbank financial companies, including potentially insurance companies and insurance holding companies, could pose a threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the

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Board of Governors of the U.S. Federal Reserve System (the Board), including capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit such company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. In April 2012, the Council released a final rule describing the general process the Council will follow in determining whether to designate a nonbank financial company for supervision by the Board. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. We believe that Aflac would not likely be considered a company that would pose a systemic risk to the financial stability of the United States. However, at the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will have on our U.S. business, financial condition, or results of operations.

Aflac U.S. Investments

The level of investment income is affected by available cash flow from operations, cash flow from income repatriation from Aflac Japan, the timing of investing the cash flow, yields on new investments, and other factors. Aflac U.S. primarily has invested in investment grade corporate bonds.

Funds available for investment include cash flows from operations, investment income, and funds generated from bond swaps, maturities and redemptions. Aflac U.S. purchased debt security investments at an aggregate acquisition cost of approximately $1.5 billion in 2012 and 2011 and $1.9 billion in 2010. We did not purchase any perpetual or equity securities during the three-year period ended December 31, 2012. The following table presents the composition of debt security purchases for Aflac U.S. by sector, as a percentage of acquisition cost, for the years ended December 31.

Composition of Purchases by Sector

	2012		2011		2010	
Debt security purchases, at cost:						
Banks/financial institutions	8.5	%	4.5	%	4.2	%
Government and agencies	4.7		.0		.0	
Municipalities	.8		12.8		19.0	
Public utilities	23.5		16.6		21.6	
Sovereign and supranational	.9		.0		.6	
Other corporate	61.6		66.1		54.6	
Total	100.0	%	100.0	%	100.0	%

The change in allocation of purchases from year to year is based on broad business and portfolio management objectives and the relative value and availability of investment opportunities.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. The ratings referenced in the two tables below are based on the ratings designations provided by the major credit rating agencies (Moody's, S&P, and Fitch) or, if not rated, are determined based on the ratings assigned by the SVO of the NAIC and/or our internal credit analysis of such securities. For investment-grade securities where the ratings assigned by the major credit agencies are not equivalent, in periods prior to the first quarter of 2012 we used the highest rating that was assigned; as of the first quarter of 2012, we are using the second lowest rating that is assigned. Periods prior to the first quarter of 2012 have been adjusted to reflect this new rating methodology for comparative purposes. For a description of the ratings methodology that we use when a security is split-rated (one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade), see "Market Risks of Financial Instruments - Below-Investment-Grade and Split-Rated Securities" in the Analysis of Financial Condition section of this MD&A.

The distributions by credit rating of Aflac's U.S. purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

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Composition of Purchases by Credit Rating[1]

	2012		2011		2010	
AAA	4.3	%	.1	%	1.6	%
AA	9.1		8.6		21.5	
A	51.4		47.1		53.6	
BBB	35.2		44.2		23.3	
Total	100.0	%	100.0	%	100.0	%

[1] See the discussion in the Credit Risk subsection of this MD&A regarding the change in credit rating methodology effective March 31, 2012.

Our purchases of securities are determined through an evaluation of multiple factors including underlying risk including credit risk, relative pricing and return potential of the security, liquidity of the instrument, broad business and portfolio considerations, and other market based and company specific factors.

The following table presents the results of Aflac's U.S. investment yields for the years ended and as of December 31.

	2012		2011		2010	
New money yield	3.96	%	5.67	%	5.81	%
Return on average invested assets, net of investment expenses	6.25		6.41		6.37	
Portfolio yield, end of year	6.28		6.67		6.88	

The decrease in the U.S. new money yield in 2012 reflects a low level of interest rates and general tightening of credit spreads.

The following table presents the composition of total investments by sector, at amortized cost, and cash for Aflac U.S. ($10.6 billion in 2012 and $9.2 billion in 2011) as of December 31.

Composition of Portfolio by Sector

	2012		2011	
Debt and perpetual securities, at amortized cost:				
Banks/financial institutions[1]	18.3	%	20.8	%
Government and agencies	.8		.2	
Municipalities	6.9		8.0	
Public utilities	17.8		17.6	
Sovereign and supranational	2.2		2.4	
Mortgage- and asset-backed securities	.4		.5	
Other corporate	47.8		47.1	
Total debt and perpetual securities	94.2		96.6	
Cash and cash equivalents	5.8		3.4	
Total investments and cash	100.0	%	100.0	%

[1]Includes 1.5% and 1.9% of perpetual securities at December 31, 2012 and 2011, respectively.

See Note 3 of the Notes to the Consolidated Financial Statements and the Market Risks of Financial Instruments - Credit Risk subsection of MD&A for more information regarding the sector concentrations of our investments.

The distributions of debt and perpetual securities owned by Aflac U.S., by credit rating, as of December 31 were as follows:

Composition of Portfolio by Credit Rating[1]

	2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	1.1 %	1.0 %	.6 %	.6 %
AA	9.6	10.1	10.3	10.8
A	44.3	45.2	43.4	45.4
BBB	40.0	39.1	41.2	39.4
BB or lower	5.0	4.6	4.5	3.8
Total	100.0 %	100.0 %	100.0 %	100.0 %

[1] See the discussion in the Credit Risk subsection of this MD&A regarding the change in credit rating methodology effective March 31, 2012.

The overall credit quality of Aflac U.S. investments remained high. At the end of 2012, 95.0% of Aflac U.S. debt and perpetual securities were rated investment grade, on an amortized cost basis. 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.

OTHER OPERATIONS

Corporate operating expenses consist primarily of personnel compensation, benefits, and facilities expenses. Corporate expenses, excluding investment income, were $76 million in 2012, $74 million in 2011 and $67 million in 2010. Investment income included in reported corporate expenses was $20 million in 2012, $10 million in 2011 and $11 million in 2010.

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes.

The following table demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at December 31, 2012, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2011.

Impact of Foreign Exchange on Balance Sheet Items

(In millions)	As Reported	Exchange Effect	Net of Exchange Effect
Yen/dollar exchange rate[1]	86.58		77.74
Investments and cash	$ 118,219	$ (9,898)	$ 128,117
Deferred policy acquisition costs	9,658	(773)	10,431
Total assets	131,094	(10,861)	141,955
Policy liabilities	97,949	(10,159)	108,108
Total liabilities	115,116	(11,441)	126,557

[1] The exchange rate at December 31, 2012, was 86.58 yen to one dollar, or 10.2% weaker than the December 31, 2011, exchange rate of 77.74.

Market Risks of Financial Instruments

Our investment philosophy is to maximize investment income while emphasizing liquidity, safety and quality. Our investment objective, subject to appropriate risk constraints, is to fund policyholder obligations and other liabilities in a

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manner that enhances shareholders' equity. We seek to achieve this objective through a diversified portfolio of fixed-income investments that reflects the characteristics of the liabilities it supports.

The following table details investment securities by segment as of December 31.

Investment Securities by Segment

	Aflac Japan		Aflac U.S.	
(In millions)	2012	2011	2012	2011
Securities available for sale, at fair value:				
Fixed maturities	$45,472	$37,473	$11,625 [1]	$9,961 [1]
Perpetual securities	4,127	6,271	175	168
Equity securities	23	25	0	0
Total available for sale	49,622	43,769	11,800	10,129
Securities held to maturity, at amortized cost:				
Fixed maturities	54,426	47,009	0	0
Total held to maturity	54,426	47,009	0	0
Total investment securities	$104,048	$90,778	$11,800	$10,129

[1]Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of $156 in 2012 and $138 in 2011.

Because we invest in fixed-income securities, our financial instruments are exposed primarily to three types of market risks: currency risk, interest rate risk, and credit risk.

Currency Risk

The functional currency of Aflac Japan's insurance operations is the Japanese yen. All of Aflac Japan's premiums, claims and commissions are received or paid in yen, as are most of its investment income and other expenses. While we began investing a portion of our yen cash flow in dollar-denominated securities in the third quarter of 2012, most of Aflac Japan's investments, cash and liabilities are yen-denominated. When yen-denominated securities mature or are sold, the proceeds are generally reinvested in yen-denominated securities. Aflac Japan holds these yen-denominated assets to fund its yen-denominated policy obligations. In addition, Aflac Incorporated has yen-denominated debt obligations.

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This primarily occurs when we repatriate yen-denominated funds from Aflac Japan to Aflac U.S., which is generally done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits were earned. A portion of the repatriation may be used to service Aflac Incorporated's yen-denominated notes payable with the remainder converted into dollars. (See the Capital Resources and Liquidity section of this MD&A for details on profit repatriation.) In addition, certain investment activities for Aflac Japan expose us to economic currency risk when yen are converted into dollars. As noted above, we invest a portion of our yen cash flows in dollar-denominated assets. This requires that we convert the yen cash flows to U.S. dollars before investing. As previously discussed, we then enter into a foreign currency forward contract to hedge the currency risk on the fair value of the U.S. dollar securities. The dollar coupon payments received on these investments are not hedged and are subject to foreign exchange fluctuations, which are realized in earnings. These coupons are then available for reinvestment through the U.S. dollar program. Also, Aflac Japan has invested in reverse-dual currency securities (RDCs, or yen-denominated debt securities with dollar coupon payments), which exposes Aflac to changes in foreign exchange rates. The foreign currency effect on the yen-denominated securities is accounted for as a component of unrealized gains or losses on available-for-sale securities in accumulated other comprehensive income, while the foreign currency effect on the dollar coupons is realized in earnings. The dollar coupons received in this RDC program are converted to yen and are available for reinvestment in yen. The RDCs provided a higher yield at the time of purchase than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards of credit quality. The yen/dollar exchange rate would have to strengthen to approximately 46 before the yield on these instruments would equal that of a comparable yen-denominated instrument.

Aside from the activities discussed above, we generally do not convert yen into dollars; however, we do translate financial statement amounts from yen into dollars for financial reporting purposes. Therefore, reported amounts are affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income. In periods when the yen weakens against the dollar, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The weakening of the yen relative to the dollar will generally adversely affect the value of our yen-denominated investments in dollar terms. We attempt to minimize the exposure of shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan's investment portfolio in dollar-denominated securities and by the Parent Company's issuance of yen-denominated debt (for additional information, see the discussion under the Hedging Activities subsection of MD&A). As a result, the effect of currency fluctuations on our net assets is reduced.

The following table demonstrates the effect of foreign currency fluctuations by presenting the dollar values of our yen-denominated assets and liabilities, and our consolidated yen-denominated net asset exposure at selected exchange rates as of December 31.

Dollar Value of Yen-Denominated Assets and Liabilities
at Selected Exchange Rates

(In millions)	2012			2011		
Yen/dollar exchange rates	71.58	86.58[1]	101.58	62.74	77.74[1]	92.74
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities[2]	$30,649	$25,339	$21,597	$31,405	$25,345	$21,246
Fixed maturities - consolidated variable interest entities[3]	3,272	2,705	2,306	3,402	2,746	2,302
Perpetual securities	4,270	3,530	3,009	6,117	4,937	4,138
Perpetual securities - consolidated variable interest entities[3]	592	489	417	1,477	1,192	999
Equity securities	21	18	15	24	19	16
Securities held to maturity:						
Fixed maturities	65,481	54,137	46,143	57,451	46,366	38,867
Fixed maturities - consolidated variable interest entities[3]	349	289	246	797	643	539
Cash and cash equivalents	463	383	326	1,737	1,402	1,175
Derivatives	248	205	175	51	41	34
Other financial instruments	186	153	131	183	147	124
Subtotal	105,531	87,248	74,365	102,644	82,838	69,440
Liabilities:						
Notes payable	1,030	852	726	1,599	1,291	1,082
Japanese policyholder protection corporation	28	23	20	88	71	60
Derivatives	864	715	609	465	375	315
Subtotal	1,922	1,590	1,355	2,152	1,737	1,457
Net yen-denominated financial instruments	103,609	85,658	73,010	100,492	81,101	67,983
Other yen-denominated assets	10,189	8,423	7,179	10,655	8,599	7,209
Other yen-denominated liabilities	119,778	99,026	84,403	112,094	90,465	75,833
Consolidated yen-denominated net assets (liabilities) subject to foreign currency fluctuation[2]	$(5,980)	$(4,945)	$(4,214)	$(947)	$(765)	$(641)

[1]Actual period-end exchange rate

[2] Does not include the U.S. dollar-denominated corporate bonds for which we have entered into foreign currency forwards as discussed in the Aflac Japan Investment subsection of MD&A

[3] Does not include U.S. dollar-denominated bonds that have corresponding cross-currency swaps in consolidated VIEs

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

We are required to consolidate certain variable interest entities (VIEs). Some of the consolidated VIEs in our Aflac Japan portfolio use foreign currency swaps to convert foreign denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. 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. Prior to consolidation, our beneficial interest in these VIEs was a yen-denominated available-for-sale fixed maturity security. Upon consolidation, the original yen-denominated investment was derecognized and the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps were recognized. The combination of a U.S. dollar-denominated investment and cross-currency swap economically creates a yen-denominated investment and has no impact on our net investment hedge position. For additional information, see the Hedging Activities subsection of MD&A.
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. 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 economically convert the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations and to reduce interest expense. By entering into these cross-currency interest rate 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. Any strengthening of the yen to the U.S. dollar will have an adverse effect on the valuation of these cross-currency swaps.
We also have cross-currency interest rate swap agreements related to our $450 million subordinated debentures due September 2052. 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 these cross-currency interest rate swaps to economically convert the dollar-denominated principal and interest on the subordinated debentures we issued into yen-denominated obligations and to reduce interest expense. By entering into these cross-currency interest rate 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. In the fourth quarter of 2012, we issued an additional $50 million of these subordinated debentures 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. Any strengthening of the yen to the U.S. dollar will have an adverse effect on the valuation of these cross-currency swaps.

Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt and perpetual securities. We use a modified duration analysis modeling approach, which measures price percentage volatility, to estimate the sensitivity of the fair values of our investments to interest rate changes on the debt and perpetual securities we own. For example, if the current duration of a debt security or perpetual security is 10, then the fair value of that security will increase by approximately 10% if market interest rates decrease by 100 basis points, assuming all other factors remain constant. Likewise, the fair value of the debt security or perpetual security will decrease by approximately 10% if market interest rates increase by 100 basis points, assuming all other factors remain constant.

The estimated effect of potential increases in interest rates on the fair values of debt and perpetual securities we own, interest rate swaps, foreign currency swaps, notes payable, and our obligation to the Japanese policyholder protection corporation as of December 31 follows:

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

	2012		2011	
(In millions)	Fair Value	+100 Basis Points	Fair Value	+100 Basis Points
Assets:				
Debt and perpetual securities:				
Fixed-maturity securities:				
Yen-denominated	$82,885	$72,617	$74,474	$65,219
Dollar-denominated	29,209	26,319	19,481	17,600
Perpetual securities:				
Yen-denominated	4,019	3,728	6,129	5,669
Dollar-denominated	283	264	310	291
Total debt and perpetual securities	$116,396	$102,928	$100,394	$88,779
Derivatives	$343	$306	$375	$212
Liabilities:				
Notes payable[1]	$4,992	$4,658	$3,536	$3,334
Derivatives	867	970	401	563
Japanese policyholder protection corporation	23	23	71	71

[1]Excludes capitalized lease obligations

There are various factors that affect the fair value of our investment in debt and perpetual securities. Included in those factors are changes in the prevailing interest rate environment, which directly affect the balance of unrealized gains or losses for a given period in relation to a prior period. Decreases in market yields generally improve the fair value of debt and perpetual securities, while increases in market yields generally have a negative impact on the fair value of our debt and perpetual securities. However, we do not expect to realize a majority of any unrealized gains or losses because we generally have the intent and ability to hold such securities until a recovery of value, which may be maturity. For additional information on unrealized losses on debt and perpetual securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. The following table presents the approximate duration of Aflac Japan's yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2012	2011
Yen-denominated debt and perpetual securities	13	13
Policy benefits and related expenses to be paid in future years	14	14
Premiums to be received in future years on policies in force	10	10

The following table presents the approximate duration of Aflac U.S. dollar-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2012	2011
Dollar-denominated debt and perpetual securities	11	11
Policy benefits and related expenses to be paid in future years	7	7
Premiums to be received in future years on policies in force	6	6

The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

Comparison of Interest Rates for Future Policy Benefits
and Investment Yields
(Net of Investment Expenses)

	2012		2011		2010	
	U.S.	Japan[1]	U.S.	Japan[1]	U.S.	Japan[1]
Policies issued during year:						
Required interest on policy reserves	3.75 %	2.00 %	4.75 %	2.25 %	5.50 %	2.39 %
New money yield on investments	3.90	2.24	5.64	2.42	5.78	2.44
Policies in force at year-end:						
Required interest on policy reserves	5.95	4.00	5.99	4.02	6.03	4.40
Return on average invested assets	6.25	2.89	6.41	3.18	6.37	3.48

[1]Represents investments for Aflac Japan that support policy obligations and therefore excludes Aflac Japan’s annuity products and investment income from the dollar-denominated investment portfolio that Aflac Japan maintains on behalf of Aflac U.S.

We continue to monitor the spread between our new money yield and the required interest assumption for newly issued products in both the United States and Japan and will re-evaluate those assumptions as necessary. The decline in Aflac Japan's required interest rates on policy reserves from 2010 to 2011 was the result of strengthening of future policy benefit reserves primarily for a closed block of cancer policies and a block of care policies. Over the next two years, we have yen-denominated securities that will mature with yields in excess of Aflac Japan's current net investment yield of 2.72%. These securities total $2.6 billion at amortized cost and have an average yield of 4.47%. Currently, when debt and perpetual securities we own mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, adding riders to our older policies has helped offset negative investment spreads on these policies. Overall, adequate profit margins exist in Aflac Japan's aggregate block of business because of changes in the mix of business and favorable experience from mortality, morbidity and expenses.

We entered into an interest rate swap agreement related to the 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011. This agreement effectively converted the variable interest rate notes to fixed rate notes to eliminate the volatility in our interest expense. We also have interest rate swaps related to some of our consolidated VIEs. These interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates. For further information, see Notes 4 and 8 of the Notes to the Consolidated Financial Statements.

Credit Risk

A significant portion of our investment portfolio consists of fixed income or perpetual securities that expose us to the credit risk of the underlying issuer. We carefully evaluate this risk on every new investment and closely monitor the credit risk of our existing investment portfolio. We incorporate the needs of our products and liabilities, the overall requirements of the business, and other factors in addition to our underwriting of the credit risk for each investment in the portfolio.

Evaluating the underlying risks in our credit portfolio involves a multitude of factors including but not limited to our assessment of the issuers business activities, assets, products, market position, financial condition, and future prospects. We also must incorporate the assessment of the Nationally Recognized Statistical Rating Organizations (NRSROs) and the SVO in assigning credit ratings to our specific portfolio holdings. We employ a team of experienced credit investment professionals to perform extensive internal assessments of the credit risks for all our portfolio holdings and potential new investments.

All of our securities have ratings from either an NRSRO, the SVO of the NAIC, or are assigned ratings by us based on NAIC rules.

The ratings referenced in the two tables below are based on the ratings designations provided by the major NRSROs (Fitch, Moody's and S&P) or, if not rated, are determined based on the ratings assigned by the SVO of the NAIC and/or our internal analysis of such securities. For investment-grade securities where the ratings assigned by the major credit agencies are not equivalent, in periods prior to the first quarter of 2012 we used the highest rating that was assigned; as of the first quarter of 2012, we are using the second lowest rating that is assigned. Periods prior to the first quarter of 2012 have been adjusted to reflect this new rating methodology for comparative purposes. For a description of the ratings methodology that we use when a security is split-rated, see “Market Risks of Financial Instruments - Below-Investment-Grade and Split-Rated Securities” in the Analysis of Financial Condition section of this MD&A.

The distributions by credit rating of our purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating[1]

	2012		2011		2010	
AAA	.5	%	6.6	%	1.0	%
AA	72.1		75.4		60.7	
A	10.3		9.7		24.5	
BBB	15.9		7.8		13.8	
BB or lower	1.2		.5		.0	
Total	100.0	%	100.0	%	100.0	%

[1] See the preceding discussion in this section of MD&A regarding the change in credit rating methodology effective March 31, 2012

Purchases of securities from year to year are determined based on multiple objectives including appropriate portfolio diversification, the relative value of a potential investment and availability of investment opportunities, liquidity, credit and other risk factors while adhering to our investment policy guidelines. We did not purchase any perpetual securities during the periods presented in the table above. The increase in purchases of AAA rated securities during 2011 was due to an increase in purchases of U.S. Treasury strips that were subsequently sold prior to the end of the year to generate investment gains. The higher purchases of AA rated securities during 2012 and 2011 were primarily related to purchases of JGBs as part of bond-swap programs and for asset liability management purposes. The increase in purchases of BBB rated securities in 2012 was primarily related to the purchase of U.S. dollar-denominated corporate fixed income securities for the Aflac Japan portfolio as discussed further in the Results of Operations - Aflac Japan Segment section of this MD&A. The purchases of BB or lower rated securities during 2012 and 2011 were related to a limited program that we initiated in 2011 to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. The program is managed externally by third party firms specializing in this asset class. This mandate requires a minimum average credit quality of BB-/Ba3, prohibits loans rated below B/B2, and restricts exposure to any individual credit to less than 3% of the program's assets. The objectives of this program include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates through the acquisition of floating rate assets.

The distributions of debt and perpetual securities we own, by credit rating, as of December 31 were as follows:
Composition of Portfolio by Credit Rating[1]

	2012				2011			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
AAA	1.5	%	1.6	%	1.8	%	1.9	%
AA	46.2		45.6		39.1		39.9	
A	22.8		23.7		29.7		30.4	
BBB	24.8		24.6		23.6		22.7	
BB or lower	4.7		4.5		5.8		5.1	
Total	100.0	%	100.0	%	100.0	%	100.0	%

[1] See the preceding discussion in this section of MD&A regarding the change in credit rating methodology effective March 31, 2012

As of December 31, 2012, our direct and indirect exposure to securities in our investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

Subordination Distribution

The majority of our total investments in debt and perpetual securities was senior debt at December 31, 2012 and 2011. We also maintained investments in subordinated financial instruments that primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities, listed in order of seniority. The Lower Tier II (LTII) securities are debt instruments with fixed maturities. Our Upper Tier II (UTII) and Tier I investments consisted of debt instruments with fixed maturities and perpetual securities, which have an economic maturity as opposed to a stated maturity.

The following table shows the subordination distribution of our debt and perpetual securities as of December 31.
Subordination Distribution of Debt and Perpetual Securities

(In millions)	2012 Amortized Cost	Percentage of Total	2011 Amortized Cost	Percentage of Total
Senior notes	$102,978	91.9 %	$85,544	86.2 %
Subordinated securities:				
Fixed maturities (stated maturity date):				
Lower Tier II	3,985	3.6	5,795	5.8
Tier I[1]	405	.3	555	.6
Surplus notes	335	.3	335	.3
Trust preferred - non-banks	85	.1	85	.1
Other subordinated - non-banks	51	.0	51	.1
Total fixed maturities	4,861	4.3	6,821	6.9
Perpetual securities (economic maturity date):				
Upper Tier II	2,825	2.5	4,285	4.3
Tier I	1,079	1.0	2,268	2.3
Other subordinated - non-banks	309	.3	344	.3
Total perpetual securities	4,213	3.8	6,897	6.9
Total debt and perpetual securities	$112,052	100.0 %	$99,262	100.0 %

[1]Includes trust preferred securities

As indicated in the table above, the percentage of our investment portfolio comprising subordinated fixed maturities and perpetual securities investments has declined due primarily to sales and impairments resulting from an implemented plan to reduce the risk exposure in our investment portfolio. See the Investment Concentrations section below for more information on these derisking activities.

Portfolio Composition

For information regarding the amortized cost for our investments in debt and perpetual securities, the cost for equity securities and the fair values of these investments, refer to Note 3 of the Notes to the Consolidated Financial Statements.

Investment Concentrations

After Japanese government bonds (JGBs), our second largest investment concentration as of December 31, 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 December 31, 2012, based on amortized cost, was: Europe, excluding the United Kingdom (31%); United States (26%); Japan (8%); United Kingdom (7%); and other (28%).

Our 20 largest global investment exposures as of December 31, 2012, were as follows:

Largest Global Investment Positions

(In millions)	Amortized Cost	% of Total	Seniority	Ratings Moody's	S&P	Fitch
Japan National Government[1]	$44,081	39.3 %	Senior	Aa3	AA-	A+
Israel Electric Corp.	748	.7	Senior	Baa3	BB+	—
Republic of South Africa	704	.6	Senior	Baa1	BBB	BBB+
Bank of America Corp. (includes Merrill Lynch)	520	.5				
Merrill Lynch & Co. Inc.	289	.3	Senior	Baa2	A-	A
Bank of America Corp.	231	.2	Lower Tier II	Baa3	BBB+	BBB
Bank of Tokyo-Mitsubishi UFJ Ltd.	520	.5				
Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao Holdings NV)	520	.5	Lower Tier II	A1	A	BBB+
Republic of Tunisia	496	.4	Senior	Baa3	BB	BB+
Investcorp SA	477	.4				
Investcorp Capital Limited	477	.4	Senior	Ba2	—	BB
National Grid PLC	462	.4				
National Grid Gas PLC	231	.2	Senior	A3	A-	A
National Grid Electricity Transmission PLC	231	.2	Senior	A3	A-	A
Sumitomo Mitsui Financial Group Inc.	462	.4				
Sumitomo Mitsui Banking Corporation	115	.1	Lower Tier II	A1	A	—
Sumitomo Mitsui Banking Corporation (includes SMBC International Finance)	347	.3	Upper Tier II	A2	BBB+	—
Telecom Italia SpA	462	.4				
Telecom Italia Finance SA	462	.4	Senior	Baa2	BBB	BBB
Deutsche Bank AG	460	.4				
Deutsche Postbank AG	277	.2	Lower Tier II	Baa3	BBB+	A-
Deutsche Bank Capital Trust II	167	.2	Tier I	Ba2	BBB	BBB-
Deutsche BK CAP FDG Capital Trust I	16	.0	Tier I	Ba2	BBB	BBB-
Citigroup Inc.	456	.4				
Citigroup Inc. (includes Citigroup Global Markets Holdings Inc.)	455	.4	Senior	Baa2	A-	A
Citigroup Inc. (Citicorp)	1	.0	Lower Tier II	Baa3	BBB+	BBB+
JP Morgan Chase & Co. (including Bear Stearns)	455	.4				
JPMorgan Chase & Co. (including Bear Stearns Companies Inc.)	404	.4	Senior	A2	A	A+
JPMorgan Chase & Co. (FNBC)	23	.0	Senior	Aa1	A+	—
JPMorgan Chase & Co. (Bank One Corp.)	17	.0	Lower Tier II	A3	A-	A
JPMorgan Chase & Co. (NBD Bank)	11	.0	Lower Tier II	A1	A	A
Metlife Inc.	454	.4				
Metlife Inc.	165	.2	Senior	A3	A-	A-
Metropolitan Life Global Funding I	289	.2	Senior	Aa3	AA-	A+
Banobras	427	.4	Senior	Baa1	BBB	BBB
Unique Zurich Airport	427	.4	Senior	—	A	—
Gas Natural SDG (Union Fenosa)	427	.4				

Union Fenosa Finance B.V.	427	.4	Senior	Baa2	BBB	BBB+
General Electric Co.	415	.4				
GE Capital Corporation	363	.3	Senior	A1	AA+	—
Security Capital Group	37	.1	Senior	A1	AA+	—
Susa Partnership LP	9	.0	Senior	A1	AA+	—
GE Capital Services Inc.	6	.0	Lower Tier II	Aa3	AA+	—
Sultanate of Oman	404	.4	Senior	A1	A	—
Deutsche Telekom AG	401	.3				
Deutsche Telekom AG	347	.3	Senior	Baa1	BBB+	BBB+
Deutsche Telekom International Finance	54	.0	Senior	Baa1	BBB+	BBB+
Subtotal	$53,258	47.5 %				
Total debt and perpetual securities	$112,052	100.0 %				

(1)JGBs or JGB-backed securities

As previously disclosed, we own long-dated debt instruments in support of our long-dated policyholder obligations. Many of our largest global investment holdings are positions that were purchased many years ago and increased in size due to merger and consolidation activity among the issuing entities. Prior to the fourth quarter of 2012, the continued appreciation of the yen has led to increases in the values of yen-denominated securities exacerbating the concentration in many of those securities. Beginning in 2005, we have generally limited our investment exposures to individual issuers to no more than 5% of total adjusted capital (TAC) on a statutory accounting basis, with the exception of obligations of the Japanese and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this guidance was adopted, or exposures that may exceed this threshold from time to time through merger and consolidation activity, are not automatically reduced through sales of the issuers' securities but rather are reduced over time consistent with our investment policy.

Geographical Exposure

The following table indicates the geographic exposure of our investment portfolio as of December 31.

(In millions)	2012 Amortized Cost	% of Total	2011 Amortized Cost	% of Total
Japan	$48,598	43.4 %	$34,942	35.2 %
United States and Canada	24,512	22.0	17,221	17.4
United Kingdom	4,025	3.6	5,031	5.1
Germany	3,965	3.5	4,877	4.9
France	2,500	2.2	2,723	2.7
PIIGS	4,550	4.1	6,066	6.1
Portugal	272	.3	308	.3
Italy	2,327	2.1	2,588	2.6
Ireland	492	.4	544	.6
Spain	1,459	1.3	2,626	2.6
Other Central Europe	3,626	3.2	5,812	5.9
Netherlands	2,259	2.0	2,496	2.5
Switzerland	688	.6	1,357	1.4
Austria	386	.3	1,143	1.2
Belgium	293	.3	816	.8
Nordic Region	3,407	3.0	4,126	4.2
Sweden	1,513	1.3	1,863	1.9
Norway	814	.7	1,051	1.1
Denmark	551	.5	614	.6
Finland	529	.5	598	.6
Eastern Europe	815	.7	907	.9
Czech Republic	577	.5	643	.6
Poland	238	.2	264	.3
Asia excluding Japan	5,397	4.8	5,690	5.7
Africa and Middle East	3,611	3.2	4,197	4.2
Latin America	3,381	3.0	3,771	3.8
Australia	2,982	2.7	3,159	3.2
All Others	683	.6	740	.7
Total debt and perpetual securities	$112,052	100.0 %	$99,262	100.0 %

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Investments in Certain European Countries

Since 2008, many countries in Europe, and specifically Greece, Ireland, Italy, Portugal, and Spain (collectively the "peripheral Eurozone" countries), have been experiencing a debt crisis. Due to the participation in the single common currency of the Euro, developments affecting any of the European Union (EU) countries have direct impacts on other EU countries. With the economic and market turmoil driven by the European debt crisis, European investments have been identified as having a higher level of inherent risk and potential volatility.

The primary factor considered when determining the domicile of investment exposure is the legal domicile of the issuer. However, other factors such as the location of a parent guarantor, the location of the company's headquarters or major business operations (including location of major assets), location of primary market (including location of revenue generation) and specific country risk publicly recognized by rating agencies can influence the assignment of the country (or geographic) risk location. When the issuer is a special financing vehicle or a branch or subsidiary of a global company, then we consider any guarantees and/or legal, regulatory and corporate relationships of the issuer relative to its ultimate parent in determining the proper assignment of country risk.

We had no direct exposure to Greece as of December 31, 2012 and 2011. Our direct investment exposures to Ireland, Italy, Portugal and Spain and the related maturities of those investments as of December 31 were as follows:

2012

(In millions)	One to Five Years Amortized Cost	Fair Value	Five to Ten Years Amortized Cost	Fair Value	After Ten Years Amortized Cost	Fair Value	Total Amortized Cost	Fair Value
Available-for-sale securities:								
Ireland:								
Banks/financial institutions	$0	$0	$0	$0	$261	$183	$261	$183
Italy:								
Public utilities	0	0	0	0	15	17	15	17
Other corporate	0	0	0	0	360	387	360	387
Portugal:								
Public utilities	0	0	156	155	116	100	272	255
Spain:								
Sovereign	0	0	0	0	76	91	76	91
Banks/financial institutions	34	36	0	0	64	66	98	102
Public utilities	0	0	0	0	427	420	427	420
Other corporate	0	0	0	0	223	217	223	217
Held-to-maturity securities:								
Ireland:								
Banks/financial institutions	0	0	0	0	231	197	231	197
Italy:								
Sovereign	0	0	0	0	289	263	289	263
Banks/financial institutions	0	0	0	0	173	157	173	157
Public utilities	0	0	0	0	855	845	855	845
Other corporate	0	0	0	0	635	594	635	594
Spain:								
Public utilities	0	0	0	0	404	380	404	380
Other corporate	0	0	0	0	231	224	231	224
Total gross and net funded exposure	$34	$36	$156	$155	$4,360	$4,141	$4,550	$4,332

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2011

(In millions)	One to Five Years Amortized Cost	Fair Value	Five to Ten Years Amortized Cost	Fair Value	After Ten Years Amortized Cost	Fair Value	Total Amortized Cost	Fair Value
Available-for-sale securities:								
Ireland:								
Banks/financial institutions	$0	$0	$0	$0	$287	$170	$287	$170
Italy:								
Public utilities	0	0	0	0	15	14	15	14
Other corporate	0	0	0	0	399	392	399	392
Portugal:								
Public utilities	10	10	40	33	129	105	179	148
Spain:								
Sovereign	0	0	148	162	0	0	148	162
Banks/financial institutions	34	35	0	0	45	45	79	80
Public utilities	0	0	0	0	476	422	476	422
Other corporate	34	33	0	0	243	212	277	245
Held-to-maturity securities:								
Ireland:								
Banks/financial institutions	0	0	0	0	257	209	257	209
Italy:								
Sovereign	0	0	0	0	322	303	322	303
Banks/financial institutions	0	0	0	0	193	181	193	181
Public utilities	0	0	0	0	952	914	952	914
Other corporate	0	0	0	0	707	661	707	661
Portugal:								
Public utilities	0	0	129	135	0	0	129	135
Spain:								
Sovereign	0	0	0	0	489	470	489	470
Banks/financial institutions	0	0	0	0	450	356	450	356
Public utilities	0	0	0	0	450	447	450	447
Other corporate	0	0	0	0	257	241	257	241
Total gross and net funded exposure	$78	$78	$317	$330	$5,671	$5,142	$6,066	$5,550

We do not have any unfunded exposure in the European countries shown in the preceding table, and we have not entered into any hedges to mitigate credit risk for our funded exposure. The banks and financial institutions investments in Ireland, Italy, Portugal and Spain represented 4% and 5% of total investments in the banks and financial institutions sector at December 31, 2012 and 2011, respectively, and 1% of total investments in debt and perpetual securities at December 31, 2012 and 2011.

Ireland

As of December 31, 2012, our total direct exposure within Ireland consisted of senior unsecured bank obligations. Senior securities issued by the Bank of Ireland with amortized costs and fair values totaling $231 million and $153 million, respectively, were rated below investment grade at Ba2/BB+/BBB by Moody's, S&P and Fitch, respectively. We believe that these unrealized losses were more closely linked to the Irish government's aggressive approach to addressing its debt burden, which included the possibility of imposing losses on senior debt holders of certain non-viable Irish banks. While the political risk of burden-sharing remains, it significantly subsided during the second half of 2011 as the government has shifted its focus to reducing its debt burden. This Irish bank is current on its obligation to us, and we believe it has the ability to meet its obligations to us. In addition, as of December 31, 2012, we had the intent to hold this investment to recovery in value. As a result, we did not recognize an other-than-temporary impairment for this investment as of December 31, 2012. The other senior security holdings in Ireland were issued by DEPFA Bank PLC and had an amortized cost of $261 million as of December 31, 2012. DEPFA is an Irish-domiciled and licensed financial institution that is a wholly-owned subsidiary of Hypo Real Estate Holding, a Germany licensed and regulated financial institution. Due to this ownership by a German parent, DEPFA has not been included in the Republic of Ireland's bank re-structuring and capitalization plan. DEPFA was current on its obligation to us and was rated investment grade at Baa3/BBB/BBB+ by Moody's, S&P and Fitch, respectively, as of December 31, 2012.

We expect the operating environment will continue to be difficult in 2013 as Ireland's government continues utilizing austerity measures to reduce deficits. Meaningful economic growth will be difficult due to the aforementioned austerity measures, weak domestic demand, high unemployment and depressed real estate markets. Further, Ireland remains susceptible to contagion risks from difficulties of other European countries. Although there has been substantial improvement in the political environment and the fiscal outlook has improved recently, Ireland's economic and ratings profile is expected to remain under pressure in the short-term.

Italy

Although Italy remains a country of heightened inherent risk and Moody's, S&P, and Fitch all had downgrade actions for Italy in 2012, as of December 31, 2012, Italy was still rated investment grade by all three rating agencies.

As of December 31, 2012, our total direct exposure within Italy was $2.3 billion, at amortized cost. This exposure comprised $289 million of direct investment in the sovereign of Italy; a senior unsecured bank obligation of $173 million; and utility and industrial companies of $870 million and $995 million, respectively. Our total exposure to Italy-based utility companies contained $624 million of securities that have below-investment-grade put options.

We expect the operating environment will continue to be difficult in 2013 as Italy's government implements austerity measures to reduce deficits. Meaningful economic growth will be difficult due to the aforementioned austerity measures and a contraction of bank credit. Although there has been substantial improvement, the political environment and the fiscal outlook remain tenuous, Italy's economic and ratings profile is expected to remain under pressure in the short-term.

Corporate issuers domiciled in Italy will continue to carry sovereign rating risk, but we expect they will continue to meet obligations due to a variety of factors supporting their individual credit profile.

As of December 31, 2012, all of our Italian exposures were rated investment grade and were current on their obligations to us, and we believe they have the ability to meet their obligations to us.

Portugal

As of December 31, 2012, our total direct exposure to Portugal was $272 million, at amortized cost. All of this exposure is to two electric utility issuers domiciled in Portugal, Redes Energeticas Nacionas SGPS, S.A. (REN) and Energias de Portugal SA (EDP). Our exposure to REN and EDP was $116 million and $156 million, respectively, at amortized cost. Both of these securities have been rated by external rating agencies and the Company as below investment grade as of December 31, 2012; however, they were both current on their obligations to us.

Our holdings domiciled in Portugal will continue to carry sovereign rating risk and could experience ratings pressure and difficulty in accessing capital markets because of that risk. However, we expect they will continue to meet debt obligations as a result of a variety of factors supporting their overall credit profile.

Spain

Although Spain remains a country of heightened inherent risk and Moody's, S&P, and Fitch all had multiple downgrade actions for the Kingdom of Spain throughout 2012, as of December 31, 2012, the Kingdom of Spain was still rated investment grade by all three rating agencies.

We expect the operating environment will continue to be difficult in 2013 as Spain's government implements austerity measures to reduce deficits at both the federal and regional level. In addition, economic growth will be pressured due to the aforementioned austerity measures and a contraction of bank credit. Greater uncertainty over their fiscal profiles has made it difficult for the regional governments in Spain to obtain reasonable financing for existing and new debt facilities. Therefore, Spain's and its regional governments' economic and ratings profile are expected to remain under pressure for the foreseeable future.

As of December 31, 2012, our total direct exposure to Spain was $1.5 billion, at amortized cost. This exposure comprised $76 million of investments in sub-sovereign (i.e. regional governments) issuers; a senior unsecured bank obligation of $64 million; one Lower Tier II obligation of $34 million; and Spain-domiciled utilities and industrials of $831 million and $454 million, respectively.

During the second quarter of 2012, Spain experienced a large increase in its overall cost of funding due to concerns about the sovereign's fiscal and economic condition. The increase in funding costs as well as concerns about fiscal and economic conditions also had a negative impact on the Spanish sub-sovereigns' cost of funding and made access to credit almost impossible for them. We recognized an other-than-temporary impairment of $144 million on our Spanish sub-sovereign investment in Generalitat de Catalunya in the second quarter of 2012. As of December 31, 2012, our investment of $76 million, at amortized cost, in Generalitat de Catalunya was rated Ba3/BB/BBB- by Moody's, S&P, and Fitch, respectively, and we have classified this investment as below investment grade. In the fourth quarter of 2012, we reduced our exposure to Spanish sub-sovereigns by exercising our below-investment-grade put option on our $406 million investment in Junta de Andalucia.

Our Spanish senior unsecured bank investment of $64 million, at amortized cost, was issued by Bankia SA (Bancaja Emisiones SA Unipersonal). Bankia SA was downgraded to below investment grade in the second quarter of 2012. Bankia is currently controlled by a bank holding company itself wholly owned by the Kingdom of Spain. The government has provided direct and planned capital injections and facilitated the transfer of non-performing assets into a state-sponsored entity (“Sareb”) to manage such assets. Currently, we believe the Spanish government has the ability and desire to continue supporting Bankia. Although our holdings are senior level obligations, given the uncertainty surrounding the credit profile of Bankia, we transferred this investment from the held-to-maturity portfolio to the available-for-sale portfolio, and we recognized an other-than-temporary impairment of $120 million on our investment in Bankia SA in the second quarter of 2012. Bankia SA was rated Ba2/BB/BBB by Moody's, S&P, and Fitch, respectively, as of December 31, 2012.

In the fourth quarter of 2012, we reduced our exposure to Spanish Lower Tier II investments by tendering our $206 million below-investment-grade investment in BBVA SA (Banco Bilbao Vizcaya Argentaria) to the issuer at its impaired value. Prior to the disposal, in the third quarter of 2012, we had transferred this investment from the held-to-maturity portfolio to the available-for-sale portfolio and recognized a pretax other-than-temporary impairment of $52 million upon its downgrade to below investment grade.

Our holdings, especially utilities, domiciled in Spain will continue to carry sovereign rating risk and could experience ratings pressure and difficulty in accessing capital markets because of that risk. However, we expect they will continue to meet debt obligations as a result of a variety of factors supporting their overall credit profile.

As of December 31, 2012, with the exception of the securities discussed above, the remaining securities of our Spain-domiciled exposures were rated investment grade and were current on their obligations to us, and we believe they have the ability to meet their obligations to us.

European sovereign debt crisis - monitoring and mitigating exposure

During most of 2011, we saw the European sovereign debt crisis persist and escalate. Throughout 2012, our internal team of experienced credit professionals continued to monitor the impact of this crisis on our individual investment holdings' overall credit quality. Our analysis includes factors beyond a baseline assessment of a company's assets, operations, financial statements, and credit metrics that may provide support for the instruments we own. Specifically, for our investments in European banks and financial institutions, we monitor the importance of the issuer to its local financial system, the likelihood of government support, and our investment's position in the capital structure of the issuer. For our investments in European utilities, we monitor the role of the issuer in its local economy as a provider of necessary infrastructure, and we monitor the value of the underlying assets owned by the issuer. For our investments in European corporates, industrials, and other commercial entities, we monitor the general credit quality of the issuer; the geographical mix of the issuer's customers (i.e. domestic versus foreign), the geographical breakdown of the issuer's assets (i.e. domestic versus foreign), the value of the underlying assets owned by the issuer, capitalization of the issuer, and overall profitability and cash generation ability of the issuer. We monitor NRSRO actions and likely actions for our investment exposures, as well as overall market conditions. By performing these analyses, we make a determination on the probability of timely payment of principal and interest of the issuers of our investments.

Some of our peripheral Eurozone fixed income investments contain covenants that we believe mitigate our risk to the issuer. These covenants could include put options that allow us to put our holdings at a predetermined price, usually par, should the issuer be downgraded to below investment grade by a rating agency, plus restrictions on the ability to incur additional debt, sell assets, or provide collateral for indebtedness.

Apart from our direct investments in peripheral Eurozone sovereign debt, our other exposure as of December 31, 2012 to the European sovereign debt crisis were investments in peripheral Eurozone banks and financial institutions of $.8 billion, peripheral Eurozone non-banks (excluding sovereigns) of $3.4 billion, core Eurozone[1] banks and financial institutions of $3.5 billion, core Eurozone non-banks (excluding sovereigns) of $5.8 billion, core Eurozone sovereigns of $.7 billion, and non-Eurozone[2] holdings throughout the balance of Europe of $8.4 billion, all at amortized cost. Other exposures to the European sovereign debt crisis that are not possible to measure include the impact of slower economic activity throughout Europe and its impact on global economic growth; the impact of a potential break-up of the European Union; and market disruption including illiquidity and impaired valuations due to heightened concerns and lack of investor confidence.

Given the severity of the crisis in Europe and the potential lasting impact, we are monitoring the situation closely. Among the areas that we believe warrant continued attention include the heightened interrelationship between political, monetary, fiscal, and economic forces; the possibility of continued contagion to additional sovereigns and other entities; further stress on the banking systems throughout the region; and the impact on the underlying economic fundamentals throughout the Euro region. See the following discussion regarding steps that management has taken in the past couple years to reduce our investment risk exposure to Europe.

Derisking

During 2012, we continued a general strategy of reducing the overall risk profile of our investment portfolio. Our efforts in 2011 and 2012 were largely focused on reducing our exposure to European issuers and to banks and financial institutions. During 2012, we reduced our exposure to European issuers, including perpetual and subordinated securities of financial firms. As a result of derisking activities, we have reduced our exposure to these areas significantly. At the start of 2008, sovereign and financial investments in peripheral Eurozone countries of $3.3 billion comprised 5.9% of total investment and cash, declining to $1.1 billion, or 1.0% of total investments and cash by the end of 2012. At the start of 2008, investments in perpetual securities of $8.3 billion comprised 14.7% of total investments and cash, declining to $4.2 billion, or 3.7% of total investments and cash by the end of 2012. As a result of these portfolio activities, we have dramatically reduced the impact to our portfolio from the European financial crisis. We will continue to be vigilant in monitoring our holdings and evaluating opportunities that may arise to further and appropriately reduce, reposition, and manage the risks in the portfolio.

Securities by Type of Issuance

We have investments in both publicly and privately issued securities. Our ability to sell either type of security is a function of overall market liquidity which is impacted by, among other things, the amount of outstanding securities of a particular issuance, trading history of the security, overall market conditions, and idiosyncratic events affecting the specific issuer.

[1]Core Eurozone includes Germany, France, Netherlands, Austria, Belgium and Finland.
[2]Non-Eurozone Europe includes the United Kingdom, Switzerland, Sweden, Norway, Denmark, Czech Republic and Poland.

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The following table details investment securities by type of issuance as of December 31.

Investment Securities by Type of Issuance

(In millions)	2012 Amortized Cost	2012 Fair Value	2011 Amortized Cost	2011 Fair Value
Publicly issued securities:				
Fixed maturities	$67,116	$70,026	$45,475	$48,163
Perpetual securities	128	146	195	178
Equity securities	11	13	13	15
Total publicly issued	67,255	70,185	45,683	48,356
Privately issued securities:				
Fixed maturities	40,723	42,068	46,890	45,792
Perpetual securities	4,085	4,156	6,702	6,261
Equity securities	9	10	9	10
Total privately issued	44,817	46,234	53,601	52,063
Total investment securities	$112,072	$116,419	$99,284	$100,419

The following table details our privately issued investment securities as of December 31.

Privately Issued Securities

(Amortized cost, in millions)	2012	2011
Privately issued securities as a percentage of total debt and perpetual securities	40.0 %	54.0 %
Privately issued securities held by Aflac Japan	$41,624	$50,819
Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities	37.1 %	51.2 %

Reverse-Dual Currency Securities[1]

(Amortized cost, in millions)	2012	2011
Privately issued reverse-dual currency securities	$9,916	$12,655
Publicly issued collateral structured as reverse-dual currency securities	2,781	2,958
Total reverse-dual currency securities	$12,697	$15,613
Reverse-dual currency securities as a percentage of total debt and perpetual securities	11.3 %	15.7 %

[1]Principal payments in yen and interest payments in dollars

The decrease in privately issued securities as a percentage of total debt and perpetual securities was due primarily to the weakening of the yen, sales and impairments of investments, and the allocation of new investments to JGBs and other publicly issued investments during 2012.

Aflac Japan has invested in privately issued securities to better match liability characteristics and secure higher yields than those available on Japanese government or other public corporate bonds. Aflac Japan's investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers and have longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities were issued under medium-term note programs and have standard documentation commensurate with credit ratings of the issuer, except when internal credit analysis indicates that additional protective and/or event-risk covenants were required.

Below-Investment-Grade and Split-Rated Securities

The below-investment-grade securities at December 31 shown in the following table were investment grade at the time of purchase and were subsequently downgraded.

Below-Investment-Grade Securities[1][2]

(In millions)	2012 Par Value	2012 Amortized Cost	2012 Fair Value	2012 Unrealized Gain (Loss)	2011 Par Value	2011 Amortized Cost	2011 Fair Value	2011 Unrealized Gain(Loss)
Israel Electric Corporation Limited	$797	$748	$716	$(32)	$888	$847	$805	$(42)
Republic of Tunisia	739	496	496	0	823	823	877	54
Investcorp Capital Limited	477	477	418	(59)	526	526	441	(85)
Commerzbank AG (includes Dresdner Bank)	462	297	394	97	*	*	*	*
UPM-Kymmene	358	358	263	(95)	399	399	235	(164)
UniCredit Bank AG (HVB Funding Trust I, III, & VI)	341	257	257	0	*	*	*	*
Lloyds Banking Group PLC	328	292	351	59	408	360	312	(48)
Societe Generale [3]	289	288	302	14	*	*	*	*
CSAV (Tollo Shipping Co. S.A.)	277	117	145	28	309	130	130	0
Bank of Ireland	231	231	153	(78)	257	257	140	(117)
Generalitat de Catalunya	208	76	91	15	*	*	*	*
Tokyo Electric Power Co., Inc.	199	201	203	2	232	235	211	(24)
Bankia SA (Bancaja Emisiones SA Unipersonal)	173	64	66	2	*	*	*	*
Energias de Portugal SA (EDP)	158	156	155	(1)	*	*	*	*
IKB Deutsche Industriebank AG	150	78	96	18	167	87	87	0
Redes Energeticas Nacionais SGPS,S.A. (REN)	116	116	100	(16)	129	129	105	(24)
Finance For Danish Industry (FIH)	116	90	100	10	129	100	100	0
Barclays Bank PLC [3]	65	48	62	14	*	*	*	*
Nextera Energy Inc. (FPL Marcus Hook, White Pine Hydro)	64	59	65	6	40	40	44	4
Sparebanken Vest [3]	60	60	60	0	60	60	59	(1)
Dexia SA (includes Dexia Bank Belgium & Dexia Overseas) [3]	0	0	0	0	579	190	190	0
Erste Group Bank (Erste Finance Jersey Ltd. 3 & 5) [3]	0	0	0	0	450	424	253	(171)
Ford Motor Credit Company	*	*	*	*	386	386	388	2
Swedbank AB [3]	0	0	0	0	180	139	106	(33)
Bawag Capital Finance Jersey [3]	0	0	0	0	180	77	77	0
Hypo Vorarlberg Capital Finance [3]	0	0	0	0	141	83	86	3
Other Issuers (below $50 million in par value) [4]	384	360	364	4	408	378	339	(39)

Total	$5,992	$4,869	$4,857	$(12)	$6,691	$5,670	$4,985	$(685)

* Investment grade at respective reporting date

(1) Does not include senior secured bank loans in an externally managed portfolio that were below investment grade when initially purchased

(2) See the Market Risks of Financial Instruments - Credit Risk subsection of this MD&A regarding the change in credit rating methodology effective March 31, 2012

(3) Includes perpetual security

(4) Includes 14 issuers in 2012 and 17 issuers in 2011

In 2011, we initiated a limited program to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. The program is managed externally by third party firms specializing in this asset class. This mandate requires a minimum average credit quality of BB-/Ba3, prohibits loans rated below B/B2, and prohibits exposure to any individual credit greater than 3% of the program's assets. The objectives of this program include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates through the acquisition of floating rate assets. Our investments in this program totaled $414 million at December 31, 2012, compared with $124 million at December 31, 2011, on an amortized cost basis.

Excluding the senior secured bank loans discussed above that were rated below investment grade when initially purchased, below-investment-grade debt and perpetual securities represented 4.3% of total debt and perpetual securities at December 31, 2012, compared with 5.7% at December 31, 2011, on an amortized cost basis. Debt and perpetual securities classified as below investment grade at December 31, 2012 and 2011 were generally reported as available for sale and carried at fair value.

Occasionally, a debt or perpetual security will be split rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. As of the first quarter of 2012, our policy has been to utilize the second lowest rating designation assigned to the security, which in this case where there are only two ratings - one investment grade and one below investment grade - would result in the security being rated as below investment grade. In the event that the second lowest rating designation from the major credit rating agencies (Moody's, S&P and Fitch) is investment grade, our policies do not preclude us from assigning a below-investment-grade rating if our own internal analysis shows a credit deterioration has occurred and our assessment results in a rating below that which is assigned by such agencies. Our review in those cases includes evaluating the issuer’s credit position as well as current market pricing and other factors, such as the issuer’s or security’s inclusion on a credit rating downgrade watch list. Split-rated securities, excluding the senior secured bank loan investments discussed above, totaled $3.8 billion as of December 31, 2012, compared with $2.7 billion as of December 31, 2011, and represented 3.4% of total debt and perpetual securities, at amortized cost, at December 31, 2012, compared with 2.7% at December 31, 2011. The 10 largest split-rated securities as of December 31, 2012, were as follows:

Split-Rated Securities

(In millions)	Amortized Cost	Investment-Grade Status
Israel Electric Corp. Ltd.	$748	Below Investment Grade
Republic of Tunisia	496	Below Investment Grade
SLM Corp.	376	Investment Grade
Ford Motor Credit Company	347	Investment Grade
Commerzbank AG (includes Dresdner Bank)	297	Below Investment Grade
Societe Generale[1]	288	Below Investment Grade
Bank of Ireland	231	Below Investment Grade
Barclays Bank PLC[1][2]	190	Below Investment Grade / Investment Grade
Deutsche Bank Capital Trust II and Capital Funding Trust I[1]	183	Investment Grade
Energias de Portugal SA (EDP)	156	Below Investment Grade

[1] Includes perpetual security

[2] Barclays is listed as "Below Investment Grade (BIG)/ Investment Grade (IG)" since the Upper Tier II holdings ($142 million amortized cost) are IG and the Tier I holdings ($48 million amortized cost) are BIG

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, 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 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. See Note 4 of the Notes to the Consolidated Financial Statements for more information.

Other-than-temporary Impairment
See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of our impairment policy.

Unrealized Investment Gains and Losses

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt and perpetual securities by investment-grade status as of December 31, 2012.

(In millions)	Total Amortized Cost	Total Fair Value	Percentage of Total Fair Value		Gross Unrealized Gains	Gross Unrealized Losses
Available-for-sale securities:						
Investment-grade securities	$52,361	$56,299	48.4	%	$4,408	$ 470
Below-investment-grade securities	5,265	5,256	4.5		304	313
Held-to-maturity securities:						
Investment-grade securities	54,426	54,841	47.1		1,213	798
Total	$112,052	$116,396	100.0	%	$5,925	$ 1,581

The following table presents an aging of debt and perpetual securities in an unrealized loss position as of December 31, 2012.

Aging of Unrealized Losses

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less than Six Months		Six Months to Less than 12 Months		12 Months or Longer	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	$17,605	$470	$12,810	$200	$80	$1	$4,715	$269
Below-investment-grade securities	2,086	313	103	3	77	0	1,906	310
Held-to-maturity securities:								
Investment-grade securities	22,591	798	15,447	164	0	0	7,144	634
Total	$42,282	$1,581	$28,360	$367	$157	$1	$13,765	$1,213

The following table presents a distribution of unrealized losses on debt and perpetual securities by magnitude as of December 31, 2012.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less than 20%		20% to 50%		Greater than 50%	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	$17,605	$470	$17,407	$412	$198	$58	$0	$0
Below-investment-grade securities	2,086	313	1,489	138	597	175	0	0
Held-to-maturity securities:								
Investment-grade securities	22,591	798	22,244	700	347	98	0	0
Total	$42,282	$1,581	$41,140	$1,250	$1,142	$331	$0	$0

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The following table presents the 10 largest unrealized loss positions in our portfolio as of December 31, 2012.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
SLM Corp.	BBB	$376	$278	$(98)
UPM-Kymmene	BB	358	263	(95)
Bank of Ireland	BB	231	153	(78)
Investcorp Capital Limited	BB	477	418	(59)
Svenska Handelsbanken AB[1]	BBB	205	160	(45)
Bank of America Corp. (includes Merrill Lynch)	A	520	477	(43)
Republic of Poland	A	238	196	(42)
Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao Holdings N.V.)	A	520	484	(36)
DEPFA Bank PLC	BBB	261	227	(34)
Atlantia SPA	BBB	231	198	(33)

[1]Includes perpetual security

Declines in fair value noted above were impacted by changes in interest rates and credit spreads, yen/dollar exchange rates, and issuer credit status. However, we currently believe it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary. See the Market Risks of Financial Instruments-Credit Risk subsection of this MD&A for a discussion of unrealized losses related to Ireland, and see the Unrealized Investment Gains and Losses section in Note 3 of the Notes to the Consolidated Financial Statements for further discussions of unrealized losses related to financial institutions including perpetual securities, and other corporate investments.

Investment Valuation and Cash

We estimate the fair values of our securities available for sale on a monthly basis. We monitor the estimated fair values derived from our discounted cash flow pricing model and those obtained from our custodian, pricing vendors and brokers for consistency from month to month, while considering current market conditions. We also periodically discuss with our custodian and pricing brokers and vendors the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them.

We have entered into an agreement with an independent third party to value certain securities within our investment portfolio, primarily perpetual and private placement holdings. These securities are currently being valued using our discounted cash flow pricing model. We expect to receive valuation information from the third party to be evaluated by management by the end of the first quarter of 2013. At this time, it is not possible to estimate the impact of this new valuation approach. Changes in value may have a material effect on our financial condition and results of operations.

Cash and cash equivalents totaled $2.0 billion, or 1.7% of total investments and cash, as of December 31, 2012, compared with $2.2 billion, or 2.2%, at December 31, 2011. For a discussion of the factors affecting our cash balance, see the Operating Activities, Investing Activities and Financing Activities subsections of this MD&A.

For additional information concerning our investments, see Notes 3, 4, and 5 of the Notes to the Consolidated Financial Statements.

Deferred Policy Acquisition Costs

The following table presents deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	2012	2011	% Change
Aflac Japan	$6,801	$7,102	(4.2)%[1]
Aflac U.S.	2,857	2,687	6.3
Total	$9,658	$9,789	(1.3)%

[1]Aflac Japan's deferred policy acquisition costs increased 6.7% in yen during the year ended December 31, 2012.
Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2012 related to deferred policy
acquisition costs.
See Note 1 of the Notes to the Consolidated Financial Statements and the New Accounting Pronouncements subsection of this MD&A for a discussion of changes to the accounting policy for DAC effective January 1, 2012.

Policy Liabilities

The following table presents policy liabilities by segment for the years ended December 31.

(In millions)	2012	2011	% Change
Aflac Japan	$89,338	$86,522	3.3%[1]
Aflac U.S.	8,608	8,069	6.7
Other	3	2	50.0
Total	$97,949	$94,593	3.5%

[1]Aflac Japan's policy liabilities increased 15.0% in yen during the year ended December 31, 2012.

See Note 7 of the Notes to the Consolidated Financial Statements for additional information on our policy liabilities.

Notes Payable

Notes payable totaled $4.4 billion at December 31, 2012, compared with $3.3 billion at December 31, 2011. In February 2012, the Parent Company issued $400 million and $350 million of senior notes that mature in February 2017 and February 2022, respectively. In June 2012, we paid $337 million to redeem 26.6 billion yen of our Samurai notes upon their maturity. In July 2012, the Parent Company issued $250 million of senior notes that are an addition to the original series of senior notes that were issued in February 2012 and mature in February 2017. In September 2012, the Parent Company issued $450 million of subordinated debentures that mature in September 2052, and in the fourth quarter of 2012, the underwriters exercised their option, pursuant to the underwriting agreement, to purchase an additional $50 million principal amount of these subordinated debentures. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities and derivatives) was 24.5% as of December 31, 2012, compared with 21.8% as of December 31, 2011. See Note 8 of the accompanying Notes to the Consolidated Financial Statements for additional information on our notes payable.

Benefit Plans

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on our Japanese and U.S. plans, see Note 13 of the Notes to the Consolidated Financial Statements.

Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection

Corporation (LIPPC) includes government fiscal measures supporting the LIPPC. On December 27, 2011, Japan's FSA announced plans to enhance the stability of the LIPPC by extending the government's fiscal support of the LIPPC through March 2017. Accordingly, the FSA submitted legislation to the Diet on January 27, 2012 to extend the government's fiscal support framework, and the legislation was approved on March 30, 2012.

Hedging Activities

Net Investment Hedge

Our primary exposure to be hedged is our 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 a portfolio of dollar-denominated securities, which serves as an economic currency hedge of a portion of our investment in Aflac Japan. 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 the majority of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans) as a hedge of our net investment in Aflac Japan. At the beginning of each quarter, we make our net investment hedge designation. 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 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 net earnings. We estimate that if the Parent Company yen-denominated liabilities exceeded our net investment in Aflac Japan by 10 billion yen, we would report a foreign exchange gain/loss of approximately $1 million for every 1% yen weakening/strengthening in the end-of-period yen/dollar exchange rate. Our net investment hedge was effective during the years ended December 31, 2012, 2011 and 2010.

The yen net asset figure calculated for hedging purposes differs from the yen-denominated net asset position as discussed in the Currency Risk subsection of MD&A. As disclosed in that subsection, the consolidation of the underlying assets in certain VIEs requires that we derecognize our yen-denominated investment in the VIE and recognize the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps. While these U.S. dollar investments will create foreign currency fluctuations, the combination of the U.S. dollar-denominated investment and the cross-currency swap economically creates a yen-denominated investment that qualifies for inclusion as a component of our investment in Aflac Japan.

The dollar values of our yen-denominated net assets, including certain VIEs as yen-denominated investments for net investment hedging purposes as discussed above, are summarized as follows (translated at end-of-period exchange rates) for the years ended December 31:

(In millions)	2012	2011
Aflac Japan net assets	$13,580	$10,596
Aflac Japan dollar-denominated net assets	(8,317)	(7,341)
Aflac Japan yen-denominated net assets	5,263	3,255
Parent Company yen-denominated net liabilities	(850)	(1,258)
Consolidated yen-denominated net assets (liabilities) subject to foreign currency translation fluctuations	$4,413	$1,997

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

The increase in the yen-denominated net assets subject to foreign currency translation fluctuations was due primarily to the increase in cash flows from Japan operations and partly to the reduction in yen-denominated liabilities with the redemption of our Samurai notes in June 2012.

Cash Flow Hedges

We have freestanding derivative instruments related to our consolidated VIE investments that are reported in the consolidated balance sheet at fair value within other assets and other liabilities. During 2011, we de-designated certain of these derivatives 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. The gain that is being amortized over the expected life of the respective hedged item from accumulated other comprehensive income into earnings related to these swaps was immaterial for the years ended December 31, 2012 and 2011. As of December 31, 2012, two of the freestanding swaps that are used within VIEs to hedge the risk arising from changes in foreign currency exchange rates still qualified for hedge accounting.

We have an interest rate swap agreement related to the 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011. 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. This hedge was effective during the years ended December 31, 2012 and 2011.

Fair Value Hedges

In the third quarter of 2012, we began entering into foreign currency forwards to mitigate the foreign exchange risk associated with new investments in U.S. dollar-denominated fixed-maturities that support yen-denominated liabilities within our Aflac Japan segment.

See Note 4 of the Notes to the Consolidated Financial Statements for additional information on our hedging activities.

Off-Balance Sheet Arrangements

As of December 31, 2012, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 14 of the Notes to the Consolidated Financial Statements for information on material unconditional purchase obligations that are not recorded on our balance sheet.

CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following table presents the amounts provided for the years ended December 31.

Liquidity Provided by Aflac to Parent Company

(In millions)	2012	2011	2010
Dividends declared or paid by Aflac	$0	$282	$370
Management fees paid by Aflac	249	230	205

The primary uses of cash by the Parent Company are shareholder dividends, the repurchase of its common stock and interest on its outstanding indebtedness. The Parent Company's sources and uses of cash are reasonably predictable and are not expected to change materially in the future. For additional information, see the Financing Activities subsection of this MD&A.

The Parent Company also accesses debt security markets to provide additional sources of capital. As of the beginning of 2012, we had a shelf registration statement on file with the SEC that allowed us to issue an indefinite amount of senior and subordinated debt, in one or more series, from time to time until May 2012. We filed a new shelf registration statement with the SEC in May 2012 that allows us to issue an indefinite amount of senior and subordinated debt, in one or more series, from time to time through May 2015. In February 2012, the Parent Company issued $750 million of senior notes under the now expired registration statement. As of December 31, 2012, the Parent Company had issued $250 million of senior notes and $500 million of subordinated debentures under the new registration statement. In December 2011, we filed a shelf registration statement with Japanese regulatory authorities that allows us to issue up to 100 billion yen of yen-denominated Samurai notes in Japan through January 2014. If issued, these yen-denominated Samurai notes would not be available to U.S. persons. We believe outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 8 of the Notes to the Consolidated Financial Statements.

The principal sources of cash for our insurance operations are premiums and investment income. The primary uses of cash by our insurance operations are investments, policy claims, commissions, operating expenses, income taxes and payments to the Parent Company for management fees and dividends. Both the sources and uses of cash are reasonably predictable.

When making an investment decision, our first consideration is based on product needs. Our investment objectives provide for liquidity through the purchase of investment-grade debt securities. These objectives also take into account duration matching, and because of the long-term nature of our business, we have adequate time to react to changing cash flow needs.

As a result of policyholder aging, claims payments are expected to gradually increase over the life of a policy. Therefore, future policy benefit reserves are accumulated in the early years of a policy and are designed to help fund future claims payments. We expect our future cash flows from premiums and our investment portfolio to be sufficient to meet our cash needs for benefits and expenses.

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 December 31, 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.

Our financial statements convey our financing arrangements during the periods presented. We have not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in our balance sheet. We were in compliance with all of the covenants of our notes payable at December 31, 2012. We have not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial assets that have been accounted for as a sale under applicable accounting standards, including securities lending transactions. See Note 3 of the Notes to the Consolidated Financial Statements and Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012, for more information on our securities lending activity. We do not have a known trend, demand, commitment, event or uncertainty that would reasonably result in our liquidity increasing or decreasing by a material amount. Our cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

The following table presents the estimated payments by period of our major contractual obligations as of December 31, 2012. We translated our yen-denominated obligations using the December 31, 2012, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

Distribution of Payments by Period

(In millions)	Total Liability[1]	Total Payments	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Future policy benefits liability (Note 7)[2]	$76,463	$319,545	$10,250	$20,049	$19,644	$269,602
Unpaid policy claims liability (Note 7)[3]	4,034	4,034	3,016	620	231	167
Long-term debt – principal (Note 8)	4,343	4,343	0	869	924	2,550
Long-term debt – interest (Note 8)	35	3,370	215	415	364	2,376
Cash collateral on loaned securities (Note 3)	6,277	6,277	6,277	0	0	0
Policyholder protection corporation (Note 2)	23	23	23	0	0	0
Operating service agreements (Note 14)	N/A [4]	431	130	252	49	0
Operating lease obligations (Note 14)	N/A [4]	131	61	39	27	4
Capitalized lease obligations (Note 8)	9	9	3	4	2	0
Total contractual obligations	$91,184	$338,163	$19,975	$22,248	$21,241	$274,699

Liabilities for unrecognized tax benefits in the amount of $14 have been excluded from the tabular disclosure above because the timing of cash payment is not reasonably estimable.

[1]Liability amounts are those reported on the consolidated balance sheet as of December 31, 2012.

[2]The estimated payments due by period reflect future estimated cash payments to be made to policyholders and others for future policy benefits. These projected cash outflows are based on assumptions for future policy persistency, mortality, morbidity, and other assumptions comparable with our experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs. These cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of $319,545 exceeds the corresponding liability amount of $76,463. We have made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflow amounts and timing will differ, possibly materially, from these estimates.

[3]Includes assumptions as to the timing of policyholders reporting claims for prior periods and the amount of those claims. Actual amounts and timing of unpaid policy claims payments may differ significantly from the estimates above.

[4]Not applicable

For more information on our major contractual obligations, see the applicable Note in the Notes to the Consolidated Financial Statements as indicated in the line items in the table above.

Consolidated Cash Flows

We translate cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In years when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported.

The following table summarizes consolidated cash flows by activity for the years ended December 31.

(In millions)	2012	2011	2010
Operating activities	$14,952	$10,842	$6,989
Investing activities	(16,952)	(10,829)	(7,432)
Financing activities	1,945	64	161

Exchange effect on cash and cash equivalents	(153)	51	80
Net change in cash and cash equivalents	$(208)	$128	$(202)

Operating Activities

Consolidated cash flow from operations increased 37.9% in 2012, compared with 2011. The following table summarizes operating cash flows by source for the years ended December 31.

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(In millions)	2012	2011	2010
Aflac Japan	$13,949	$10,246	$6,327
Aflac U.S. and other operations	1,003	596	662
Total	$14,952	$10,842	$6,989

The increase in Aflac Japan operating cash flows during 2012 and 2011 was largely due to the receipt of discounted advance premiums from policyholders in conjunction with their purchase of certain Aflac Japan insurance products. Aflac U.S. operating cash flows increased in 2012 due primarily to a decrease in federal income taxes paid.

Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. The following table summarizes investing cash flows by source for the years ended December 31.

(In millions)	2012	2011	2010
Aflac Japan	$(15,823)	$(10,246)	$(6,221)
Aflac U.S. and other operations	(1,129)	(583)	(1,211)
Total	$(16,952)	$(10,829)	$(7,432)

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when our debt and perpetual securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt and perpetual securities that are available for sale to improve the duration matching of our assets and liabilities, improve future investment yields, and/or re-balance our portfolio. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 15% of the annual average investment portfolio of debt and perpetual securities available for sale during the year ended December 31, 2012, compared with 27% in 2011 and 7% in 2010. The relatively higher dispositions before maturity in 2012 and 2011 were due to bond-swap programs that generated investment gains and were also the result of asset liability management strategies.

Financing Activities

Consolidated cash provided by financing activities was $1.9 billion in 2012, $64 million in 2011 and $161 million in 2010. Cash returned to shareholders through dividends and treasury stock purchases was $721 million in 2012, compared with $860 million in 2011 and $656 million in 2010.

In February 2012, the Parent Company issued $750 million of senior notes through a U.S. public debt offering. In June 2012, we paid $337 million to redeem 26.6 billion yen of Samurai notes using proceeds from the February debt offering. In July 2012, the Parent Company issued $250 million of senior notes through a U.S. public debt offering. In September 2012, the Parent Company issued $450 million of subordinated debentures through a U.S. public debt offering, and in October 2012, the underwriters exercised their option, pursuant to the underwriting agreement, to purchase an additional $50 million principal amount of these subordinated debentures.

In September 2011, we paid $459 million to redeem 35 billion yen of our Uridashi notes upon their maturity. In July 2011, the Parent Company issued 50 billion yen of yen-denominated Samurai notes (approximately $578 million using the December 31, 2012, exchange rate).

In August 2010, the Parent Company issued $750 million of senior notes through a U.S. public debt offering. In July 2010, we paid $447 million to redeem 39.4 billion yen of our Samurai notes upon their maturity.

See Note 8 of the Notes to the Consolidated Financial Statements for further information on the debt issuances discussed above.
See our preceding discussion in this Capital Resources and Liquidity section of MD&A regarding the 364-day senior unsecured revolving credit facility agreement entered into by the Parent Company and Aflac in June 2012 in the amount of 50 billion yen. As of December 31, 2012, no borrowings were outstanding under our 50 billion yen revolving credit agreement.

We were in compliance with all of the covenants of our notes payable and line of credit at December 31, 2012.

The following tables present a summary of treasury stock activity during the years ended December 31.

Treasury Stock Purchased			
(In millions of dollars and thousands of shares)	2012	2011	2010
Treasury stock purchases	$118	$308	$121
Number of shares purchased:			
Open market	1,948	6,000	2,000
Other	360	182	192
Total shares purchased	2,308	6,182	2,192

Treasury Stock Issued			
(In millions of dollars and thousands of shares)	2012	2011	2010
Stock issued from treasury:			
Cash financing	$32	$26	$45
Noncash financing	63	57	2
Total stock issued from treasury	$95	$83	$47
Number of shares issued	2,184	1,852	1,834

In 2010 when the market value of our stock was below our weighted-average cost of treasury shares, all shares purchased with dividends, as well as those shares used for internal stock award plans, were purchased on the open market in lieu of being issued from treasury. Beginning again in 2011 when the market value of our stock increased, these types of stock issuances, considered non-cash, were once again issued using treasury shares.

Under share repurchase authorizations from our board of directors, we purchased 1.9 million shares of our common stock in the open market in 2012, compared with 6.0 million shares in 2011 and 2.0 million shares in 2010. See Note 10 of the Notes to the Consolidated Financial Statements for additional information. As of December 31, 2012, a remaining balance of 22.4 million shares of our common stock was available for purchase under a share repurchase authorization by our board of directors in 2008. We currently plan to purchase $400 to $600 million of our common stock in 2013.

Cash dividends paid to shareholders in 2012 of $1.34 per share increased 8.9% over 2011. The 2011 dividend paid of $1.23 per share increased 7.9% over 2010. The following table presents the dividend activity for the years ended December 31.

(In millions)	2012	2011	2010
Dividends paid in cash	$603	$552	$535
Dividends through issuance of treasury shares	24	23	0
Total dividends to shareholders	$627	$575	$535

In February 2013, the board of directors declared the first quarter 2013 cash dividend of $.35 per share. The dividend is payable on March 1, 2013, to shareholders of record at the close of business on February 15, 2013.

Regulatory Restrictions

Aflac is domiciled in Nebraska and is subject to its regulations. The Nebraska insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. These regulatory limitations are not expected to affect the level of management fees or dividends paid by Aflac to the Parent Company. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency.

The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. Aflac's company action level RBC ratio was 630% as of December 31, 2012. Aflac's RBC ratio remains high and reflects a strong capital and surplus position. As of December 31, 2012, Aflac's total adjusted capital exceeded the amounts to achieve a company action level RBC of 400% and 350% by $3.3 billion and $4.0 billion, respectively. See Note 12 of the Notes to the Consolidated Financial Statements for information regarding the impact of permitted practices by the Nebraska Department of Insurance on our statutory capital and surplus. Currently, the NAIC has an ongoing Solvency Modernization Initiative (SMI) relating to updating the U.S. insurance solvency regulation framework. The SMI will focus on key issues such as capital requirements, governance and risk management, actuarial, and accounting matters.

In addition to limitations and restrictions imposed by U.S. insurance regulators, Japan's FSA may not allow profit repatriations from Aflac Japan if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard. See the Japanese Regulatory Environment subsection of this MD&A for a discussion of changes to the calculation of the solvency margin ratio. As of December 31, 2012, Aflac Japan's solvency margin ratio was 669.1% under the new calculation method, which significantly exceeded regulatory minimums. As expected, based on the results of the calculation of the solvency margin ratio under the new standards, our relative position within the industry has not materially changed. Given the low interest rate environment and the sensitivity of the solvency margin ratio to interest rate changes, we have taken actions to improve our solvency margin, including entering into a surplus relief reinsurance contract and increasing our allocation of JGBs classified as held to maturity. As previously discussed, we have entered into a 364-day senior unsecured revolving credit facility in the amount of 50 billion yen as a capital contingency plan in the event of a rapid change in interest rates. We continue to evaluate other alternatives for reducing the sensitivity of the solvency margin ratio against interest rate and foreign exchange rate changes.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following table details Aflac Japan remittances for the years ended December 31.

Aflac Japan Remittances

(In millions of dollars and billions of yen)	2012		2011	2010
Aflac Japan management fees paid to Parent Company	$30		$28	$30
Expenses allocated to Aflac Japan	58		43	37
Aflac Japan profit remittances to Aflac U.S. in dollars	422	[1]	143	317
Aflac Japan profit remittances to Aflac U.S. in yen	33.1	[1]	11.0	28.7

[1]Includes U.S. dollar-denominated securities which were $209 million at amortized cost and had accrued interest of $4 million (totaling approximately 16.8 billion yen) as of the remittance date

The total amount of profit remittances in 2011 was lower than that in 2012 and 2010 due to realized investment losses.

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 12 of the Notes to the Consolidated Financial Statements.

Other

For information regarding commitments and contingent liabilities, see Note 14 of the Notes to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
The information required by Item 7A is incorporated by reference from the Market Risks of Financial Instruments section of MD&A in Part II, Item 7, of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Management's Annual Report on Internal Control Over Financial Reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a 15(f) promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2012.
KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2012, which is included herein.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
Aflac Incorporated:

We have audited Aflac Incorporated's (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Aflac Incorporated's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aflac Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aflac Incorporated and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 26, 2013 expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia
February 26, 2013

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
Aflac Incorporated:

We have audited the accompanying consolidated balance sheets of Aflac Incorporated and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aflac Incorporated and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2012, the Company retrospectively adopted guidance related to a change in accounting for costs associated with acquiring or renewing insurance contracts. Also as discussed in Note 1, the Company changed its method of evaluating consolidation of variable interest entities (VIEs) and qualified special purpose entities (QSPEs) due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board (FASB), effective January 1, 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aflac Incorporated's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2013, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Atlanta, Georgia
February 26, 2013

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings
Years Ended December 31,

(In millions, except for share and per-share amounts)	2012	2011	2010
Revenues:			
Premiums, principally supplemental health insurance	$22,148	$20,362	$18,073
Net investment income	3,473	3,280	3,007
Realized investment gains (losses):			
Other-than-temporary impairment losses realized	(977)	(1,901)	(459)
Sales and redemptions	474	594	38
Derivative and other gains (losses)	154	(245)	(1)
Total realized investment gains (losses)	(349)	(1,552)	(422)
Other income	92	81	74
Total revenues	25,364	22,171	20,732
Benefits and expenses:			
Benefits and claims	15,330	13,749	12,106
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	1,117	1,033	958
Insurance commissions	1,744	1,725	1,637
Insurance expenses	2,415	2,336	2,159
Interest expense	261	196	149
Other operating expenses	195	182	162
Total acquisition and operating expenses	5,732	5,472	5,065
Total benefits and expenses	21,062	19,221	17,171
Earnings before income taxes	4,302	2,950	3,561
Income tax expense:			
Current	816	891	862
Deferred	620	122	371
Total income taxes	1,436	1,013	1,233
Net earnings	$2,866	$1,937	$2,328
Net earnings per share:			
Basic	$6.14	$4.16	$4.96
Diluted	6.11	4.12	4.92
Weighted-average outstanding common shares used in computing earnings per share (In thousands):			
Basic	466,868	466,519	469,038
Diluted	469,287	469,370	473,085

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)
Years Ended December 31,

(In millions)	2012	2011	2010
Net earnings	$2,866	$1,937	$2,328
Other comprehensive income (loss) before income taxes:			
Unrealized foreign currency translation gains (losses) during period	(287)	(18)	90
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) on investment securities during period	1,660	566	370
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	497	1,154	421
Unrealized gains (losses) on derivatives during period	(22)	(33)	51
Pension liability adjustment during period	(20)	(65)	(32)
Total other comprehensive income (loss) before income taxes	1,828	1,604	900
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,078	392	(32)
Other comprehensive income (loss), net of income taxes	750	1,212	932
Total comprehensive income (loss)	$3,616	$3,149	$3,260

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
December 31,

(In millions)	2012		2011	
Assets:				
Investments and cash:				
Securities available for sale, at fair value:				
Fixed maturities (amortized cost $48,355 in 2012 and $40,534 in 2011)	$51,466		$42,222	
Fixed maturities - consolidated variable interest entities (amortized cost $5,058 in 2012 and $4,822 in 2011)	5,787		5,350	
Perpetual securities (amortized cost $3,654 in 2012 and $5,365 in 2011)	3,728		5,149	
Perpetual securities - consolidated variable interest entities (amortized cost $559 in 2012 and $1,532 in 2011)	574		1,290	
Equity securities (cost $20 in 2012 and $22 in 2011)	23		25	
Securities held to maturity, at amortized cost:				
Fixed maturities (fair value $54,554 in 2012 and $45,817 in 2011)	54,137		46,366	
Fixed maturities - consolidated variable interest entities (fair value $287 in 2012 and $566 in 2011)	289		643	
Other investments	174		168	
Cash and cash equivalents	2,041		2,249	
Total investments and cash	118,219		103,462	
Receivables	976		680	
Accrued investment income	842		802	
Deferred policy acquisition costs	9,658		9,789	
Property and equipment, at cost less accumulated depreciation	564		617	
Other	835	(1)	887	(1)
Total assets	$131,094		$116,237	

(1) Includes $191 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)

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)
December 31,

(In millions, except for share and per-share amounts)	2012	2011
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	$76,463	$79,278
Unpaid policy claims	4,034	3,981
Unearned premiums	2,158	1,704
Other policyholders' funds	15,294	9,630
Total policy liabilities	97,949	94,593
Income taxes	3,858	2,308
Payables for return of cash collateral on loaned securities	6,277	838
Notes payable	4,352	3,285
Other	2,680 [2]	2,267 [2]
Commitments and contingent liabilities (Note 14)		
Total liabilities	115,116	103,291
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2012 and 2011; issued 665,239 shares in 2012 and 663,639 shares in 2011	67	66
Additional paid-in capital	1,505	1,408
Retained earnings	17,387	15,148
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains	333	984
Unrealized gains (losses) on investment securities	2,570	1,143
Unrealized gains (losses) on derivatives	(5)	9
Pension liability adjustment	(183)	(171)
Treasury stock, at average cost	(5,696)	(5,641)
Total shareholders' equity	15,978	12,946
Total liabilities and shareholders' equity	$131,094	$116,237

[2] Includes $399 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
Years Ended December 31,

(In millions, except for per-share amounts)	2012	2011	2010
Common stock:			
Balance, beginning of period	$66	$66	$66
Exercise of stock options	1	0	0
Balance, end of period	67	66	66
Additional paid-in capital:			
Balance, beginning of period	1,408	1,320	1,228
Exercise of stock options	31	21	59
Share-based compensation	34	37	37
Gain (loss) on treasury stock reissued	32	30	(4)
Balance, end of period	1,505	1,408	1,320
Retained earnings:			
Balance, beginning of period	15,148	13,787	12,019
Cumulative effect of change in accounting principle, net of income taxes	0	0	(25)
Net earnings	2,866	1,937	2,328
Dividends to shareholders ($1.34 per share in 2012, $1.23 per share in 2011, and $1.14 per share in 2010)	(627)	(576)	(535)
Balance, end of period	17,387	15,148	13,787
Accumulated other comprehensive income (loss):			
Balance, beginning of period	1,965	753	(38)
Unrealized foreign currency translation gains (losses) during period, net of income taxes:			
Cumulative effect of change in accounting principle, net of income taxes	0	0	(320)
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	(651)	167	428
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments:			
Cumulative effect of change in accounting principle, net of income taxes	0	0	180
Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes	1,427	1,107	478
Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes	0	3	13
Unrealized gains (losses) on derivatives during period, net of income taxes	(14)	(22)	33
Pension liability adjustment during period, net of income taxes	(12)	(43)	(21)
Balance, end of period	2,715	1,965	753
Treasury stock:			
Balance, beginning of period	(5,641)	(5,386)	(5,316)
Purchases of treasury stock	(118)	(308)	(121)
Cost of shares issued	63	53	51
Balance, end of period	(5,696)	(5,641)	(5,386)
Total shareholders' equity	$15,978	$12,946	$10,540

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

Years Ended December 31, (In millions)	2012	2011	2010
Cash flows from operating activities:			
Net earnings	$2,866	$1,937	$2,328
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	5,669	2,940	1,078
Increase in deferred policy acquisition costs	(643)	(505)	(327)
Increase in policy liabilities	6,033	4,685	3,448
Change in income tax liabilities	712	266	137
Realized investment (gains) losses	349	1,552	422
Other, net	(34)	(33)	(97)
Net cash provided (used) by operating activities	14,952	10,842	6,989
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	7,385	14,385	2,724
Fixed maturities matured or called	1,959	170	1,243
Perpetual securities sold	1,599	690	700
Perpetual securities matured or called	376	0	0
Equity securities sold	0	0	328