AFLAC INC
Form 10-K
February 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2011, was $21,447,540,005.

The number of shares of the registrant s common stock outstanding at February 16, 2012, with $.10 par value, was 467,097,921.

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 7, 2012, is incorporated by reference into Part III hereof.

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Aflac Incorporated

Annual Report on Form 10-K

For the Year Ended December 31, 2011

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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. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), referred to 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 loss-of-income products (life and short-term disability plans) and products designed to protect individuals from depletion of assets (hospital indemnity, fixed-benefit dental, vision care, accident, cancer, critical illness/ critical care, and hospital intensive care 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 75% of the Company s total revenues in 2011 and 2010, compared with 73% in 2009. The percentage of the Company s total assets attributable to Aflac Japan was 87% at December 31, 2011, and 86% at December 31, 2010.

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 Note 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 $20.4 billion in 2011, $18.1 billion

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in 2010, and $16.6 billion in 2009. 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)	**2011**	2010	2009
Annualized premiums in force, beginning of year	**$ 20,380**	$ 17,990	$ 17,550
New sales, including conversions	**3,503**	2,935	2,763
Change in unprocessed new sales	**35**	(73)	(92)
Premiums lapsed and surrendered	**(2,204)**	(2,226)	(2,207)
Other	**(3)**	15	120
Foreign currency translation adjustment	**761**	1,739	(144)
Annualized premiums in force, end of year	**$ 22,472**	$ 20,380	$ 17,990

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)	**2011**	2010	2009	**2011**	2010	2009
Annualized premiums in force, beginning of year	**$ 15,408**	$ 13,034	$ 12,761	**1,256**	1,200	1,162
New sales, including conversions	**2,027**	1,554	1,310	**161**	136	122
Change in unprocessed new sales	**35**	(73)	(92)	**3**	(6)	(9)
Premiums lapsed and surrendered	**(847)**	(766)	(737)	**(68)**	(67)	(69)
Other	**(100)**	(80)	(64)	**(8)**	(7)	(6)
Foreign currency translation adjustment	**761**	1,739	(144)	**0**	0	0
Annualized premiums in force, end of year	**$ 17,284**	$ 15,408	$ 13,034	**1,344**	1,256	1,200

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)	**2011**	2010	2009
Annualized premiums in force, beginning of year	**$ 4,973**	$ 4,956	$ 4,789
New sales, including conversions	**1,476**	1,382	1,453
Premiums lapsed	**(1,357)**	(1,460)	(1,471)
Other	**96**	95	185
Annualized premiums in force, end of year	**$ 5,188**	$ 4,973	$ 4,956

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

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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. 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 a fixed daily benefit for hospitalization and outpatient services related to cancer as well as surgical, convalescent and terminal care benefits. In March 2011, we introduced a new base cancer policy, DAYS, and a bridge policy, DAYS PLUS, which upgrades older cancer policies. The enhancements in this new base policy are a response to the changes in cancer treatment. As the number one provider of cancer insurance in Japan, we believe this new product will further strengthen our brand, and most importantly, provide valuable benefits to consumers who are looking for solutions to 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. 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 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 short-term disability benefits on both an individual and group basis.

Aflac U.S. also offers term and whole-life coverage sold through payroll deduction at the worksite on both an individual and group basis and various term and whole-life individual policies on a direct basis.

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 even 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.

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℠, 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.

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 44% of new annualized premium sales in 2011, compared with 51% in 2010 and 55% in 2009. Affiliated corporate agencies are formed when companies establish subsidiary businesses to sell our insurance products to their employees, suppliers and customers. These agencies help us reach employees at large worksites. Affiliated corporate agencies contributed 25% of new annualized premium sales in 2011, compared with 31% in 2010 and 35% in 2009. During 2011, we recruited approximately 5,000 new sales agencies. As of December 31, 2011, Aflac Japan was represented by more than 19,700 sales agencies, with more than 120,700 licensed sales associates employed by those agencies. We believe that new agencies will continue to be attracted to Aflac Japan s high commissions, superior products, 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 2011, we had agreements with 370 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 as this channel opened up for our products. Banks contributed 29% of Aflac Japan new annualized premium sales in 2011, compared with 15% in 2010 and 6% in 2009.

We continue to reach consumers through our strategic marketing alliance with Dai-ichi Life Insurance Company (Dai-ichi Life). Since its launch in 2001, we have maintained a close relationship with Dai-ichi Life. Dai-ichi Life contributed 2% of Aflac Japan new annualized premium sales in 2011, compared with 3% in 2010 and 4% in 2009.

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.

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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 purchase of CAIC, branded as Aflac Group Insurance, we are now able to 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.

During the past several years, we have enhanced and increased the size of our traditional distribution system. We recruited more than 24,400 new sales associates in 2011, a 10.5% increase compared with 2010, resulting in approximately 74,800 licensed sales associates at December 31, 2011. To enhance our recruiting results, the bonus structure for our state and regional coordinators incorporates a people development component in addition to sales results. In 2011 and 2010, we held national recruiting contests to incentivize producer recruitment. In addition, we partnered with our field offices for recruiting workshops that focus on improving coordinator productivity by emphasizing candidate sourcing, interviewing, and contract acceptance. However, increasing our sales force means more than just recruiting people. We also focus on growing the number of average weekly producers, which measures high-quality, consistent, capable producers who make solid, consistent contributions to sales.

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.

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, 2011, we exceeded 21 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, 2011. Aflac continued to be the number one seller of cancer insurance policies in Japan

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throughout 2011. 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, unique 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. Aflac Japan continued to be the number one seller of stand-alone medical insurance in the life insurance industry in terms of policy sales in 2011.

In addition to third sector products, Aflac Japan is showing steady progress in sales of life insurance products, such as WAYS which is described in the Products section of this report. The market for ordinary life products is highly competitive. Our current market share of ordinary life sales is relatively small; however, 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.

We compete against several insurers on a national basis plus other insurers regionally. We believe our policies and premium rates, as well as the commissions paid to our sales associates and brokers, are competitive with those offered by other companies providing similar types of insurance. However, we believe our U.S. business is distinct from our competitors because of our product focus, distribution system, and brand awareness. For many of the other companies that sell voluntary supplemental insurance, it represents a secondary business. For us, it is our primary business. We also believe that our growing distribution system of independent sales associates and brokers expands our business opportunities, while our advertising campaigns have increased our name awareness and understanding by consumers and businesses of the value our products provide.

Private insurers and voluntary and cooperative plans, such as Blue Cross and Blue Shield, provide major medical insurance for hospitalization and medical expenses. Much of this insurance is sold on a group basis. The federal and state governments also pay substantial costs of medical treatment through various programs. Such major medical insurance generally covers a substantial amount of the medical expenses incurred by an insured as a result of accident and disability, cancer or other major illnesses. Aflac s policies are designed to provide coverage that supplements major medical insurance and may also be used to defray nonmedical expenses. Thus, we do not compete directly with major medical insurers. However, the scope of major medical coverage offered by other insurers does represent a potential limitation on the market for our products. Accordingly, expansion of coverage by other insurers or governmental programs could adversely affect our business opportunities. Conversely, any reduction of coverage, or increased deductibles and copayments, by other insurers or governmental programs could favorably affect our business opportunities.

Investments and Investment Results

Net investment income was $3.3 billion in 2011, $3.0 billion in 2010 and $2.8 billion in 2009. In each of these three years, net investment income benefited from the strengthening of the yen/dollar exchange rate. The growth rate however 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 charged off immediately; deferred income tax liabilities are recognized on a different basis; policy benefit and claim

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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. Reconciliations of the net assets of the Japan branch on a U.S. GAAP basis to net assets determined on a Japanese regulatory accounting basis as of December 31 were as follows:

(In millions)	**2011**	2010
Aflac Japan net assets on GAAP basis	**$ 10,967**	$ 8,852
Elimination of deferred policy acquisition cost asset	**(7,732)**	(6,964)
Adjustment to income tax liabilities	**4,186**	3,602
Adjustment to policy liabilities	**(5,840)**	(4,265)
Adjustment of unrealized gains and other adjustments to carrying value of debt securities	**2,372**	1,886
Elimination of policyholder protection corporation liability	**71**	108
Reduction in premiums receivable	**(98)**	(97)
Difference in consolidation criteria for variable interest entities	**21**	41
Other, net	**(1,211)**	(815)
Aflac Japan net assets on Japanese regulatory accounting basis	**$ 2,736**	$ 2,348

The FSA maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The FSA will apply a revised method of calculating the solvency margin ratio for life insurance companies as of fiscal year-end 2011 (March 31, 2012) and has encouraged the disclosure of the ratio as reference information as of fiscal year-end 2010 (March 31, 2011). The FSA has commented that the revision would generally reduce life insurance companies solvency margin ratios to approximately half the level of those reported under the current calculation method. As of December 31, 2011, Aflac Japan s solvency margin ratio was 985.8% using the current calculation method and, disclosed as reference information, was 547.3% 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.

A portion of Aflac Japan s annual earnings, as determined on a Japanese regulatory accounting basis, may be repatriated each year to Aflac U.S. These repatriated profits represent a portion of Aflac Japan s after-tax earnings reported to the FSA on a March 31 fiscal year basis. We may elect not to repatriate profits to Aflac U.S. or to repatriate a reduced amount to strengthen Aflac Japan s solvency margin. In addition, 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.

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

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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, 2011, based on year-end statutory accounting results, Aflac s company action level RBC ratio was 493%.

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 Congress and signed into law by the President. For example, the

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Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, 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 will be phased in over the next several years and are directed toward major medical health insurance coverage, which Aflac does not offer. Accordingly, our products are not subject to or covered under the major provisions of the new legislation as enacted.

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 and Oversight Council. The Council may designate by a two-thirds vote whether certain insurance companies and insurance holding companies pose a grave 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, 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. 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 will have the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. 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.

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, 2011, Aflac Japan had 4,254 employees, Aflac U.S. had 4,030 employees, and our other operations, the Parent Company and printing subsidiary, had 278 employees. We consider our employee relations to be excellent.

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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; President, Aflac, until January 2007	60
Paul S. Amos II	President, Aflac, since January 2007; Chief Operating Officer, U.S. Operations, Aflac, since February 2006; Executive Vice President, U.S. Operations, Aflac, until January 2007	36
Yuji Arai	Senior Vice President, Compliance Officer, Aflac Japan, since January 2012; Senior Vice President, Principal Financial Officer, Aflac Japan, until January 2012	49
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	58
Susan R. Blanck	Executive Vice President, Corporate Actuary, Aflac, since January 2011; First Senior Vice President, Aflac Japan, since June 2008; Senior Vice President, Corporate Actuary, Aflac, until January 2011	45
Kriss Cloninger III	President, Aflac Incorporated; Chief Financial Officer, Aflac Incorporated and Aflac; Treasurer, Aflac Incorporated; Executive Vice President, Aflac	64
Martin A. Durant III	Senior Advisor, Corporate Finance, Aflac Incorporated, since November 2011; Executive Vice President, Deputy Chief Financial Officer, Aflac Incorporated, from June 2008 until November 2011; Senior Vice President, Corporate Finance, Aflac Incorporated, until June 2008	63
Thomas R. Giddens	Senior Vice President, Director of Sales, Aflac, since November 2010; Senior Vice President, Co-Director of U.S. Sales, Aflac, from May 2010 until November 2010; Southeast Territory Director, Aflac, until May 2010	57
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	45
Jun Isonaka	First Senior Vice President, Chief Administrative Officer, Aflac Japan, since January 2012; Senior Vice President, Chief Administrative Officer, Aflac Japan, from January 2010 until January 2012; Senior Vice President, Deputy Chief Administrative Officer, Aflac Japan, from January 2009 until January 2010; Senior Vice President, Sales, Aflac Japan, from January 2007 until January 2009; Vice President, Contact Center, Aflac Japan, until January 2007	54
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	53
W. Jeremy Jeffery	Senior Vice President, Fixed Income Investments, since November 2011; Senior Vice President, Chief Investment Officer, Aflac, from January 2007 until November 2011; Senior Vice President, Deputy Chief Investment Officer, Aflac, until January 2007	61

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NAME	PRINCIPAL OCCUPATION[1]	AGE
Eric M. Kirsch	First Senior Vice President, Global Chief Investment Officer, Aflac, since November 2011; Managing Director, Global Head of Insurance Asset Management, Goldman Sachs Asset Management, from July 2007 until November 2011; Managing Director, Deutsche Asset Management, until July 2007	51
Charles D. Lake II	Chairman, Aflac Japan, since July 2008; Vice Chairman, Aflac Japan, until July 2008	50
Joey M. Loudermilk	Executive Vice President, General Counsel and Corporate Secretary, Aflac Incorporated and Aflac; Director, Legal and Governmental Relations, Aflac	58
Audrey B. Tillman	Executive Vice President, Corporate Services, Aflac Incorporated, since January 2008; Senior Vice President, Corporate Services, Aflac Incorporated, until January 2008	47
Tohru Tonoike	President, Chief Operating Officer, Aflac Japan, since July 2007;	61
	Deputy President, Aflac Japan, from February 2007 until July 2007; President and Representative Director, The Dai-ichi Kangyo Asset	
	Management Co., Ltd., until February 2007	
Teresa L. White	Executive Vice President, Chief Administrative Officer, Aflac, since March 2008; Senior Vice President, Deputy Chief Administrative Officer, Aflac, from March 2007 until March 2008; Senior Vice President, Sales Support and Administration, Aflac, until March 2007	45
Robin Y. Wilkey	Senior Vice President, Investor Relations, Aflac Incorporated, since October 2010; Vice President, Investor Relations, Aflac Incorporated, until October 2010	53
Hiroshi Yamauchi	Executive Vice President, Planning and Research, Human Resources and General Affairs, Investments, Financial Accounting, Actuarial and Investment Risk Management, IT, and Compliance, Aflac Japan, since January 2012; First Senior Vice President, Planning, Government Affairs & Research, Customer Services Promotion, Legal, Risk Management, and Compliance 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	60

[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.*

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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, Japan and elsewhere. Financial markets in the United States, Europe and Asia experienced extreme disruption during the latter part of 2008 and much of 2009. Concerns over the availability and cost of credit, the U.S. mortgage market, a declining real estate market in the United States, energy costs and geopolitical issues, among other factors, contributed to increased volatility and diminished expectations for the economy and the markets. These factors, combined with volatile commodity prices, declining business and consumer confidence, increased unemployment, and the impact of the economy on businesses, in particular, precipitated an economic slowdown and fears of a sustained recession.

The volatility and heightened perception of risk that plagued fixed income markets during this period have diminished somewhat, and liquidity is greatly improved in many sectors of the market. However, beginning in early 2010, risk of sovereign defaults or restructurings, combined with decreased valuations and liquidity for certain entities in the European banking sector, have negatively impacted securities issued by these entities. These developments may have an adverse effect on our capital position, in part because 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. Our revenues may decline in such circumstances and our profit margins may erode.

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. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit to the financial services industry and our credit ratings, as well as the 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.

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.

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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 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. As a result, numerous financial institutions have received capital both in the form of emergency loans and direct Treasury equity investments. Within the United States, the Federal Reserve has taken action through reduced federal funds rates and the expansion of acceptable collateral for its loans to provide additional liquidity. In February 2009, the U.S. Congress passed a $787 billion economic stimulus plan. The U.S. Federal Reserve has also engaged in several rounds of quantitative easing in the form of direct purchases of Treasury notes and bonds. The most recent was announced in November 2010 and ended by the third quarter of 2011. In addition to quantitative easing exercises, in the third and fourth quarters of 2011, the U.S. Federal Reserve performed a bond-swap program, called Operation Twist, whereby shorter maturity bonds were sold and longer maturity bonds were purchased in order to lower long-term interest rates. Within the United Kingdom and Eurozone, similar actions including interest rate cuts and capital injections into financial institutions have been undertaken, including certain institutions that are obligors of the perpetual securities in our investment portfolio. In December 2011, the European Central Bank (ECB) introduced a long term refinancing operation (LTRO). The program provides collateralized three-year low interest loans to financial institutions. This program is anticipated to provide much needed liquidity to Eurozone financial institutions.

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.

There can be no assurance as to the effect that these governmental actions or other governmental actions taken in the future 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, or counterparties of fixed maturity securities and perpetual securities we own may default on principal, interest and other payments they owe us. We are also subject to the risk that the underlying collateral within loan-backed securities, including collateralized debt obligations (CDOs) and mortgage-backed securities, may default on principal and interest payments, causing an adverse change in cash flows from our investment portfolio. The credit rating agencies have been reviewing and modifying their rating criteria for fixed income securities and perpetual securities issued by financial institutions. As a result, many of these securities have been downgraded and may experience further downgrades. The credit rating agencies have also been reviewing and modifying their ratings of sovereigns, particularly the members of the Eurozone. As a result, our holdings of sovereign debt could be downgraded. In addition, the downgrade of a sovereign could also impact the rating and valuation of those corporations domiciled in the sovereign because securities issued by corporations, with even moderate links to their sovereign domiciles, will experience rating downgrades if their sovereign domicile is also downgraded. If burden sharing is imposed for investments in going-concern issuers, we would possibly realize losses as a result of an involuntary change in terms or a reduction in principal or interest. We are not currently required to recognize losses on securities as long as our intent remains not to sell them prior to their anticipated recovery in fair value. If we determine to reposition or realign portions of our investment portfolio so as not to hold certain securities in an unrealized loss position to recovery, we will incur a charge against net income for the unrealized loss in the period that the decision was made not to hold the security to recovery.

In addition to our credit exposure to various obligors and counterparties, we are also exposed to credit spreads, primarily relating to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads will increase the net unrealized loss position of our fixed maturity investment portfolio, and if issuer credit spreads increase significantly or for an extended period of time, it would likely result in higher

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other-than-temporary impairment charges. Credit spread tightening will reduce net investment income associated with new purchases of fixed maturity securities. In addition, market volatility has made it difficult to value certain of our securities, such as our perpetual securities and our investments in CDOs and variable interest entities, as trading of such securities has become less frequent. As such, our valuations of such securities may include assumptions or estimates that may have significant period-to-period changes, which could have a material adverse effect on our results of operations and financial condition. Ongoing challenges that may impact valuations include continued weakness in the U.S. real estate market and increased mortgage delinquencies, investor anxiety over the U.S. and global economy, including sovereign issuers, and rating agency downgrades of various structured products and financial issuers.

For more information regarding credit risk, see the Market Risks of Financial Instruments Credit Risk subsection of MD&A in this report.

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 brokers and dealers, commercial banks and other institutions. Additionally, one of our highest 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. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be liquidated at prices sufficient to recover the full amount of the loan. Any losses or impairments to the carrying value of these assets may materially and adversely impact our business and results of operations. We have agreements with various financial institutions for the distribution of our insurance products. For example, at December 31, 2011, we had agreements with 370 banks to market Aflac s products in Japan. Sales through these banks represented 29% of Aflac Japan s new annualized premium sales in 2011. 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.

We maintain investments in perpetual securities, which have no stated maturity. As of December 31, 2011, we held $6.9 billion of perpetual securities, which represented 6.9% of our total debt and perpetual securities, at amortized cost. Our holdings of perpetual securities are in the following geographic areas: Europe, excluding the United Kingdom (69%); the United Kingdom (9%); Japan (15%); and others (7%).

Perpetual securities have characteristics of both debt and equity investments. The securities have stated interest coupons that were fixed at their time of issuance and subsequently change to a floating, short-term rate of interest of 125 to more than 300 basis points above a pre-determined market index, generally by the 25th year after issuance. While we generally believe that this interest step-up has the effect of creating an economic maturity date of the perpetual securities, no assurances can be given that the issuers of these securities will repay the principal at the time any interest step-up becomes effective.

Perpetual securities typically provide that the issuer is able to defer payment of interest on the securities for up to five years. The Upper Tier II securities that we own have cumulative deferrable payment provisions. However, the Tier I securities that we own do not have similar provisions. No assurance can be given that the issuers of these securities will not defer making interest payments.

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 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 market 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) currently has a comprehensive project on its agenda to consider changes in the recognition, measurement and impairment of all financial instruments. The outcome and timing of this project is uncertain but could result in

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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 $54.0 billion (52%) of our total cash and invested assets at December 31, 2011. 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, 2011, approximately 20%, 72% and 8% of our total available-for-sale securities represented Level 1, Level 2 and Level 3 securities, respectively. Securities that are less liquid are more difficult to value and trade. 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. Further, 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. Decreases in value may have a material adverse effect on our results of operations or financial condition.

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. 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. Management updates its evaluations regularly and reflects impairments in its income statement as such evaluations are revised. There can,

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however, be no assurance that our management has accurately assessed the level of impairments reflected in our financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

An investment in a fixed maturity or a perpetual security is impaired if its fair value falls below its book value. We regularly review our entire investment portfolio for declines in value. Under our debt impairment model, if we believe that a decline in the value of a particular investment is temporary, no impairment is taken. However, 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 the decline or appreciation as an unrealized loss or gain in accumulated other comprehensive income. Management s assessment of a decline in value includes current judgment as to the financial position and future prospects of the entity that issued the investment security. In the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment s fair value, to the extent below the investment s cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its fair value and record a realized loss in our consolidated statements of earnings. The determination of whether an impairment is other than temporary is based on significant judgment and involves the consideration of various factors and circumstances, which includes but is not limited to the following:

- issuer financial condition, including profitability and cash flows
- credit status of the issuer
- the issuer s specific and general competitive environment
- published reports
- general economic environment
- future prospects of the issuer
- regulatory, legislative and political environment
- the severity of the decline in fair value
- the length of time the fair value is below cost
- our intent or need to dispose of the security prior to recovery of its fair value to amortized cost
- other factors as may become available from time to time

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.

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

We attempt to match the duration of our assets with the duration of our liabilities. At December 31, 2011, the average duration of Aflac Japan s policy liabilities was approximately 14 years and the average duration of its yen-denominated debt and perpetual securities was approximately 13 years. The duration of the perpetual securities is based upon their economic maturity dates. Since the securities have no fixed maturity date, there is no assurance that the securities will be repaid on the dates assumed. When the principal of our debt securities or perpetual securities is repaid, there is a risk that the proceeds will be reinvested at a yield below that of the interest required for the accretion of policy liabilities. Our net investment income has been negatively affected by the low level of investment yields in Japan in the last three years.

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

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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. At December 31, 2011, approximately 27% of our total portfolio of debt and perpetual securities, on an amortized cost basis, was in the bank and financial institution sector. In addition, at December 31, 2011, with the exception of investments in Japanese government bonds (JGBs), we had four 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.

Our concentration of business in Japan poses risks to our operations.

Our operations in Japan, including realized gains and losses on the Japan investment portfolio, accounted for 75% of our total revenues for 2011 and 2010, compared with 73% for 2009. The Japanese operations accounted for 87% of our total assets at December 31, 2011, compared with 86% at December 31, 2010. The Bank of Japan s January 2012 *Monthly Report of Recent Economic and Financial Developments* stated that Japan s economic activity as of the end of 2011 has been more or less flat, due to the effects of a slowdown in overseas economies and the appreciation of the yen. The report projected that Japan s economy is expected to gradually return to a moderate recovery path as the pace of recovery in overseas economies improves and reconstruction demand related to the tsunami and earthquake disaster in 2011 gradually materializes. Exports and production are expected to remain more or less flat for the time being and increase moderately thereafter, housing investment and public investment are expected to increase gradually, and private consumption is expected to remain firm. A potential deterioration in Japan s economic recovery could have an adverse effect on our 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 financial and capital markets risk which may adversely affect our results of operations, financial condition and liquidity, and our net investment income can vary from period to period.

We are exposed to significant financial and capital markets risk, including changes in foreign currency, interest rates, real estate markets, market volatility, the performance of the economy in general, the performance of the specific obligors included in our investment portfolio and other factors outside our control.

Foreign Currency Risk

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

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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 or that counterparties to these activities will perform their obligations.

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.

Interest Rate Risk

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. Slower investment income growth will occur 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 would improve our ability to earn higher rates of return on funds that we reinvest. Conversely, a decline in interest rates would 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.

We also have an exposure to interest rates related to the value of the substantial investment portfolios that support our policy liabilities. A rise in interest rates would increase the net unrealized loss position of our debt and perpetual securities. Conversely, a decline in interest rates would 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 would 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, continued volatility, the strengthening or weakening of the yen against the dollar, changes in interest rates, changes in credit spreads and defaults, market liquidity and declines in equity prices, individually or in tandem, could have a material adverse effect on our consolidated results of operations, financial condition or cash flows through realized losses, impairments, and changes in unrealized positions.

For more information regarding foreign currency and interest rate risk, see the Currency Risk and Interest Rate Risk subsections 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

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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

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- 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 Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, 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 will be phased in over the next several years and are directed toward major medical health insurance coverage, which Aflac does not offer. Accordingly, our products are not subject to or covered under the major provisions of the new legislation as enacted. However, indirect consequences of the legislation and yet-to-be implemented regulations could potentially have an impact on our financial condition and results of operations.

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 and Oversight Council. The Council may designate by a two-thirds vote whether certain insurance companies and insurance holding companies pose a grave 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, 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. 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 will have the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. 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.

It is not possible to predict with any degree of certainty whether any other proposed legislation or regulatory changes will be adopted in the United States or Japan or what impact, if any, such new laws, or any future regulation, will have on our 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.

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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, Nationally Recognized Statistical Rating Organizations (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 and potentially increasing the cost of debt.

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 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.

The success of our business depends in part on effective information technology systems and on continuing to develop and implement improvements in technology; certain significant multiyear strategic information technology projects are currently in process.

Our business depends in large part on our technology systems for interacting with employers, policyholders and sales associates, and our business strategy involves providing customers with easy-to-use products to meet their 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). While we are in a continual state of upgrading and enhancing our business systems, changes are always challenging in a 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.

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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 International Accounting Standards Board (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 International Financial Reporting Standards (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 will 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. 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 FASB and IASB are also working jointly on revising the guidelines for recognizing impairments of financial instruments. The revisions will cause investment losses to be recognized sooner. These boards are targeting the second half of 2012 to issue exposure documents on both topics. 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.

See Note 1 of the Notes to the Consolidated Financial Statements in this report for a discussion of recent changes in accounting standards 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

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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 cannot guarantee that the services of these executives will be available to us, and our operations could be adversely affected if they are not.

The impact of the earthquake and tsunami natural disaster in March 2011 and related events at the nuclear plant in Japan and their aftermath could adversely affect our financial condition and results of operations.

As of December 31, 2011, based on our claims experience and our claims estimates, our initial provision regarding the earthquake and tsunami has proven to be adequate; however, our claims estimates are based on judgments that considered assumptions and projections which are subject to change to reflect future information. Although the impact of the natural disaster and its related events 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.

Our business operations in Japan have continued to be fully functional in the aftermath of the natural disaster. However, the recent events in Japan could impair the recovery of the Japanese economy, which could have an adverse effect on our results of operations and financial condition. 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 principles
- 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

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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 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.

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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

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**

2010	High	Low
4th Quarter	$ 58.31	$ 50.89
3rd Quarter	53.88	41.55
2nd Quarter	56.56	39.91
1st Quarter	55.20	45.78

Holders

As of February 16, 2012, there were 87,185 holders of record of the Company s common stock.

Dividends

	2011	2010
4th Quarter	**$ .33**	$ .30
3rd Quarter	**.30**	.28
2nd Quarter	**.30**	.28
1st Quarter	**.30**	.28

In January 2012, the board of directors declared the first quarter 2012 cash dividend of $.33 per share. The dividend is payable on March 1, 2012, to shareholders of record at the close of business on February 15, 2012. 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.

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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,

	2006	2007	2008	2009	2010	2011
Aflac Incorporated	100.00	138.24	103.01	107.59	134.38	105.74
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
S&P Life & Health Insurance	100.00	111.00	57.37	66.30	83.05	65.85

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Issuer Purchases of Equity Securities

During the fourth quarter of 2011, 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
October 1 - October 31	50,424	$ 45.84	50,000	25,220,254
November 1 - November 30	432,156	43.50	430,600	24,789,654
December 1 - December 31	421,119	42.80	419,400	24,370,254
Total	903,699[(2)]	$ 43.30	900,000	24,370,254[(1)]

[(1)] *The total remaining shares available for purchase at December 31, 2011, consisted of 24,370,254 shares related to a 30,000,000 share repurchase authorization by the board of directors announced in January 2008.*

[(2)] *During the fourth quarter of 2011, 3,699 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.*

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ITEM 6. SELECTED FINANCIAL DATA

Aflac Incorporated and Subsidiaries

Years Ended December 31,

(In millions, except for share and per-share amounts)	**2011**	2010	2009	2008	2007
Revenues:					
Premiums, principally supplemental health insurance	**$ 20,362**	$ 18,073	$ 16,621	$ 14,947	$ 12,973
Net investment income	**3,280**	3,007	2,765	2,578	2,333
Realized investment gains (losses)	**(1,552)**	(422)	(1,212)	(1,007)	28
Other income	**81**	74	80	36	59
Total revenues	**22,171**	20,732	18,254	16,554	15,393
Benefits and expenses:					
Benefits and claims	**13,749**	12,106	11,308	10,499	9,285
Expenses	**5,430**	5,041	4,711	4,141	3,609
Total benefits and expenses	**19,179**	17,147	16,019	14,640	12,894
Pretax earnings	**2,992**	3,585	2,235	1,914	2,499
Income taxes	**1,028**	1,241	738	660	865
Net earnings	**$ 1,964**	$ 2,344	$ 1,497	$ 1,254	$ 1,634
Share and Per-Share Amounts					
Net earnings (basic)	**$ 4.21**	$ 5.00	$ 3.21	$ 2.65	$ 3.35
Net earnings (diluted)	**4.18**	4.95	3.19	2.62	3.31
Cash dividends paid	**1.23**	1.14	1.12	.96	.80
Cash dividends declared	**1.23**	1.14	.84	1.24	.615
Weighted-average common shares used for basic EPS (In thousands)	**466,519**	469,038	466,552	473,405	487,869
Weighted-average common shares used for diluted EPS (In thousands)	**469,370**	473,085	469,063	478,815	493,971
Supplemental Data					
Yen/dollar exchange rate at year-end (yen)	**77.74**	81.49	92.10	91.03	114.15
Weighted-average yen/dollar exchange rate (yen)	**79.73**	87.69	93.49	103.46	117.93

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Aflac Incorporated and Subsidiaries

December 31,

(In millions)	**2011**	2010	2009	2008	2007
Assets:					
Investments and cash	**$ 103,462**	$ 88,230	$ 73,192	$ 68,550	$ 57,056
Other	**13,640**	12,809	10,914	10,781	8,749
Total assets	**$ 117,102**	$ 101,039	$ 84,106	$ 79,331	$ 65,805
Liabilities and shareholders equity:					
Policy liabilities	**$ 94,593**	$ 82,456	$ 69,245	$ 66,219	$ 50,676
Notes payable	**3,285**	3,038	2,599	1,721	1,465
Income taxes	**2,613**	1,969	1,653	1,201	2,531
Other liabilities	**3,105**	2,520	2,192	3,551	2,338
Shareholders equity	**13,506**	11,056	8,417	6,639	8,795
Total liabilities and shareholders equity	**$ 117,102**	$ 101,039	$ 84,106	$ 79,331	$ 65,805

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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 similar words as well as specific projecti results, generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements.

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

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and credit downgrades of securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac s investment in perpetual securities
- differing judgments applied to investment valuations
- significant valuation judgments in determination of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular single-issuer or sector
- concentration of business in Japan
- ongoing changes in our industry

exposure to significant financial and capital markets risk

fluctuations in foreign currency exchange rates

significant changes in investment yield rates

deviations in actual experience from pricing and reserving assumptions

subsidiaries ability to pay dividends to Aflac Incorporated

changes in law or regulation by governmental authorities

ability to attract and retain qualified sales associates and employees

decreases in our financial strength or debt ratings

ability to continue to develop and implement improvements in information technology systems

changes in U.S. and/or Japanese accounting standards

failure to comply with restrictions on patient privacy and information security

level and outcome of litigation

ability to effectively manage key executive succession

impact of the recent earthquake and tsunami natural disaster and related events at the nuclear plant in Japan and their aftermath

catastrophic events including, but not necessarily limited to, tornadoes, hurricanes, earthquakes, tsunamis, and damage incidental to such events

failure of internal controls or corporate governance policies and procedures

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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, 2011. 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

Results for 2011 benefited from the stronger yen/dollar exchange rate. Total revenues rose 6.9% to $22.2 billion, compared with $20.7 billion a year ago. Net earnings were $2.0 billion, or $4.18 per diluted share, compared with $2.3 billion, or $4.95 per diluted share, in 2010.

Results for 2011 included pretax net realized investment losses of $1.6 billion ($1.0 billion after-tax), compared with net investment losses of $422 million ($274 million after-tax) in 2010. Net investment losses in 2011 consisted of $1.9 billion ($1.2 billion after-tax) of other-than-temporary impairment losses; $594 million of net gains ($386 million after-tax) from the sale or redemption of securities; and $245 million of net losses ($159 million after-tax) from valuing derivatives. Shareholders equity at December 31, 2011, included a net unrealized gain on investment securities (including derivatives) of $1.2 billion, compared with a net unrealized gain (including derivatives) of $64 million at December 31, 2010.

In July 2011, we issued three series of Samurai notes totaling 50 billion yen through a public debt offering. In September 2011, we redeemed 35 billion yen (approximately $459 million using the exchange rate on the date of redemption) of our Uridashi notes upon their maturity. We repurchased 6.0 million shares of our common stock in the open market during 2011.

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to GAAP issued by the FASB are derived from the FASB Accounting Standards Codification^{TM} (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, liabilities for future policy benefits and

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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 83% of our liabilities are reported as of December 31, 2011, 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, 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. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with applicable accounting guidance. 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 and require evaluation of factors, including but not limited to:

- issuer financial condition, including profitability and cash flows
- credit status of the issuer
- the issuer s specific and general competitive environment
- published reports
- general economic environment
- regulatory, legislative and political environment
- the severity of the decline in fair value
- the length of time the fair value is below cost
- our intent, need, or both to sell the security prior to its anticipated recovery in value
- other factors as may become available from time to time

Our derivatives are primarily interest rate, foreign currency and credit default swaps that are associated with investments in special-purpose entities, including variable interest entities (VIEs) where we are the primary beneficiary. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility. Prior to the third quarter of 2011, these interest rate swaps and certain foreign currency swaps were priced by broker quotations. For our credit default swaps and certain foreign currency swaps, there were limited or no observable valuation inputs. We estimated the fair value of these instruments by obtaining broker quotes from a limited number of brokers. These brokers based their quotes on a combination of their knowledge of the current pricing environment and market conditions. In the third quarter of 2011, we changed from receiving valuations from brokers to receiving valuations from a third party pricing vendor for our derivatives.

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 assumptions 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 will emerge as a level percentage of earned premiums. 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.

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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 effective January 1, 2012.

As presented in the following table, the ratio of unamortized DAC to annualized premiums in force for Japan decreased in 2011 after having an upward trend for the previous two years. 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 and 2009 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. This schedule is very popular with our new agents as it helps them with cash flow for personal and business needs as they build their business. While this resulted in a higher unamortized DAC balance, the overall cost to the Company was reduced.

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 and was also impacted by the loss of a large payroll account in 2010 which had a lower ratio of unamortized DAC to annualized premiums in force.

Deferred Policy Acquisition Cost Ratios

	Aflac Japan			Aflac U.S.		
(In millions)	**2011**	2010	2009	**2011**	2010	2009
Deferred policy acquisition costs	**$ 7,733**	$ 6,964	$ 5,846	**$ 2,921**	$ 2,770	$ 2,687
Annualized premiums in force	**17,284**	15,408	13,034	**5,188**	4,973	4,956
Deferred policy acquisition costs as a percentage of annualized premiums in force	**44.7%**	45.2%	44.9%	**56.3%**	55.7%	54.2%

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Policy Liabilities

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

Policy Liabilities

(In millions)	2011	2010
Japan segment:		
Future policy benefits	**$ 72,792**	$ 66,023
Unpaid policy claims	**2,786**	2,592
Other policy liabilities	**10,944**	6,257
Total Japan policy liabilities	**$ 86,522**	$ 74,872
U.S. segment:		
Future policy benefits	**$ 6,484**	$ 6,078
Unpaid policy claims	**1,195**	1,126
Other policy liabilities	**390**	377
Total U.S. policy liabilities	**$ 8,069**	$ 7,581
Consolidated:		
Future policy benefits	**$ 79,278**	$ 72,103
Unpaid policy claims	**3,981**	3,719
Other policy liabilities	**11,334**	6,634
Total consolidated policy liabilities	**$ 94,593**	$ 82,456

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 84% and 4% of total policy liabilities as of December 31, 2011, 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.

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Our fourth quarter 2011 review 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. Our fourth quarter 2010 review indicated that we needed to strengthen the liability for a closed block of dementia policies in Japan, primarily due to low investment yields. We strengthened our future policy benefits liability by $93 million in 2010 for this closed block of policies.

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, 2011, to changes in severity and frequency of claims. For the years 2009 through 2011, 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	$ 23	$ 46	$ 70	$ 93
Increase by 1%	(23)	0	23	46	70
Unchanged	(45)	(23)	0	23	46
Decrease by 1%	(67)	(45)	(23)	0	23
Decrease by 2%	(89)	(67)	(45)	(23)	0

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)	**2011**	2010	2009
Aflac U.S.	**$ 6,484**	$ 6,078	$ 5,779
Growth rate	**6.7%**	5.2%	6.2%
Aflac Japan	**$ 72,792**	$ 66,023	$ 55,720
Growth rate	**10.3%**	18.5%	3.4%
Consolidated	**$ 79,278**	$ 72,103	$ 61,501
Growth rate	**10.0%**	17.2%	3.7%
Yen/dollar exchange rate (end of period)	**77.74**	81.49	92.10
Aflac Japan (in yen)	**5,659**	5,380	5,132
Growth rate	**5.2%**	4.8%	4.7%

The growth of total consolidated future policy benefits liability in dollars was primarily driven by the strengthening of the yen against the U.S. dollar in 2011 and 2010; however, it was offset in 2009 by the weakening of the yen against the U.S. dollar. 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.

Other policy liabilities, which accounted for 12% of total policy liabilities as of December 31, 2011, consisted primarily of discounted advance premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan insurance products. See the Aflac Japan Segment subsection of this MD&A for further information.

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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

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. We will adopt amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts effective January 1, 2012. 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. The guidance is effective on a prospective or retrospective basis. As of the date of adoption, approximately 70% of our deferred acquisition cost balance was related to compensation paid to third party agents for successful sales and remains deferrable under the amended accounting guidance. The remaining 30% of our deferred acquisition costs balance was evaluated for deferral under the amended accounting guidance. We estimate that the retrospective adoption of this accounting standard effective January 1, 2012, will result in an after-tax cumulative reduction to opening retained earnings of $400 million to $500 million, or 3.6% to 4.5% of shareholder s equity, as of December 31, 2010. We also estimate the adoption will result in an immaterial impact on net income in 2011 and 2012 and for all preceding years.

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

RESULTS OF OPERATIONS

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

Items Impacting Net Earnings

	In Millions			**Per Diluted Share**		
	2011	2010	2009	**2011**	2010	2009
Net earnings	**$ 1,964**	$ 2,344	$ 1,497	**$ 4.18**	$ 4.95	$ 3.19
Items impacting net earnings, net of tax:						
Realized investment gains (losses):						
Securities transactions and impairments	**(850)**	(273)	(788)	**(1.81)**	(.58)	(1.67)
Impact of derivative and hedging activities	**(159)**	(1)	0	**(.34)**	.00	.00
Gain on extinguishment of debt	**0**	0	11	**.00**	.00	.02
Other	**0**	0	(3)	**.00**	.00	(.01)

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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 aligns our assets with our liability structure, which our assets support. 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 2011, we realized pretax investment losses of $1.9 billion ($1.2 billion after-tax) as a result of the recognition of other-than-temporary impairment losses on certain securities. 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 credit worthiness of certain issuers. Gains were primarily driven by the sale of U.S. Treasury strips and Japanese Government bonds (JGBs) that were part of a bond-swap program.

In 2010, we realized pretax investment losses of $459 million ($298 million after-tax) as a result of the recognition of other-than-temporary impairment losses. 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.

In 2009, we realized pretax investment losses of $1.4 billion ($884 million after-tax) as a result of the recognition of other-than-temporary impairment losses. We realized pretax investment losses of $101 million ($66 million after-tax) from the exchange of certain perpetual security investments into fixed-maturity securities. The losses were partially offset by pretax investment gains of $250 million ($162 million after-tax) that were generated primarily from a bond-swap program that took advantage of tax loss carryforwards.

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)	**2011**	2010	2009
Perpetual securities	**$ 565**	$ 160	$ 729
Corporate bonds	**1,316**	285	458
Collateralized debt obligations	**0**	0	148
Mortgage- and asset-backed securities	**17**	12	24
Municipalities	**2**	0	0
Equity securities	**1**	2	2
Total other-than-temporary impairment losses realized	**$ 1,901**[(1)]	$ 459[(2)]	$ 1,361[(2)]

[(1)] *Includes $1.3 billion for credit-related impairments and $615 million from change in intent to sell securities*
[(2)] *Consisted completely of credit-related impairments*

Impact of Derivative and Hedging Activities

Effective January 1, 2010, we adopted updated accounting guidance which resulted in the consolidation of certain VIEs in which we have an investment. Upon consolidation, the beneficial interest in these VIEs was derecognized and the underlying collateral assets (fixed-maturity securities and perpetual securities) and corresponding foreign currency, interest rate and credit default swaps were recognized. The change in value of the swaps is recorded through current period earnings, and the change in value of the available-for-sale fixed-maturity and perpetual securities associated with these swaps is recorded through other comprehensive income. We realized pretax investment losses, net of gains, of

$245 million ($159 million after-tax) in 2011 and $1 million ($.7 million

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after-tax) in 2010 from valuing foreign currency, interest rate and credit default swaps related to our consolidated VIEs. 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.

Debt Extinguishment

We did not early extinguish any debt during 2011 or 2010. During 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We realized a total gain from extinguishment of debt of 1.6 billion yen, or $17 million ($11 million after-tax), which we included in other income.

Foreign Currency Translation

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

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current 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. 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 34.4% in 2011, 34.6% in 2010 and 33.0% in 2009. The lower effective tax rate in 2009 primarily reflected the settlement of an examination by the Internal Revenue Service that reduced the tax liability by $24 million. Total income taxes were $1.0 billion in 2011, compared with $1.2 billion in 2010 and $738 million in 2009. 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

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

Subject to the preceding assumptions, our objective for 2011 was to increase net earnings per diluted share by 8% over 2010. We reported 2011 net earnings per diluted share of $4.18. Adjusting that number for after-tax realized investment losses ($2.15 per diluted share) and foreign currency translation (a gain of $.36 per diluted share), we met our objective for the year.

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Our objective for 2012 is to increase net earnings per diluted share by 2% to 5% over 2011, excluding the effect of realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities), nonrecurring items, and foreign currency translation. This range reflects the impact of portfolio derisking and investing significant cash flows at low interest rates. Once the effects of our investment derisking activities and low interest rate yields on investments have been integrated into our financial results, we expect the rate of earnings growth in 2013 to improve over 2012. If we achieve our objective, the following table shows the likely results for 2012 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

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

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share	% Growth Over 2011	Yen Impact on EPS
70.00	$7.02 - 7.21	10.9 - 13.9%	$.56
75.00	6.71 - 6.90	6.0 - 9.0	.25
79.73[(2)]	6.46 - 6.65	2.1 - 5.1	.00
80.00	6.45 - 6.64	1.9 - 4.9	(.01)
85.00	6.21 - 6.41	(1.9) - 1.1	(.25)

[(1)] *Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items in 2012 and 2011*

[(2)] *Actual 2011 weighted-average exchange rate*

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.

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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)	**2011**	2010	2009
Premium income	**$ 15,619**	$ 13,487	$ 12,178
Net investment income:			
Yen-denominated investment income	**1,799**	1,645	1,510
Dollar-denominated investment income	**889**	808	755
Net investment income	**2,688**	2,453	2,265
Other income (loss)	**46**	37	43
Total operating revenues	**18,353**	15,977	14,486
Benefits and claims	**11,037**	9,553	8,746
Operating expenses:			
Amortization of deferred policy acquisition costs	**686**	597	523
Insurance commissions	**1,179**	1,103	1,060
Insurance and other expenses	**1,593**	1,441	1,357
Total operating expenses	**3,458**	3,141	2,940
Total benefits and expenses	**14,495**	12,694	11,686
Pretax operating earnings[(1)]	**$ 3,858**	$ 3,283	$ 2,800
Weighted-average yen/dollar exchange rate	**79.73**	87.69	93.49

	In Dollars			In Yen		
Percentage change over previous year:	**2011**	2010	2009	**2011**	2010	2009
Premium income	**15.8%**	10.8%	14.1%	**5.4%**	3.8%	3.3%
Net investment income	**9.6**	8.3	10.3	**(.4)**	1.6	(.1)
Total operating revenues	**14.9**	10.3	13.7	**4.5**	3.4	3.0
Pretax operating earnings[(1)]	**17.5**	17.3	24.4	**6.8**	10.0	12.4

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

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 7.0% in 2011, 4.6% in 2010 and 3.3% in 2009 reflect the high persistency of Aflac Japan s business and the sales of new policies. Annualized premiums in force at December 31, 2011, were 1.34 trillion yen, compared with 1.26 trillion yen in 2010 and 1.20 trillion yen in 2009. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $17.3 billion in 2011, $15.4 billion in

2010, and $13.0 billion in 2009.

Aflac Japan maintains a portfolio of dollar-denominated 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 2011, 2010 and 2009. 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 35% of Aflac Japan s investment income during 2011, compared with 34% in 2010 and 36% in 2009.

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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)]		
	2011	2010	2009	**2011**	2010	2009
Net investment income	**(.4)%**	1.6%	(.1)%	**3.0%**	3.8%	3.4%
Total operating revenues	**4.5**	3.4	3.0	**5.1**	3.8	3.5
Pretax operating earnings[(1)]	**6.8**	10.0	12.4	**9.3**	12.1	15.1

(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.*

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:	**2011**	2010	2009
Benefits and claims	**60.1%**	59.8%	60.4%
Operating expenses:			
Amortization of deferred policy acquisition costs	**3.7**	3.7	3.6
Insurance commissions	**6.4**	6.9	7.3
Insurance and other expenses	**8.8**	9.0	9.4
Total operating expenses	**18.9**	19.6	20.3
Pretax operating earnings[(1)]	**21.0**	20.6	19.3

(1) *See the Insurance Operations section of this MD&A for our definition of segment operating earnings.*

Aflac Japan s financial results for 2011 reflected a provision of 3.0 billion yen, or $37 million, for claims related to the earthquake and tsunami that occurred in Japan on March 11, 2011. These claims were offset by reserve releases and reinsurance of 2.0 billion yen, or $25 million, resulting in a net income statement impact of 1.0 billion yen, or $12 million, in 2011. The financial results also reflected .7 billion yen, or $8 million, of operating expenses in the first quarter of 2011 resulting from the earthquake and tsunami. Based on our claims experience to date and our claims estimates, we believe that our initial provision is adequate. The natural disaster and its related events have not had a material impact on our financial position or results of operations.

In the past several years, the benefit ratio for our health products has been positively impacted by favorable claim trends, primarily in our cancer product line. We expect this downward claim trend to continue. However, for 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 third sector 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). Despite a slight increase in the benefit ratio in

2011, the decrease in the operating expense ratio resulted in an increase in the pretax operating profit margin, compared with 2010. In 2012, we expect to achieve our profit objectives through better-than-average premium growth associated with the life products and somewhat lower profit margins due to the change in business mix discussed above.

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Aflac Japan Sales

In 2011, Aflac Japan generated its largest annual production in its 36-year history. Our upwardly revised objective for 2011 was for sales to be flat to up 5% in yen. New annualized premium sales significantly exceeded our expectations during 2011 and rose to 161.0 billion yen, an 18.6% increase compared with 2010. 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)	**2011**	2010	2009	**2011**	2010	2009
New annualized premium sales	**$ 2,027**	$ 1,554	$ 1,310	**161.0**	135.8	122.3
Increase (decrease) over prior year	**30.5%**	18.6%	17.5%	**18.6%**	11.0%	6.7%

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

	2011	2010	2009
Medical	**22%**	34%	39%
Cancer	**20**	22	28
Ordinary life:			
Child endowment	**17**	19	9
WAYS	**26**	9	6
Other ordinary life	**10**	12	14
Other	**5**	4	4
Total	**100%**	100%	100%

The bank channel generated new annualized premium sales of 46.5 billion yen in 2011, an increase of 133.9% over 2010. Bank channel sales generated 29% of new annualized premium sales for Aflac Japan in 2011, compared with 15% in 2010 and 6% in 2009. As the bank channel has become a larger contributor to sales, Aflac Japan has enhanced its product portfolio to better meet the needs of banks. These products include our child endowment product and WAYS, a product that we first introduced in 2006 and introduced to the bank channel in 2009. WAYS has been a primary driver of Aflac Japan s sales increase in 2011. 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. Sales of WAYS were 42.1 billion yen during 2011, an increase of 248.0% over 2010. Our profit margin on WAYS is significantly enhanced when policyholders elect to pay premiums upfront using the discounted advance premium option. Approximately 90% of customers at banks choose this payment option.

Cancer insurance sales increased 5.8% during 2011, compared with 2010. The increase primarily reflected sales of the new base cancer policy, DAYS, which was introduced at the end of March 2011, and DAYS PLUS, which upgrades older cancer policies. The enhancements in this new base policy are a response to the changes in cancer treatment as well as our commitment to being the number one provider of cancer insurance in Japan. We are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

Medical insurance sales decreased 22.7% during 2011, compared with 2010, primarily due to our traditional sales channels being focused on selling our DAYS and DAYS PLUS cancer policies. Despite the comparative sales decrease, we maintained our position as the number one seller of medical insurance policies in Japan. 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.

Sales of our child endowment product increased 8.3% in 2011, compared with 2010, however on a quarterly basis subsequent to the first quarter of 2011, sales of this product have either declined or remained flat compared to the comparable period in 2010. Having sold the child endowment product for more than two years, we have already made a first attempt at selling this product to the eligible target market of families with young children. We expect

child endowment sales to decline in 2012 as our distribution channels remain focused on selling WAYS and our new cancer product DAYS.

At December 31, 2011, we had agreements to sell our products at 370 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 third sector insurance products than any other insurer operating in Japan. We believe our long-standing and strong relationships within the Japanese banking sector, along with our strategic preparations, have proven to be an advantage as this channel opened up for our types of products.

We remain committed to selling through our traditional channels. These channels include affiliated corporate agencies, independent corporate agencies and individual agencies. In 2011, we recruited approximately 5,000 new sales agencies, an increase of 3.8% over 2010. At December 31, 2011, Aflac Japan was represented by more than 19,700 sales agencies and more than 120,700 licensed sales associates employed by those agencies.

We believe that there is still a continued need for our products in Japan. We expect that our strong sales results in 2011 will create difficult comparisons in 2012. Following strong sales growth in 2010 and 2011, our objective for 2012 is for new annualized premium sales to be in the range of down 2% to down 5% in Japan.

Aflac Japan Investments

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

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

	2011	2010	2009
New money yield yen only	**2.39%**	2.39%	2.80%
New money yield blended	**2.48**	2.63	3.03
Return on average invested assets, net of investment expenses	**3.18**	3.48	3.65

The decrease in the Aflac Japan s blended new money yield reflects the low level of interest rates. At December 31, 2011, the yield on Aflac Japan s investment portfolio, including dollar-denominated investments, was 3.29%, compared with 3.56% a year ago. In order to address our challenge of investing in Japan s low-interest-rate environment, in 2011 and 2010, we increased the amount Aflac Japan invested in higher-yielding dollar-denominated securities, including U.S. Treasury strips. We sold these U.S. Treasury strips at the end of 2011, when U.S. Treasury yields decreased, in order to realize investment gains.

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The following table presents the composition of total investments by sector, at amortized cost, and cash for Aflac Japan ($91.9 billion in 2011 and $78.4 billion in 2010) as of December 31.

Composition of Portfolio by Sector

	2011	2010
Debt and perpetual securities, at amortized cost:		
Banks/financial institutions[1]	**26.8%**	34.9%
Government and agencies	**32.5**	21.6
Municipalities	**.9**	.8
Public utilities	**11.8**	12.8
Collateralized debt obligations	**.0**	.1
Sovereign and supranational	**6.8**	7.7
Mortgage- and asset-backed securities	**1.4**	1.9
Other corporate[2]	**18.0**	18.9
Total debt and perpetual securities	**98.2**	98.7
Equity securities and other	**.2**	.2
Cash and cash equivalents	**1.6**	1.1
Total investments and cash	**100.0%**	100.0%

[1] *Includes 6.9% and 9.3% of perpetual securities at December 31, 2011 and 2010, respectively.*
[2] *Includes .4% of perpetual securities at December 31, 2011 and 2010.*

Our highest sector concentrations are in government and agencies and banks and financial institution securities. In regards to banks and financial institutions, our investment discipline begins with a top-down approach. We first approve each country we invest in, and within those countries, we primarily invest 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 achieve some degree of diversification through a geographically diverse universe of credit exposures. 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 91% of Aflac Japan s total debt and perpetual securities at December 31, 2011 and 2010, at amortized cost.

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 2,012.0 billion yen in 2011 (approximately $25.5 billion), 790.4 billion yen in 2010 (approximately $9.1 billion), and 955.6 billion yen in 2009 (approximately $10.1 billion). The purchases in 2011 were largely related to a bond-swap program as discussed further below. During the three-year period ended December 31, 2011, there were no purchases of perpetual securities, and equity security purchases were immaterial.

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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

	2011	2010	2009
Debt security purchases, at cost:			
Banks/financial institutions	**3.9%**	8.5%	4.6%
Government and agencies	**83.7**	55.1	49.3
Municipalities	**.7**	2.5	3.3
Public utilities	**2.4**	11.4	14.4
Sovereign and supranational	**.5**	5.8	11.2
Mortgage- and asset-backed securities	**.0**	2.3	1.9
Other corporate	**8.8**	14.4	15.3
Total	**100.0%**	100.0%	100.0%

The change in allocation of purchases from year to year is based on diversification objectives, relative value and availability of investment opportunities. The increase in purchases of securities in the government and agencies sector in 2011 was due to the investment in Japanese Government Bonds (JGBs) as part of a bond-swap program and as reinvestment of proceeds from sales of other securities. In addition, we purchased U.S. Treasury strips which were subsequently sold before the end of the year.

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 (Fitch Ratings (Fitch), Moody s Investors Service (Moody s) and Standard & Poor s Ratings Services (S&P)) or, if not rated, are assigned based on our internal analysis of such securities. For investment grade securities where the ratings assigned by the major credit agencies are not equivalent, we use the highest rating that is assigned. 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

	2011	2010	2009
AAA	**7.0%**	.8%	7.9%
AA	**79.5**	68.9	62.9
A	**7.5**	18.5	28.5
BBB	**5.4**	11.8	.7
BB or lower	**.6**	.0	.0
Total	**100.0%**	100.0%	100.0%

Our purchases of securities are determined through an evaluation of attractive relative value that securities present while still meeting our investment policy guidelines for liquidity, safety and quality. 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. The increase in purchases of AA rated securities during 2011 was primarily due to the purchase of JGBs as discussed above. The purchases of BB or lower rated securities during 2011 was due to a limited program that we initiated in May 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 a third party firm specializing in this asset class. Its mandate requires a minimum average credit quality of BB-/Ba3, no loans rated below B/B2, and no 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.

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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

	2011		2010	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**2.4%**	**2.5%**	3.1%	3.4%
AA	**44.3**	**45.5**	38.3	39.4
A	**29.3**	**29.7**	34.6	35.2
BBB	**18.2**	**17.2**	17.6	17.4
BB or lower	**5.8**	**5.1**	6.4	4.6
Total	**100.0%**	**100.0%**	100.0%	100.0%

The overall credit quality of Aflac Japan s investments remained high. At the end of 2011, 94.2% 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.

Japanese Economy

Japan s economy experienced downward pressure in 2011 due to the effects of the earthquake and tsunami that occurred on March 11, 2011. However, according to monthly reports published by the Bank of Japan in 2011, the economy showed signs of the improvement in the months following the natural disaster. Production and exports increased at a moderate pace after declining sharply following the earthquake. In addition, both housing investment and private consumption showed signs of improvement. However, The Bank of Japan s January 2012 *Monthly Report of Recent Economic and Financial Developments* stated that, due to effects of the slowdown in overseas economies and the appreciation of the yen, economic activity and production exports have been more or less flat as of the end of 2011. Signs of improvement are still present, as housing investment has generally increased, public investment has stopped declining, and private consumption has remained firm. The report projected that Japan s economy is expected to gradually return to a moderate recovery path as the pace of recovery in overseas economies improves and reconstruction demand related to the tsunami and earthquake disaster gradually materializes. Exports and production are expected to remain more or less flat for the time being and increase moderately thereafter, housing investment and public investment are expected to increase gradually, and private consumption is expected to remain firm.

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 will apply a revised method of calculating the solvency margin ratio for life insurance companies as of fiscal year-end 2011 (March 31, 2012) and has encouraged the disclosure of the ratio as reference information as of fiscal year-end 2010 (March 31, 2011). 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 current calculation method. As of December 31, 2011, Aflac Japan s solvency margin ratio was 985.8% using the current calculation method and, disclosed as reference information, was 547.3% 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

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offices. The ruling coalition is currently in discussions with the major opposition parties regarding the direction of postal reform going forward. Regardless, we believe that the Diet debate on postal reform is unlikely to change Aflac Japan s relationship with the post office company.

AFLAC U.S. SEGMENT

Aflac U.S. Pretax Operating Earnings

Changes in Aflac U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac U.S. for the years ended December 31.

Aflac U.S. Summary of Operating Results

(In millions)	**2011**	2010	2009
Premium income	**$ 4,743**	$ 4,586	$ 4,444
Net investment income	**588**	549	499
Other income	**10**	11	10
Total operating revenues	**5,341**	5,146	4,953
Benefits and claims	**2,713**	2,553	2,561
Operating expenses:			
Amortization of deferred policy acquisition costs	**416**	433	419
Insurance commissions	**546**	534	508
Insurance and other expenses	**749**	702	689
Total operating expenses	**1,711**	1,669	1,616
Total benefits and expenses	**4,424**	4,222	4,177
Pretax operating earnings[(1)]	**$ 917**	$ 924	$ 776
Percentage change over previous year:			
Premium income	**3.4%**	3.2%	4.0%
Net investment income	**7.1**	9.9	(1.1)
Total operating revenues	**3.8**	3.9	3.5
Pretax operating earnings[(1)]	**(.8)**	19.2	4.1

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

Annualized premiums in force increased 4.3% in 2011, .3% in 2010 and 3.5% in 2009. Annualized premiums in force at December 31 were $5.2 billion in 2011, compared with $5.0 billion in 2010 and 2009.

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

Ratios to total revenues:	**2011**	2010	2009

Benefits and claims	**50.8%**	49.6%	51.7%
Operating expenses:			
Amortization of deferred policy acquisition costs	**7.8**	8.4	8.5
Insurance commissions	**10.2**	10.4	10.3
Insurance and other expenses	**14.0**	13.6	13.8
Total operating expenses	**32.0**	32.4	32.6
Pretax operating earnings[1]	**17.2**	18.0	15.7

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

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, our benefit ratio increased in 2011 toward more normal levels, compared with 2010. The expense ratio decreased in 2011; however, the offsetting

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increase in the benefit ratio resulted in a decline in the pretax operating profit margin, compared with 2010. In 2012, we expect the benefit and expense ratios and pretax operating profit margin to be similar to those experienced in 2011.

Aflac U.S. Sales

In 2011, Aflac U.S. generated new annualized premium sales growth of 6.8%, compared with prior year, exceeding our annual sales expectation of flat to 5% sales growth. We believe this sales improvement reflects our intense focus on supporting our field force with enhanced products, including group products, and other resources that help our sales force approach selling in the current economic environment more effectively. The following table presents Aflac s U.S. new annualized premium sales for the years ended December 31.

(In millions)	**2011**	2010	2009
New annualized premium sales	**$ 1,476**	$ 1,382	$ 1,453
Increase (decrease) over prior year	**6.8%**	(4.9)%	(6.4)%

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

	2011	2010	2009
Income-loss protection:			
Short-term disability	**18%**	17%	18%
Life	**6**	6	6
Asset-loss protection:			
Accident	**30**	30	30
Critical care[(1)]	**24**	23	23
Supplemental medical:			
Hospital indemnity	**16**	18	17
Dental/vision	**6**	6	6
Total	**100%**	100%	100%

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

New annualized premium sales for accident insurance, our leading product category, increased 5%, short-term disability sales increased 13%,