

AFLAC INC  
Form 10-Q  
November 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 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**

(State or other jurisdiction of incorporation or organization)

**1932 Wynnton Road, Columbus, Georgia**

(Address of principal executive offices)

**706.323.3431**

**58-1167100**

(I.R.S. Employer Identification No.)

**31999**

(ZIP Code)

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, \$.10 Par Value

October 27, 2011  
466,787,688

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**Aflac Incorporated and Subsidiaries**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended September 30, 2011**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Review by Independent Registered Public Accounting Firm**

The September 30, 2011, and 2010, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

The report of KPMG LLP commenting upon its review is included on the following page.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of September 30, 2011, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2011 and 2010, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2011 and 2010. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2010, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated February 25, 2011, we expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in the method of evaluating the consolidation of variable interest entities (VIEs) and qualified special purpose entities (QSPEs) in 2010 and a change in the method of evaluating other-than-temporary impairments of debt securities in 2009. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia  
November 4, 2011

**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Statements of Earnings**

| (In millions, except for share and per-share amounts - Unaudited)                                      | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2011                                | 2010     | 2011                               | 2010      |
| <b>Revenues:</b>   |                                     |          |                                    |           |
| Premiums, principally supplemental health insurance  | \$ 5,210                            | \$ 4,607 | \$ 15,037                          | \$ 13,288 |
| Net investment income  | 843                                 | 765      | 2,422                              | 2,218     |
| Realized investment gains (losses):  |                                     |          |                                    |           |
| Other-than-temporary impairment losses realized  | (166)                               | (13)     | (1,100)                            | (55)      |
| Sales and redemptions  | 307                                 | 8        | 49                                 | 0         |
| Derivative and other gains (losses)  | (224)                               | 14       | (279)                              | (72)      |
| Total realized investment gains (losses)   | (83)                                | 9        | (1,330)                            | (127)     |
| Other income   | 17                                  | 13       | 63                                 | 59        |
| Total revenues   | 5,987                               | 5,394    | 16,192                             | 15,438    |
| <b>Benefits and expenses:</b>  |                                     |          |                                    |           |
| Benefits and claims  | 3,517                               | 3,102    | 10,049                             | 8,843     |
| Acquisition and operating expenses:  |                                     |          |                                    |           |
| Amortization of deferred policy acquisition costs  | 272                                 | 243      | 814                                | 752       |
| Insurance commissions  | 438                                 | 412      | 1,287                              | 1,213     |
| Insurance expenses   | 558                                 | 505      | 1,609                              | 1,493     |
| Interest expense   | 52                                  | 39       | 143                                | 105       |
| Other operating expenses   | 45                                  | 38       | 132                                | 114       |
| Total acquisition and operating expenses   | 1,365                               | 1,237    | 3,985                              | 3,677     |
| Total benefits and expenses  | 4,882                               | 4,339    | 14,034                             | 12,520    |
| Earnings before income taxes   | 1,105                               | 1,055    | 2,158                              | 2,918     |
| Income taxes   | 361                                 | 365      | 740                                | 1,011     |
| Net earnings   | \$ 744                              | \$ 690   | \$ 1,418                           | \$ 1,907  |
| <b>Net earnings per share:</b>   |                                     |          |                                    |           |
| Basic  | \$ 1.60                             | \$ 1.47  | \$ 3.04                            | \$ 4.07   |
| Diluted  | 1.59                                | 1.46     | 3.02                               | 4.03      |
| <b>Weighted-average outstanding common shares used in computing earnings per share (In thousands):</b> |                                     |          |                                    |           |
| Basic  | 465,910                             | 469,868  | 466,843                            | 468,880   |
| Diluted  | 467,793                             | 473,569  | 469,919                            | 472,859   |
| <b>Cash dividends per share</b>  | \$ .30                              | \$ .28   | \$ .90                             | \$ .84    |

See the accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Balance Sheets**

| (In millions)   | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| <b>Assets:</b>  |                                      |                      |
| Investments and cash:   |                                      |                      |
| Securities available for sale, at fair value:   |                                      |                      |
| Fixed maturities (amortized cost \$43,978 in 2011 and \$43,133 in 2010)   | \$ 45,510                            | \$ 43,100            |
| Fixed maturities - consolidated variable interest entities (amortized cost \$4,903 in 2011 and \$4,969 in 2010)     | 5,365                                | 5,255                |
| Perpetual securities (amortized cost \$5,870 in 2011 and \$6,209 in 2010)   | 5,215                                | 5,974                |
| Perpetual securities - consolidated variable interest entities (amortized cost \$1,634 in 2011 and \$1,618 in 2010) | 1,315                                | 1,538                |
| Equity securities (cost \$22 in 2011 and 2010)  | 24                                   | 23                   |
| Securities held to maturity, at amortized cost:   |                                      |                      |
| Fixed maturities (fair value \$39,577 in 2011 and \$29,899 in 2010)   | 40,699                               | 29,470               |
| Fixed maturities - consolidated variable interest entities (fair value \$534 in 2011 and \$570 in 2010)             | 652                                  | 614                  |
| Other investments   | 166                                  | 135                  |
| Cash and cash equivalents   | 1,862                                | 2,121                |
| Total investments and cash  | 100,808                              | 88,230               |
| Receivables   | 1,028                                | 661                  |
| Accrued investment income   | 766                                  | 738                  |
| Deferred policy acquisition costs   | 10,575                               | 9,734                |
| Property and equipment, at cost less accumulated depreciation   | 626                                  | 620                  |
| Other   | 917 <sup>(1)</sup>                   | 1,056 <sup>(1)</sup> |
| Total assets  | \$ 114,720                           | \$ 101,039           |

<sup>(1)</sup> Includes \$407 in 2011 and \$564 in 2010 of derivatives from consolidated variable interest entities

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Balance Sheets (continued)**

| (In millions, except for share and per-share amounts)   | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| <b>Liabilities and shareholders' equity:</b>  |                                      |                      |
| Liabilities:  |                                      |                      |
| Policy liabilities:   |                                      |                      |
| Future policy benefits  | \$ 79,119                            | \$ 72,103            |
| Unpaid policy claims  | 4,033                                | 3,719                |
| Unearned premiums   | 1,554                                | 1,197                |
| Other policyholders' funds  | 8,286                                | 5,437                |
| Total policy liabilities  | 92,992                               | 82,456               |
| Notes payable   | 3,301                                | 3,038                |
| Income taxes  | 2,212                                | 1,969                |
| Payables for return of cash collateral on loaned securities   | 858                                  | 191                  |
| Other   | 2,643 <sup>(2)</sup>                 | 2,329 <sup>(2)</sup> |
| Commitments and contingent liabilities (Note 10)  |                                      |                      |
| Total liabilities   | 102,006                              | 89,983               |
| Shareholders' equity:   |                                      |                      |
| Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2011 and 2010; issued 663,478 shares in 2011 and 662,660 shares in 2010 | 66                                   | 66                   |
| Additional paid-in capital  | 1,388                                | 1,320                |
| Retained earnings   | 15,191                               | 14,194               |
| Accumulated other comprehensive income (loss):  |                                      |                      |
| Unrealized foreign currency translation gains   | 1,109                                | 926                  |
| Unrealized gains (losses) on investment securities:   |                                      |                      |
| Unrealized gains (losses) on securities not other-than-temporarily impaired   | 702                                  | 36                   |
| Unrealized gains (losses) on other-than-temporarily impaired securities   | 0                                    | (3)                  |
| Unrealized gains (losses) on derivatives  | 6                                    | 31                   |
| Pension liability adjustment  | (135)                                | (128)                |
| Treasury stock, at average cost   | (5,613)                              | (5,386)              |
| Total shareholders' equity  | 12,714                               | 11,056               |
| Total liabilities and shareholders' equity  | \$ 114,720                           | \$ 101,039           |

<sup>(2)</sup> Includes \$608 in 2011 and \$741 in 2010 of derivatives from consolidated variable interest entities. See the accompanying Notes to the Consolidated Financial Statements.



**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Statements of Shareholders' Equity**

| (In millions - Unaudited)   | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| <b>Common stock:</b>  |                                 |           |
| Balance, beginning of period  | \$ 66                           | \$ 66     |
| Balance, end of period  | 66                              | 66        |
| <b>Additional paid-in capital:</b>  |                                 |           |
| Balance, beginning of period  | 1,320                           | 1,228     |
| Exercise of stock options   | 17                              | 39        |
| Share-based compensation  | 27                              | 27        |
| Gain (loss) on treasury stock reissued  | 24                              | (5)       |
| Balance, end of period  | 1,388                           | 1,289     |
| <b>Retained earnings:</b>   |                                 |           |
| Balance, beginning of period  | 14,194                          | 12,410    |
| Cumulative effect of change in accounting principle, net of income taxes  | 0                               | (25)      |
| Net earnings  | 1,418                           | 1,907     |
| Dividends to shareholders   | (421)                           | (534)     |
| Balance, end of period  | 15,191                          | 13,758    |
| <b>Accumulated other comprehensive income (loss):</b>   |                                 |           |
| Balance, beginning of period  | 862                             | 29        |
| Unrealized foreign currency translation gains (losses) during period, net of income taxes:                              |                                 |           |
| Cumulative effect of change in accounting principle, net of income taxes  | 0                               | (320)     |
| Change in unrealized foreign currency translation gains (losses) during period, net of income taxes                     | 183                             | 353       |
| Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments: |                                 |           |
| Cumulative effect of change in accounting principle, net of income taxes  | 0                               | 180       |
| Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes   | 666                             | 1,037     |
| Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes       | 3                               | 15        |
| Unrealized gains (losses) on derivatives during period, net of income taxes   | (25)                            | 0         |
| Pension liability adjustment during period, net of income taxes   | (7)                             | 0         |
| Balance, end of period  | 1,682                           | 1,294     |
| <b>Treasury stock:</b>  |                                 |           |
| Balance, beginning of period  | (5,386)                         | (5,316)   |
| Purchases of treasury stock   | (268)                           | (5)       |
| Cost of shares issued   | 41                              | 47        |
| Balance, end of period  | (5,613)                         | (5,274)   |
| Total shareholders' equity  | \$ 12,714                       | \$ 11,133 |

See the accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Statements of Cash Flows**

| (In millions - Unaudited)   | Nine Months Ended September 30, |            |
|---|---------------------------------|------------|
|   | 2011                            | 2010       |
| <b>Cash flows from operating activities:</b>  |                                 |            |
| Net earnings  | \$ 1,418                        | \$ 1,907   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                 |            |
| Change in receivables and advance premiums  | 1,832                           | 719        |
| Increase in deferred policy acquisition costs                                       | (386)                           | (291)      |
| Increase in policy liabilities  | 3,259                           | 2,463      |
| Change in income tax liabilities  | 49                              | 0          |
| Realized investment (gains) losses  | 1,330                           | 127        |
| Other, net  | (16)                            | (56)       |
| Net cash provided (used) by operating activities                                    | 7,486                           | 4,869      |
| <b>Cash flows from investing activities:</b>  |                                 |            |
| Proceeds from investments sold or matured:  |                                 |            |
| Securities available for sale:  |                                 |            |
| Fixed maturities sold   | 6,878                           | 1,637      |
| Fixed maturities matured or called  | 1,373                           | 729        |
| Perpetual securities sold   | 230                             | 700        |
| Perpetual securities matured or called  | 62                              | 0          |
| Equity securities sold  | 0                               | 328        |
| Securities held to maturity:  |                                 |            |
| Fixed maturities matured or called  | 710                             | 8          |
| Costs of investments acquired:  |                                 |            |
| Securities available for sale:  |                                 |            |
| Fixed maturities acquired   | (6,361)                         | (6,663)    |
| Equity securities acquired  | 0                               | (330)      |
| Securities held to maturity:  |                                 |            |
| Fixed maturities acquired   | (11,307)                        | (1,122)    |
| Cash received as collateral on loaned securities, net                               | 667                             | (349)      |
| Other, net  | (31)                            | (18)       |
| Net cash provided (used) by investing activities                                    | \$ (7,779)                      | \$ (5,080) |

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

**Table of Contents****Aflac Incorporated and Subsidiaries****Consolidated Statements of Cash Flows (continued)**

| (In millions - Unaudited)                                    | Nine Months Ended September 30, |          |
|--|---------------------------------|----------|
|  | 2011                            | 2010     |
| <b>Cash flows from financing activities:</b>                 |                                 |          |
| Purchases of treasury stock                                  | \$ (268)                        | \$ (5)   |
| Proceeds from borrowings                                     | 624                             | 748      |
| Principal payments under debt obligations                    | (462)                           | (456)    |
| Dividends paid to shareholders                               | (404)                           | (395)    |
| Change in investment-type contracts, net                     | 472                             | 299      |
| Treasury stock reissued                                      | 18                              | 39       |
| Other, net   | 5                               | 36       |
| Net cash provided (used) by financing activities             | (15)                            | 266      |
| Effect of exchange rate changes on cash and cash equivalents | 49                              | 56       |
| Net change in cash and cash equivalents                      | (259)                           | 111      |
| Cash and cash equivalents, beginning of period               | 2,121                           | 2,323    |
| Cash and cash equivalents, end of period                     | \$ 1,862                        | \$ 2,434 |
| <b>Supplemental disclosures of cash flow information:</b>    |                                 |          |
| Income taxes paid  | \$ 690                          | \$ 926   |
| Interest paid  | 88                              | 77       |
| Impairment losses included in realized investment losses     | 1,100                           | 55       |
| <b>Noncash financing activities:</b>                         |                                 |          |
| Capitalized lease obligations                                | 4                               | 1        |
| Treasury stock issued for:                                   |                                 |          |
| Associate stock bonus  | 27                              | 0        |
| Shareholder dividend reinvestment                            | 17                              | 0        |
| Share-based compensation grants                              | 2                               | 3        |

*See the accompanying Notes to the Consolidated Financial Statements.*

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

| (In millions - Unaudited)   | Three Months Ended |          | Nine Months Ended |          |
|---|--------------------|----------|-------------------|----------|
|   | September 30,      |          | September 30,     |          |
|   | 2011               | 2010     | 2011              | 2010     |
| Net earnings  | \$ 744             | \$ 690   | \$ 1,418          | \$ 1,907 |
| <b>Other comprehensive income (loss) before income taxes:</b>   |                    |          |                   |          |
| Unrealized foreign currency translation gains (losses) during period                                      | (6)                | 59       | (92)              | 102      |
| Unrealized gains (losses) on investment securities:   |                    |          |                   |          |
| Unrealized holding gains (losses) on investment securities during period                                  | 114                | 712      | (22)              | 1,590    |
| Reclassification adjustment for realized (gains) losses on investment securities included in net earnings | (173)              | 6        | 1,070             | 55       |
| Unrealized gains (losses) on derivatives during period  | 0                  | 2        | (38)              | 0        |
| Pension liability adjustment during period  | (15)               | (1)      | (11)              | 1        |
| Total other comprehensive income (loss) before income taxes   | (80)               | 778      | 907               | 1,748    |
| Income tax expense (benefit) related to items of other comprehensive income (loss)                        | (214)              | 112      | 87                | 343      |
| Other comprehensive income (loss), net of income taxes  | 134                | 666      | 820               | 1,405    |
| Total comprehensive income (loss)   | \$ 878             | \$ 1,356 | \$ 2,238          | \$ 3,312 |

See the accompanying Notes to the Consolidated Financial Statements.

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**Aflac Incorporated and Subsidiaries**

**Notes to the Consolidated Financial Statements**

(Interim period data Unaudited)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC). Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 75% of the Company's total revenues in the nine-month periods ended September 30, 2011 and 2010. The percentage of the Company's total assets attributable to Aflac Japan was 87% and 86% at September 30, 2011, and December 31, 2010, respectively.

**Basis of Presentation**

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of September 30, 2011, and December 31, 2010, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2011, and 2010, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2011, and 2010. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2010.

**Significant Accounting Policies**

We have refined the explanation of our accounting policies for the translation of foreign currencies and income taxes. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2010.

**Translation of Foreign Currencies:** The functional currency of Aflac Japan's insurance operations is the Japanese yen. We translate our yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses and cash flows are translated using average exchange rates for the period. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions.

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Aflac Japan maintains an investment portfolio of dollar-denominated securities on behalf of Aflac U.S., which serves as an economic currency hedge of a portion of our investment in Aflac Japan. The functional currency for these investments is

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the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars. Since the functional currency of Aflac Japan's dollar-denominated portfolio is the U.S. dollar, there is no translation adjustment to record in other comprehensive income for these investments when the yen/dollar exchange rate changes. However, the foreign exchange gains and losses related to this portfolio are taxable in Japan and the U.S. when the securities mature or are sold. Until maturity or sale, deferred tax expense or benefit associated with the foreign exchange gains or losses is recognized in income tax expense on other comprehensive income.

We have designated a portion of the yen-denominated Uridashi and Samurai notes and yen-denominated loans issued by the Parent Company as a hedge of our investment in Aflac Japan. Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are recorded through other comprehensive income and are included in accumulated other comprehensive income.

**Income Taxes:** Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse. We record deferred tax assets for tax positions taken based on our assessment of whether the tax position is more likely than not to be sustained upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

As discussed in the Translation of Foreign Currencies section above, Aflac Japan maintains a dollar-denominated investment portfolio on behalf of Aflac U.S. While there are no translation effects to record in other comprehensive income, the deferred tax expense or benefit associated with foreign exchange gains or losses on the portfolio is recognized in other comprehensive income until the securities mature or are sold. Total income tax expense (benefit) related to items of other comprehensive income (loss) included a tax benefit of \$186 million and \$143 million during the three-month periods ended September 30, 2011 and 2010, respectively, for this dollar-denominated portfolio. Excluding these amounts from total taxes on other comprehensive income would result in an effective income tax rate on pretax other comprehensive income (loss) of 36.6% and 33.0% in the three-month periods ended September 30, 2011 and 2010, respectively. Total income tax expense (benefit) related to items of other comprehensive income (loss) included a tax benefit of \$236 million and \$238 million during the nine-month periods ended September 30, 2011 and 2010, respectively, for this dollar-denominated portfolio. Excluding these amounts from total taxes on other comprehensive income would result in an effective income tax rate on pretax other comprehensive income (loss) of 35.6% and 33.3% in the nine-month periods ended September 30, 2011 and 2010, respectively.

## **New Accounting Pronouncements**

### Recently Adopted Accounting Pronouncements

**Fair value measurements and disclosures:** In January 2010, the FASB issued amended accounting guidance on fair value disclosures. This guidance requires the activity in fair value hierarchy Level 3 for purchases, sales, issuances, and settlements to be reported on a gross, rather than net, basis. We adopted this guidance as of January 1, 2011. The adoption did not have an impact on our financial position or results of operations.

**Accounting for variable interest entities and transfers of financial assets:** In June 2009, the FASB issued amended guidance on accounting for variable interest entities (VIEs) and transfers of financial assets. This guidance defines new criteria for determining the primary beneficiary of a VIE; increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE; eliminates the exemption for the consolidation of qualified special purpose entities (QSPEs); establishes conditions for reporting a transfer of a portion of a financial asset as a sale; modifies the financial asset derecognition criteria; and requires additional disclosures. We adopted the provisions of this guidance on January 1, 2010 as a cumulative effect of change in accounting principle. We were required to consolidate certain of the VIEs with which we are currently involved. We were not required to deconsolidate any VIEs on January 1, 2010.

Upon the initial consolidation of the VIEs on January 1, 2010, the assets, liabilities, and noncontrolling interests of the VIEs were recorded at their carrying values, which is the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements when we first met the conditions to be the primary beneficiary. For any of the VIEs that were required to be consolidated, we also considered whether any of the derivatives in these structures qualified on January 1, 2010, as a cash flow hedge of the changes in cash flows attributable to foreign currency and/or interest rate risk. Certain of the swaps did not qualify for hedge accounting since the swap had a fair value on January 1, 2010. Other swaps did not qualify for hedge accounting since they increased, rather than reduced, cash flow risk.





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For additional information concerning our investments in VIEs and derivatives, see Notes 3 and 4, respectively.

**Accounting Pronouncements Pending Adoption**

**Presentation of comprehensive income:** In June 2011, the FASB issued guidance to amend the presentation of comprehensive income. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment also requires reclassification adjustments for items that are reclassified from other comprehensive income to net income to be presented in the statements where the components of net income and the components of other comprehensive income are presented. This guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not have an impact on our financial position or results of operations.

**Fair value measurements and disclosures:** In May 2011, the FASB issued guidance to amend the fair value measurement and disclosure requirements. Most of the amendments are clarifications of the FASB's intent about the application of existing fair value measurement and disclosure requirements. Other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The new fair value measurement disclosures include additional quantitative and qualitative disclosures for Level 3 measurements, including a qualitative sensitivity analysis of fair value to changes in unobservable inputs, and categorization by fair value hierarchy level for items for which the fair value is only disclosed. This guidance is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact of adopting this guidance on our financial position and results of operations.

**Accounting for costs associated with acquiring or renewing insurance contracts:** In October 2010, the FASB issued amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts. Only incremental direct costs associated with the successful acquisition of a new or renewal contract may be capitalized. The amendment also prohibits capitalizing direct-response advertising costs unless they meet certain criteria. This guidance is effective on a prospective or retrospective basis for interim and annual periods beginning after December 15, 2011. We are finalizing the evaluation of the impact of adopting this guidance as of January 1, 2012 on our financial position and results of operations. We currently estimate that, based on the December 31, 2010 exchange rate, the retrospective adoption of this accounting standard will result in an after-tax cumulative charge to our retained earnings of \$500 million to \$700 million, or 4.5% to 6.3% of shareholder's equity as of December 31, 2010. Furthermore, we currently estimate that the adoption of this accounting standard will result in an immaterial decrease in net income in 2011 and 2012 and for all preceding years impacted by the retrospective adoption.

Recent accounting guidance not discussed above is not applicable or did not have an impact on our business.

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

**2. BUSINESS SEGMENT INFORMATION**

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

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

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| (In millions)                      | Three Months Ended |          | Nine Months Ended |           |
|------------------------------------|--------------------|----------|-------------------|-----------|
|                                    | September 30,      |          | September 30,     |           |
|                                    | 2011               | 2010     | 2011              | 2010      |
| <b>Revenues:</b>                   |                    |          |                   |           |
| Aflac Japan:                       |                    |          |                   |           |
| Earned premiums                    | \$ 4,018           | \$ 3,456 | \$ 11,490         | \$ 9,849  |
| Net investment income              | 695                | 624      | 1,980             | 1,810     |
| Other income                       | 7                  | 5        | 33                | 31        |
| Total Aflac Japan                  | 4,720              | 4,085    | 13,503            | 11,690    |
| Aflac U.S.:                        |                    |          |                   |           |
| Earned premiums                    | 1,192              | 1,150    | 3,547             | 3,438     |
| Net investment income              | 147                | 138      | 439               | 404       |
| Other income                       | 3                  | 2        | 8                 | 9         |
| Total Aflac U.S.                   | 1,342              | 1,290    | 3,994             | 3,851     |
| Other business segments            | 13                 | 12       | 40                | 35        |
| Total business segment revenues    | 6,075              | 5,387    | 17,537            | 15,576    |
| Realized investment gains (losses) | (83)               | 9        | (1,330)           | (127)     |
| Corporate                          | 62                 | 58       | 183               | 159       |
| Intercompany eliminations          | (67)               | (60)     | (198)             | (170)     |
| Total revenues                     | \$ 5,987           | \$ 5,394 | \$ 16,192         | \$ 15,438 |

| (In millions)  | Three Months Ended |          | Nine Months Ended |          |
|--|--------------------|----------|-------------------|----------|
|  | September 30,      |          | September 30,     |          |
|  | 2011               | 2010     | 2011              | 2010     |
| <b>Pretax earnings:</b>                                      |                    |          |                   |          |
| Aflac Japan  | \$ 1,027           | \$ 866   | \$ 2,937          | \$ 2,485 |
| Aflac U.S.   | 220                | 228      | 719               | 699      |
| Other business segments                                      | (1)                | 0        | 1                 | (3)      |
| Total business segment pretax operating earnings             | 1,246              | 1,094    | 3,657             | 3,181    |
| Interest expense, noninsurance operations                    | (44)               | (37)     | (126)             | (99)     |
| Corporate and eliminations                                   | (14)               | (11)     | (43)              | (37)     |
| Pretax operating earnings                                    | 1,188              | 1,046    | 3,488             | 3,045    |
| Realized investment gains (losses)                           | (83)               | 9        | (1,330)           | (127)    |
| Total earnings before income taxes                           | \$ 1,105           | \$ 1,055 | \$ 2,158          | \$ 2,918 |
| Income taxes applicable to pretax operating earnings         | \$ 410             | \$ 362   | \$ 1,206          | \$ 1,055 |
| Effect of foreign currency translation on operating earnings | 45                 | 32       | 144               | 65       |

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Assets were as follows:

| (In millions)                 | September 30,<br>2011 | December 31,<br>2010 |
|-------------------------------|-----------------------|----------------------|
| <b>Assets:</b>                |                       |                      |
| Aflac Japan                   | \$ 99,903             | \$ 87,061            |
| Aflac U.S.                    | 14,030                | 13,095               |
| Other business segments       | 170                   | 155                  |
| Total business segment assets | 114,103               | 100,311              |
| Corporate                     | 15,969                | 14,047               |
| Intercompany eliminations     | (15,352)              | (13,319)             |
| Total assets                  | \$ 114,720            | \$ 101,039           |

**Table of Contents****3. INVESTMENTS****Investment Holdings**

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

| (In millions)                         | Cost or<br>Amortized<br>Cost | September 30, 2011           |                               | Fair<br>Value |
|---------------------------------------|------------------------------|------------------------------|-------------------------------|---------------|
|                                       |                              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| <b>Securities available for sale,</b> |                              |                              |                               |               |
| <b>carried at fair value:</b>         |                              |                              |                               |               |
| Fixed maturities:                     |                              |                              |                               |               |
| Yen-denominated:                      |                              |                              |                               |               |
| Japan government and agencies         | \$ 13,684                    | \$ 765                       | \$ 0                          | \$ 14,449     |
| Mortgage- and asset-backed securities | 955                          | 42                           | 1                             | 996           |
| Public utilities                      | 2,971                        | 56                           | 218                           | 2,809         |
| Sovereign and supranational           | 1,794                        | 63                           | 54                            | 1,803         |
| Banks/financial institutions          | 4,681                        | 83                           | 586                           | 4,178         |
| Other corporate                       | 6,499                        | 110                          | 792                           | 5,817         |
| Total yen-denominated                 | 30,584                       | 1,119                        | 1,651                         | 30,052        |
| Dollar-denominated:                   |                              |                              |                               |               |
| U.S. government and agencies          | 1,336                        | 428                          | 0                             | 1,764         |
| Municipalities                        | 1,055                        | 108                          | 9                             | 1,154         |
| Mortgage- and asset-backed securities | 360                          | 91                           | 0                             | 451           |
| Public utilities                      | 2,979                        | 485                          | 21                            | 3,443         |
| Sovereign and supranational           | 449                          | 96                           | 5                             | 540           |
| Banks/financial institutions          | 3,369                        | 222                          | 121                           | 3,470         |
| Other corporate                       | 8,749                        | 1,316                        | 64                            | 10,001        |
| Total dollar-denominated              | 18,297                       | 2,746                        | 220                           | 20,823        |
| Total fixed maturities                | 48,881                       | 3,865                        | 1,871                         | 50,875        |
| Perpetual securities:                 |                              |                              |                               |               |
| Yen-denominated:                      |                              |                              |                               |               |
| Banks/financial institutions          | 6,798                        | 77                           | 982                           | 5,893         |
| Other corporate                       | 349                          | 0                            | 32                            | 317           |
| Dollar-denominated:                   |                              |                              |                               |               |
| Banks/financial institutions          | 357                          | 6                            | 43                            | 320           |
| Total perpetual securities            | 7,504                        | 83                           | 1,057                         | 6,530         |
| Equity securities                     | 22                           | 4                            | 2                             | 24            |
| Total securities available for sale   | \$ 56,407                    | \$ 3,952                     | \$ 2,930                      | \$ 57,429     |

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| (In millions)                         | Cost or<br>Amortized<br>Cost | September 30, 2011           |                               | Fair<br>Value |
|---------------------------------------|------------------------------|------------------------------|-------------------------------|---------------|
|                                       |                              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| <b>Securities held to maturity,</b>   |                              |                              |                               |               |
| <b>carried at amortized cost:</b>     |                              |                              |                               |               |
| Fixed maturities:                     |                              |                              |                               |               |
| Yen-denominated:                      |                              |                              |                               |               |
| Japan government and agencies         | \$ 11,534                    | \$ 282                       | \$ 1                          | \$ 11,815     |
| Municipalities                        | 563                          | 33                           | 6                             | 590           |
| Mortgage- and asset-backed securities | 138                          | 5                            | 0                             | 143           |
| Public utilities                      | 6,735                        | 142                          | 367                           | 6,510         |
| Sovereign and supranational           | 4,392                        | 132                          | 171                           | 4,353         |
| Banks/financial institutions          | 12,565                       | 149                          | 1,242                         | 11,472        |
| Other corporate                       | 5,424                        | 126                          | 322                           | 5,228         |
| Total yen-denominated                 | 41,351                       | 869                          | 2,109                         | 40,111        |
| Total securities held to maturity     | \$ 41,351                    | \$ 869                       | \$ 2,109                      | \$ 40,111     |

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| (In millions)  | December 31, 2010      |                        |                         | Fair Value |
|--|------------------------|------------------------|-------------------------|------------|
|  | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |            |
| <b>Securities available for sale,</b>                |                        |                        |                         |            |
| <b>carried at fair value:</b>                        |                        |                        |                         |            |
| Fixed maturities:                                    |                        |                        |                         |            |
| Yen-denominated:                                     |                        |                        |                         |            |
| Japan government and agencies                        | \$ 16,607              | \$ 584                 | \$ 14                   | \$ 17,177  |
| Mortgage- and asset-backed securities                | 1,224                  | 35                     | 15                      | 1,244      |
| Public utilities                                     | 2,554                  | 117                    | 80                      | 2,591      |
| Sovereign and supranational                          | 903                    | 47                     | 12                      | 938        |
| Banks/financial institutions                         | 5,927                  | 152                    | 1,177                   | 4,902      |
| Other corporate                                      | 5,733                  | 136                    | 457                     | 5,412      |
| Total yen-denominated                                | 32,948                 | 1,071                  | 1,755                   | 32,264     |
| Dollar-denominated:                                  |                        |                        |                         |            |
| U.S. government and agencies                         | 32                     | 4                      | 0                       | 36         |
| Municipalities                                       | 1,006                  | 9                      | 42                      | 973        |
| Mortgage- and asset-backed securities <sup>(1)</sup> | 485                    | 90                     | 13                      | 562        |
| Collateralized debt obligations                      | 5                      | 0                      | 0                       | 5          |
| Public utilities                                     | 2,568                  | 246                    | 36                      | 2,778      |
| Sovereign and supranational                          | 395                    | 63                     | 2                       | 456        |
| Banks/financial institutions                         | 3,496                  | 143                    | 108                     | 3,531      |
| Other corporate                                      | 7,167                  | 662                    | 79                      | 7,750      |
| Total dollar-denominated                             | 15,154                 | 1,217                  | 280                     | 16,091     |
| Total fixed maturities                               | 48,102                 | 2,288                  | 2,035                   | 48,355     |
| Perpetual securities:                                |                        |                        |                         |            |
| Yen-denominated:                                     |                        |                        |                         |            |
| Banks/financial institutions                         | 7,080                  | 172                    | 533                     | 6,719      |
| Other corporate                                      | 328                    | 15                     | 0                       | 343        |
| Dollar-denominated:                                  |                        |                        |                         |            |
| Banks/financial institutions                         | 419                    | 61                     | 30                      | 450        |
| Total perpetual securities                           | 7,827                  | 248                    | 563                     | 7,512      |
| Equity securities                                    | 22                     | 3                      | 2                       | 23         |
| Total securities available for sale                  | \$ 55,951              | \$ 2,539               | \$ 2,600                | \$ 55,890  |

<sup>(1)</sup> Includes \$4 of other-than-temporary non-credit-related losses

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| (In millions)                            | Cost or<br>Amortized<br>Cost | December 31, 2010            |                               | Fair<br>Value    |
|--|------------------------------|------------------------------|-------------------------------|------------------|
|  |                              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                  |
| <b>Securities held to maturity,</b>      |                              |                              |                               |                  |
| <b>carried at amortized cost:</b>        |                              |                              |                               |                  |
| Fixed maturities:                        |                              |                              |                               |                  |
| Yen-denominated:                         |                              |                              |                               |                  |
| Japan government and agencies            | \$ 344                       | \$ 4                         | \$ 4                          | \$ 344           |
| Municipalities                           | 407                          | 18                           | 2                             | 423              |
| Mortgage- and asset-backed securities    | 146                          | 5                            | 0                             | 151              |
| Public utilities                         | 6,339                        | 326                          | 120                           | 6,545            |
| Sovereign and supranational              | 4,951                        | 305                          | 65                            | 5,191            |
| Banks/financial institutions             | 12,618                       | 216                          | 526                           | 12,308           |
| Other corporate                          | 5,279                        | 274                          | 46                            | 5,507            |
| <b>Total yen-denominated</b>             | <b>30,084</b>                | <b>1,148</b>                 | <b>763</b>                    | <b>30,469</b>    |
| <b>Total securities held to maturity</b> | <b>\$ 30,084</b>             | <b>\$ 1,148</b>              | <b>\$ 763</b>                 | <b>\$ 30,469</b> |

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

Included in the available-for-sale fixed maturities portfolio are securities with embedded derivatives for which we have elected the fair value option. These securities were recorded at a fair value of \$514 million at September 30, 2011, compared with \$619 million at December 31, 2010, which reflects the sale of certain of these securities in the third quarter of 2011. We recognized investment losses of less than \$1 million and investment gains of \$12 million during the three- and nine-month periods ended September 30, 2011, respectively, compared with less than \$1 million of losses during the three- and nine-month periods ended September 30, 2010, for the changes in fair value of these securities, which excludes the effects of foreign currency translation and additional fair value option elections.

We did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio during the second or third quarter of 2011. During the first quarter of 2011, we reclassified eight investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of significant declines in the issuers' credit worthiness. At the time of the transfer, the securities had an aggregate amortized cost of \$1.6 billion and an aggregate unrealized loss of \$270 million. The securities transferred in the first quarter of 2011 included our investments in the Republic of Tunisia that had an aggregate amortized cost of \$769 million and four securities associated with financial institutions in Portugal and Ireland with an aggregate amortized cost of \$631 million. See the Investment Concentration section below for a discussion of these financial institutions in Portugal and Ireland.

During the third quarter of 2010, we reclassified two investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of downgrades of the issuers' credit rating. At the time of the transfer, these investments had an aggregate amortized cost of \$267 million and an aggregate unrealized loss of \$165 million. During the second quarter of 2010, we reclassified four investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of significant downgrades of the issuers' credit rating. At the time of transfer, the securities had an aggregate amortized cost of \$1.2 billion and an aggregate unrealized loss of \$665 million. We did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio during the first quarter of 2010.

**Table of Contents****Contractual and Economic Maturities**

The contractual maturities of our investments in fixed maturities at September 30, 2011, were as follows:

| (In millions)                             | Aflac Japan    |            | Aflac U.S.     |            |
|---|----------------|------------|----------------|------------|
|   | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| <b>Available for sale:</b>                |                |            |                |            |
| Due in one year or less                   | \$ 1,832       | \$ 1,873   | \$ 36          | \$ 37      |
| Due after one year through five years     | 3,558          | 3,716      | 267            | 291        |
| Due after five years through 10 years     | 3,778          | 4,028      | 897            | 1,027      |
| Due after 10 years                        | 29,593         | 29,838     | 7,485          | 8,478      |
| Mortgage- and asset-backed securities     | 1,268          | 1,389      | 47             | 59         |
| Total fixed maturities available for sale | \$ 40,029      | \$ 40,844  | \$ 8,732       | \$ 9,892   |
| <b>Held to maturity:</b>                  |                |            |                |            |
| Due in one year or less                   | \$ 360         | \$ 364     | \$ 0           | \$ 0       |
| Due after one year through five years     | 1,301          | 1,389      | 0              | 0          |
| Due after five years through 10 years     | 3,590          | 3,855      | 0              | 0          |
| Due after 10 years                        | 35,962         | 34,360     | 0              | 0          |
| Mortgage- and asset-backed securities     | 138            | 143        | 0              | 0          |
| Total fixed maturities held to maturity   | \$ 41,351      | \$ 40,111  | \$ 0           | \$ 0       |

At September 30, 2011, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling \$120 million at amortized cost and \$139 million at fair value, which is not included in the table above.

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

The majority of our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuer's equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates for the securities. Although perpetual securities have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term interest rate of 125 to more than 300 basis points above an appropriate market index, generally by the 25<sup>th</sup> year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at September 30, 2011, were as follows:

| (In millions)                                 | Aflac Japan    |            | Aflac U.S.     |            |
|---|----------------|------------|----------------|------------|
|   | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less                       | \$ 458         | \$ 524     | \$ 0           | \$ 0       |
| Due after one year through five years         | 1,707          | 1,611      | 5              | 5          |
| Due after five years through 10 years         | 749            | 691        | 0              | 0          |
| Due after 10 years                            | 4,413          | 3,539      | 172            | 160        |
| Total perpetual securities available for sale | \$ 7,327       | \$ 6,365   | \$ 177         | \$ 165     |

**Investment Concentrations**

Our investment discipline begins with a top-down approach for each investment opportunity we consider. Consistent with that approach, we first approve each country in which we invest. In our approach to sovereign analysis, we consider the political, legal and financial context of the sovereign entity in which an issuer is domiciled and operates. Next we approve the issuer's industry sector, including such factors as the stability of results and the importance of the sector to the overall economy. Specific credit names within approved countries and industry sectors are



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evaluated for their market position and specific strengths and potential weaknesses. Structures in which we invest are chosen for specific portfolio management purposes, including asset/liability management, portfolio diversification and net investment income.

**Table of Contents****Banks and Financial Institutions**

Our largest investment industry sector concentration is banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the bank and financial institution sector through a geographically diverse universe of credit exposures. Within this sector, the more significant concentration of our credit risk by geographic region or country of issuer at September 30, 2011, based on amortized cost, was: Europe, excluding the United Kingdom (42%); United States (22%); United Kingdom (8%); Japan (8%); and other (20%).

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

|                              | September 30, 2011  |  | December 31, 2010  |  |
|------------------------------|---|--|--|--|
|                              | Total Investments in<br>Banks and<br>Financial<br>Institutions<br>Sector<br>(in millions) | Percentage of<br>Total Investment<br>Portfolio | Total Investments in<br>Banks and Financial<br>Institutions<br>Sector<br>(in millions) | Percentage of<br>Total Investment<br>Portfolio |
| <b>Fixed Maturities:</b>     |   |  |  |  |
| Amortized cost               | \$ 20,615   | 21 %   | \$ 22,041  | 26 %   |
| Fair value                   | 19,120  | 20   | 20,741   | 24   |
| <b>Perpetual Securities:</b> |   |  |  |  |
| <b>Upper Tier II:</b>        |   |  |  |  |
| Amortized cost               | \$ 4,637  | 5 %  | \$ 4,957   | 6 %  |
| Fair value                   | 4,222   | 4  | 4,748  | 5  |
| <b>Tier I:</b>               |   |  |  |  |
| Amortized cost               | 2,518   | 2  | 2,542  | 3  |
| Fair value                   | 1,991   | 2  | 2,421  | 3  |
| <b>Total:</b>                |   |  |  |  |
| Amortized cost               | \$ 27,770   | 28 %   | \$ 29,540  | 35 %   |
| Fair value                   | 25,333  | 26   | 27,910   | 32   |

**Investments in Greece, Ireland, Italy, Portugal and Spain**

Our investment exposure to sovereign debt and financial institutions in Greece, Ireland, Italy, Portugal and Spain was as follows:

| (In millions)                            | September 30, 2011 |               | December 31, 2010 |               |
|--|--------------------|---------------|-------------------|---------------|
|  | Amortized<br>Cost  | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| <b>Sovereign:</b>                        |                    |               |                   |               |
| Italy                                    | \$ 326             | \$ 313        | \$ 307            | \$ 306        |
| Spain                                    | 776                | 782           | 730               | 782           |
| Total                                    | \$ 1,102           | \$ 1,095      | \$ 1,037          | \$ 1,088      |
| <b>Banks and financial institutions:</b> |                    |               |                   |               |
| Greece                                   | \$ 0               | \$ 0          | \$ 1,152          | \$ 391        |
| Ireland                                  | 552                | 330           | 710               | 659           |
| Italy                                    | 196                | 187           | 184               | 183           |
| Portugal                                 | 0                  | 0             | 859               | 770           |

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|       |                         |        |                         |          |
|-------|-------------------------|--------|-------------------------|----------|
| Spain | 553                     | 466    | 526                     | 503      |
| Total | \$ 1,301 <sup>(1)</sup> | \$ 983 | \$ 3,431 <sup>(1)</sup> | \$ 2,506 |

<sup>(1)</sup> Represents 5% in 2011 and 12% in 2010 of total investments in the banks and financial institutions sector, and 1% in 2011 and 4% in 2010 of total investments in debt and perpetual securities

Any increases in amortized cost for these peripheral Eurozone investments were due to the strengthening of the yen against the U.S. dollar.

**Table of Contents***Ireland*

During the second quarter of 2011, we sold our holdings in Irish Life and Permanent PLC, which were below-investment-grade perpetual securities that had previously been impaired, at a pretax loss of \$74 million (\$48 million after-tax). This followed the sale of another of our impaired below-investment-grade Irish financial institution securities in the first quarter of 2011 at a \$2 million pretax gain. As of September 30, 2011, senior securities included in the table above issued by an Irish financial institution with amortized cost and fair value totaling \$261 million and \$100 million, respectively, were rated below investment grade. We believe that these unrealized losses were more closely linked to the Irish government's aggressive approach to addressing its debt burden, which included at one point potentially imposing losses on senior debt holders of certain non-viable Irish banks. As recently as the end of September 2011, the Irish Finance Minister and other officials have stated that they do not support burden-sharing for senior bank debt holdings such as ours. This Irish bank is current on its obligation to us, and we believe it has the ability to meet its obligations to us. In addition, as of September 30, 2011, we had the intent to hold this investment to recovery in value. As a result, we did not recognize an other-than-temporary impairment for this investment as of September 30, 2011.

*Greece*

During the second quarter of 2010, our investments in Greek financial institutions, Alpha Bank, EFG Eurobank Ergasias, and National Bank of Greece (NBG), all of which were Lower Tier II subordinated debt, were downgraded to below investment grade. As a result of the downgrades, we reclassified these investments from held to maturity to available for sale. At that time, we believed the downgrade of the Greek banks was largely related to the problems of the Greek government and its poor fiscal management, rather than the banks' specific credit profiles. The three Greek bank issuers that comprised our Greek financial institution holdings had, on average, Tier I capital ratios higher than their peers in other troubled European sovereigns. Their capital was at a level that we felt could sustain deterioration in assets and operations that accompany economic conditions, such as those that the Greek economy was encountering in 2010 and those expected in the next few years. All three Greek banks had sufficient capital under the stress testing applied by the Committee of European Banking Supervisors (CEBS) in July 2010. However, the problems of the Greek government and related ratings downgrades have caused a decline in the confidence of depositors and capital market participants in the Greek banking system. As a result, the banks have significantly relied upon the European Central Bank (ECB) for liquidity via posting of collateral, which tends to be in the form of Greek Government Bonds (GGBs) or debt guaranteed by the sovereign. As of December 31, 2010, all of the Greek banks were current on their obligations to us. While these financial institutions have significant investments in GGBs, as of December 31, 2010, we believed that these institutions would be solvent even if there were a future restructuring of GGBs and they would have the ability to meet their obligations to us. In addition, as of December 31, 2010, we had the intent to hold these investments to recovery in value. As a result, we did not recognize an other-than-temporary impairment for these investments as of December 31, 2010.

Subsequent to December 31, 2010, Greece remained under pressure, which also continued to weigh on the Greek banks. Skepticism over the rigor of the capital stress test applied by the CEBS in July 2010 grew, as did fears of contagion as Ireland accepted a European Union-International Monetary Fund (EU-IMF) bailout program. On February 18, 2011, NBG announced its proposal for a friendly merger with Alpha Bank, but Alpha Bank rejected this proposal. However, this proposal highlighted risks that accompany consolidation among the top three banks in Greece. While the proposal could have created a national champion in Greek banking, it also would have concentrated ownership of GGBs in the combined entity and formed a very low-rated entity among our top ten largest investment holdings. Two rating agencies downgraded the Greek banks subsequent to downgrading the sovereign during the first quarter of 2011 (on January 17, 2011, and March 9, 2011). In the latter action, the rating agency lowered the ratings indicative of the banks' intrinsic financial strength due to the persistent pressure on liquidity, asset quality and material exposure to GGBs. In light of the above increased risks and, in particular, the March 9, 2011 downgrade, we no longer supported our previous intent to hold our Greek bank investments to recovery in value. In March 2011, we sold our investment in Alpha Bank and recognized an investment loss of \$177 million (\$115 million after-tax). In the first quarter of 2011, we recognized other-than-temporary impairment losses of \$397 million (\$258 million after-tax) for the remaining two Greek bank holdings. In the second quarter of 2011, we sold our investment in EFG Eurobank Ergasias for \$2 million more than its recorded impaired value, and we sold our remaining Greek bank investment, NBG, for \$47 million less than its recorded impaired value.

*Portugal*

As of December 31, 2010 and the end of first quarter 2011, the issuers of our Portuguese bank and financial investments, Banco BPI S.A., Caixa Geral de Depositos S.A., and Banco Espirito Santo S.A., were current on their obligations to us, were profitable and had adequate Tier I capital ratios. During the first quarter of 2011, these investments were downgraded to below-investment-grade. However, at that time we believed that these ratings and the unrealized loss position of the investments were the result of the fiscal problems in the Eurozone region rather than the banks' specific credit profiles. We believed that Portugal's financial institutions were stronger than their other Eurozone peers and had not required much state support. It was challenging to separate the difficulties of the sovereign from the banks since the banks' sources of liquidity are limited due to the financial situation of the sovereign. We believed the government of Portugal had exercised more



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prudent fiscal policies and was in a better financial situation than some of its other Eurozone peers. However, on May 16, 2011 when the European Union officially announced a fiscal support package for Portugal, there was an increase in risk that Portugal could experience a stressed economic environment similar to that experienced in Greece and Ireland. We believed the terms of this fiscal support package could result in liquidity constraints on the banks and there could be a need for the banks to improve their liquidity and core capital. Such a situation could negatively impact our Lower Tier II securities and our ability to recover full principal and interest. Due to the reasonably possible risk that our Portuguese bank holdings could suffer further negative declines, we no longer supported our previous intent to hold our Portuguese bank investments to recovery in value and concluded that we would take steps to reduce our exposure in the region. In the second quarter of 2011, we sold our investment in Banco BPI, S.A. at a loss of \$99 million (\$64 million after-tax), and we recognized other-than-temporary impairment losses of \$112 million (\$73 million after-tax) and \$163 million (\$106 million after-tax) on our investments in Caixa Geral de Depositos S.A. and Banco Espirito Santo S.A., respectively. In the third quarter of 2011, we sold our investments in Caixa Geral de Depositos S.A. and Banco Espirito Santo S.A., our remaining Portuguese bank investments, at gains of \$52 million (\$34 million after-tax) and \$54 million (\$35 million after-tax), respectively.

With the exception of the securities discussed above, all other securities included in the table above were rated investment grade as of September 30, 2011. In October 2011, one of our sovereign investments in Spain which had an amortized cost and fair value of \$130 million and \$136 million at September 30, 2011, respectively, was downgraded to below investment grade due to a decline in creditworthiness of the issuer. We intend to exercise our option to put this investment to the issuer at par due to its below-investment-grade rating.

**Derisking**

During the first nine months of 2011, we pursued strategic investment activities to lower the risk profile of our investment portfolio. Our primary focus was on reducing our exposure to peripheral Eurozone investments (discussed in the preceding section), certain perpetual securities, and investments in certain banks or financial institutions. As a result of these derisking activities, we have no direct sovereign or financial investment exposure in Greece or Portugal, and we have only senior indebtedness in Ireland. We believe that we substantially completed our investment derisking activities from a realized investment loss perspective as of the end of the second quarter of 2011, however the activity in the third quarter of 2011 reflected our ongoing effort to reduce our investment risk exposure. See further details in the Realized Investment Gains and Losses section below.

**Realized Investment Gains and Losses**

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

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| (In millions)                                     | Three Months Ended    |       | Nine Months Ended     |          |
|---|-----------------------|-------|-----------------------|----------|
|   | September 30,<br>2011 | 2010  | September 30,<br>2011 | 2010     |
| Realized investment gains (losses) on securities: |                       |       |                       |          |
| Fixed maturities:                                 |                       |       |                       |          |
| Available for sale:                               |                       |       |                       |          |
| Gross gains from sales                            | \$ 354                | \$ 25 | \$ 458                | \$ 75    |
| Gross losses from sales                           | (56)                  | (17)  | (375)                 | (207)    |
| Net gains (losses) from redemptions               | 9                     | 0     | 15                    | 1        |
| Other-than-temporary impairment losses            | (44)                  | (12)  | (793)                 | (12)     |
| Total debt securities                             | 263                   | (4)   | (695)                 | (143)    |
| Perpetual securities:                             |                       |       |                       |          |
| Available for sale:                               |                       |       |                       |          |
| Gross gains from sales                            | 0                     | 0     | 54                    | 133      |
| Gross losses from sales                           | 0                     | 0     | (109)                 | 0        |
| Other-than-temporary impairment losses            | (122)                 | 0     | (306)                 | (41)     |
| Total perpetual securities                        | (122)                 | 0     | (361)                 | 92       |
| Equity securities:                                |                       |       |                       |          |
| Gross losses from sales                           | 0                     | 0     | 0                     | (2)      |
| Other-than-temporary impairment losses            | 0                     | (1)   | (1)                   | (2)      |
| Total equity securities                           | 0                     | (1)   | (1)                   | (4)      |
| Other assets:                                     |                       |       |                       |          |
| Derivative gains (losses)                         | (224)                 | 14    | (291)                 | (72)     |
| Other   | 0                     | 0     | 18                    | 0        |
| Total other assets                                | (224)                 | 14    | (273)                 | (72)     |
| Total realized investment gains (losses)          | \$ (83)               | \$ 9  | \$ (1,330)            | \$ (127) |

During the three-month period ended September 30, 2011, net investment gains from securities sold or redeemed resulted primarily from the sale of our two remaining investments in Portuguese financial institutions; a portion of our U.S. Treasury holdings; and various Japanese National Government bonds (JGBs) that were part of a swap program.

During the nine-month period ended September 30, 2011, we recognized other-than-temporary impairments and realized net investment losses from the sale of securities, primarily a 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 (see the Investment Concentrations section above for more information). However, those sales losses were more than offset by the investment gains generated in the third quarter of 2011 from the sale of U.S. Treasury securities and JGBs as discussed above.

A valuation allowance of \$19 million was recorded in the second quarter of 2011 related to the deferred tax assets associated with our realized investment losses. However, we released \$17 million of this valuation allowance in the third quarter of 2011, resulting in a remaining valuation allowance of \$2 million as of September 30, 2011.

During the three- and nine-month periods ended September 30, 2010, the sale and redemption of securities occurred in the normal course of business.

**Other-than-temporary Impairment**

The fair value of our debt and perpetual security investments fluctuates based on changes in credit spreads in the global financial markets. Credit spreads are most impacted by market rates of interest, the general and specific credit environment and global market liquidity. We believe that fluctuations in the fair value of our investment securities related to changes in credit spreads have little bearing on whether our investment is ultimately recoverable. Generally, we consider such declines in fair value to be temporary even in situations where an investment remains in an unrealized loss position for a year or more.

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However, in the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment's fair value, to the extent 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. The determination of whether an impairment is other than temporary is subjective 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

regulatory, legislative and political environment

the severity of the decline in fair value

the length of time the fair value is below cost

other factors as may become available from time to time

In addition to the usual investment risk associated with a debt instrument, our perpetual security holdings may be subject to the risk of nationalization of their issuers in connection with capital injections from an issuer's sovereign government. We cannot be assured that such capital support will extend to all levels of an issuer's capital structure. In addition, certain governments or regulators may consider imposing interest and principal payment restrictions on issuers of hybrid securities to preserve cash and build capital. In addition to the cash flow impact that additional deferrals would have on our portfolio, such deferrals could result in ratings downgrades of the affected securities, which in turn could impair the fair value of the securities and increase our regulatory capital requirements. We take factors such as these into account in our credit review process.

Another factor we consider in determining whether an impairment is other than temporary is an evaluation of our intent or requirement to sell the security prior to recovery of its amortized cost. We perform ongoing analyses of our liquidity needs, which includes cash flow testing of our policy liabilities, debt maturities, projected dividend payments and other cash flow and liquidity needs. Our cash flow testing includes extensive duration matching of our investment portfolio and policy liabilities. Based on our analyses, we have concluded that we have sufficient excess cash flows to meet our liquidity needs without liquidating any of our investments prior to their maturity. In addition, provided that our credit review process results in a conclusion that we will collect all of our cash flows and recover our investment in an issuer and the investment is within our investment risk exposure guidelines, we generally do not sell investments prior to their maturity.

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investments. Our investments in perpetual securities that are rated below investment grade are evaluated for other-than-temporary impairment under our equity impairment model in addition to our debt 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.



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The following table details our pretax other-than-temporary impairment losses by investment category.

| (In millions)   | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|---|-------------------------------------|-------|------------------------------------|-------|
|   | 2011                                | 2010  | 2011                               | 2010  |
| Perpetual securities                                  | <b>\$ 122</b>                       | \$ 0  | <b>\$ 306</b>                      | \$ 41 |
| Corporate bonds                                       | <b>43</b>                           | 0     | <b>783</b>                         | 0     |
| Mortgage- and asset-backed securities                 | <b>1</b>                            | 12    | <b>9</b>                           | 12    |
| Municipalities  | <b>0</b>                            | 0     | <b>1</b>                           | 0     |
| Equity securities                                     | <b>0</b>                            | 1     | <b>1</b>                           | 2     |
| Total other-than-temporary impairment losses realized | <b>\$ 166</b>                       | \$ 13 | <b>\$ 1,100</b>                    | \$ 55 |

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We apply the debt security impairment model to our perpetual securities provided there has been no evidence of deterioration in credit of the issuer, such as a downgrade of the rating of a perpetual security to below investment grade. Subsequent to our initial investment, the perpetual securities of five issuers we own had been downgraded to below investment grade as of September 30, 2011. As a result of these downgrades, we were required to evaluate these securities for other-than-temporary impairment using the equity security impairment model in addition to the debt security impairment model. Use of the equity security model limits the forecasted recovery period that can be used in the impairment evaluation and, accordingly, affects both the recognition and measurement of other-than-temporary impairment losses. The impairment losses recognized on perpetual securities in the three- and nine-month periods ended September 30, 2011 were the result of our reconsideration of our intent to hold certain perpetual securities until recovery in value or our evaluation of the issuers' creditworthiness. We did not recognize any other-than-temporary impairment losses on perpetual securities during the three-month period ended September 30, 2010; however, the impairment losses recognized on perpetual securities during the nine-month period ended September 30, 2010 were the result of evaluation under our equity impairment model.

Certain of our mortgage- and asset-backed securities had other-than-temporary impairments recognized prior to 2010 that had credit-related and non-credit-related components. The following table summarizes cumulative credit-related impairment losses on the securities still held at the end of the reporting period, for which other-than-temporary losses have been recognized and only the amount related to credit loss was recognized in earnings.

| (In millions)  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|--|-------------------------------------|-------|------------------------------------|-------|
|  | 2011                                | 2010  | 2011                               | 2010  |
| Cumulative credit loss impairments, beginning of period  | \$ 4                                | \$ 13 | \$ 13                              | \$ 24 |
| Credit losses on securities for which an other-than-temporary impairment was previously recognized | 0                                   | 1     | 0                                  | 1     |
| Securities sold during period  | (4)                                 | (1)   | (13)                               | (12)  |
| Cumulative credit loss impairments, end of period  | \$ 0                                | \$ 13 | \$ 0                               | \$ 13 |

**Unrealized Investment Gains and Losses**Effect on Shareholders' Equity

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

| (In millions)  | September 30, | December 31, |
|--|---------------|--------------|
|  | 2011          | 2010         |
| Unrealized gains (losses) on securities available for sale                 | \$ 1,022      | \$ (61)      |
| Unamortized unrealized gains on securities transferred to held to maturity | 99            | 135          |
| Deferred income taxes  | (419)         | (41)         |
| Shareholders' equity, unrealized gains (losses) on investment securities   | \$ 702        | \$ 33        |

Gross Unrealized Loss Aging

The following tables show the fair value and gross unrealized losses, including the portion of other-than-temporary impairment recognized in accumulated other comprehensive income, of our available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

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| (In millions)                           | September 30, 2011 |                         |                                |                   |                                |                   |
|---|--------------------|-------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|   | Fair Value         | Total Unrealized Losses | Less than 12 months Fair Value | Unrealized Losses | 12 months or longer Fair Value | Unrealized Losses |
| <b>Fixed maturities:</b>                |                    |                         |                                |                   |                                |                   |
| Japan government and agencies:          |                    |                         |                                |                   |                                |                   |
| Yen-denominated                         | \$ 110             | \$ 1                    | \$ 24                          | \$ 0              | \$ 86                          | \$ 1              |
| Municipalities:                         |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 32                 | 9                       | 0                              | 0                 | 32                             | 9                 |
| Yen-denominated                         | 59                 | 6                       | 0                              | 0                 | 59                             | 6                 |
| Mortgage- and asset- backed securities: |                    |                         |                                |                   |                                |                   |
| Yen-denominated                         | 154                | 1                       | 0                              | 0                 | 154                            | 1                 |
| Public utilities:                       |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 315                | 21                      | 264                            | 15                | 51                             | 6                 |
| Yen-denominated                         | 6,286              | 585                     | 3,759                          | 185               | 2,527                          | 400               |
| Sovereign and supranational:            |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 67                 | 5                       | 35                             | 2                 | 32                             | 3                 |
| Yen-denominated                         | 2,829              | 225                     | 1,223                          | 70                | 1,606                          | 155               |
| Banks/financial institutions:           |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 900                | 121                     | 503                            | 63                | 397                            | 58                |
| Yen-denominated                         | 11,445             | 1,828                   | 2,491                          | 138               | 8,954                          | 1,690             |
| Other corporate:                        |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 953                | 64                      | 769                            | 35                | 184                            | 29                |
| Yen-denominated                         | 7,218              | 1,114                   | 3,833                          | 272               | 3,385                          | 842               |
| Total fixed maturities                  | 30,368             | 3,980                   | 12,901                         | 780               | 17,467                         | 3,200             |
| <b>Perpetual securities:</b>            |                    |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 243                | 43                      | 164                            | 9                 | 79                             | 34                |
| Yen-denominated                         | 4,774              | 1,014                   | 2,557                          | 221               | 2,217                          | 793               |
| Total perpetual securities              | 5,017              | 1,057                   | 2,721                          | 230               | 2,296                          | 827               |
| <b>Equity securities</b>                |                    |                         |                                |                   |                                |                   |
|   | 10                 | 2                       | 8                              | 1                 | 2                              | 1                 |
| Total                                   | \$ 35,395          | \$ 5,039                | \$ 15,630                      | \$ 1,011          | \$ 19,765                      | \$ 4,028          |

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| (In millions)                           | December 31, 2010 |                         |                                |                   |                                |                   |
|---|-------------------|-------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|   | Fair Value        | Total Unrealized Losses | Less than 12 months Fair Value | Unrealized Losses | 12 months or longer Fair Value | Unrealized Losses |
| <b>Fixed maturities:</b>                |                   |                         |                                |                   |                                |                   |
| Japan government and agencies:          |                   |                         |                                |                   |                                |                   |
| Yen-denominated                         | \$ 1,634          | \$ 18                   | \$ 1,634                       | \$ 18             | \$ 0                           | \$ 0              |
| Municipalities:                         |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 682               | 42                      | 632                            | 28                | 50                             | 14                |
| Yen-denominated                         | 59                | 2                       | 0                              | 0                 | 59                             | 2                 |
| Mortgage- and asset- backed securities: |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 78                | 13                      | 20                             | 0                 | 58                             | 13                |
| Yen-denominated                         | 415               | 15                      | 415                            | 15                | 0                              | 0                 |
| Public utilities:                       |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 556               | 36                      | 498                            | 28                | 58                             | 8                 |
| Yen-denominated                         | 2,877             | 200                     | 766                            | 47                | 2,111                          | 153               |
| Sovereign and supranational:            |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 45                | 2                       | 12                             | 0                 | 33                             | 2                 |
| Yen-denominated                         | 1,579             | 77                      | 428                            | 1                 | 1,151                          | 76                |
| Banks/financial institutions:           |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 1,484             | 108                     | 753                            | 22                | 731                            | 86                |
| Yen-denominated                         | 10,609            | 1,703                   | 1,506                          | 40                | 9,103                          | 1,663             |
| Other corporate:                        |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 1,741             | 79                      | 1,456                          | 52                | 285                            | 27                |
| Yen-denominated                         | 4,503             | 503                     | 507                            | 45                | 3,996                          | 458               |
| Total fixed maturities                  | 26,262            | 2,798                   | 8,627                          | 296               | 17,635                         | 2,502             |
| <b>Perpetual securities:</b>            |                   |                         |                                |                   |                                |                   |
| Dollar-denominated                      | 208               | 30                      | 149                            | 19                | 59                             | 11                |
| Yen-denominated                         | 4,171             | 533                     | 1,793                          | 119               | 2,378                          | 414               |
| Total perpetual securities              | 4,379             | 563                     | 1,942                          | 138               | 2,437                          | 425               |
| <b>Equity securities</b>                |                   |                         |                                |                   |                                |                   |
| Total                                   | \$ 30,654         | \$ 3,363                | \$ 10,582                      | \$ 435            | \$ 20,072                      | \$ 2,928          |

***Analysis of Securities in Unrealized Loss Positions***

The unrealized losses on our investments have been primarily related to changes in risk-free interest rates, foreign exchange rates or the general widening of credit spreads rather than specific issuer credit-related events. In addition, because we do not intend to sell and do not believe it is likely that we will be required to sell these investments before a recovery of fair value to amortized cost, we do not consider any of these investments to be other-than-temporarily impaired as of and for the nine-month period ended September 30, 2011. The following summarizes our evaluation of investment categories with significant unrealized losses and securities that were rated below investment grade. All other investment categories with securities in an unrealized loss position that are not specifically discussed below were composed of investment grade fixed maturities at September 30, 2011.

**Table of Contents***Municipalities*

As of September 30, 2011, 59% of the unrealized losses on investment securities in the municipalities sector were related to investments that were investment grade, compared with 82% at December 31, 2010. We have determined that the majority of the unrealized losses on the investments in this sector was caused by widening credit spreads. However, we have determined that the ability of the issuers to service our investments has not been compromised. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as investments near maturity the unrealized gains or losses can be expected to diminish.

*Public Utilities*

As of September 30, 2011, 98% of the unrealized losses on investments in the public utilities sector were related to investments that were investment grade, compared with 100% at December 31, 2010. For any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the public utilities sector was caused by a decline in creditworthiness of a couple issuers in this sector. Also impacting the unrealized losses in the public utilities sector was widening credit spreads. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligations to us.

*Sovereign and Supranational*

As of September 30, 2011, 90% of the unrealized losses on investment securities in the sovereign and supranational sector were related to investments that were investment grade, compared with 100% at December 31, 2010. For any credit-related declines in fair value, we perform a more focused review of the related issuers' credit ratings, financial statements and other available financial data, timeliness of payment, gross domestic product growth projections, balance of payments, foreign currency reserves, and any other significant data related to the issuers. From those reviews, we evaluate the issuer's continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the sovereign and supranational sector was caused by a decline in creditworthiness of certain issuers in this sector. Also impacting the unrealized losses in the sovereign and supranational sector was widening credit spreads. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligations to us.

*Bank and Financial Institution Investments*

The following table shows the composition of our investments in an unrealized loss position in the bank and financial institution sector by fixed-maturity securities and perpetual securities. The table reflects those securities in that sector that were in an unrealized loss position as a percentage of our total investment portfolio in an unrealized loss position and their respective unrealized losses as a percentage of total unrealized losses.

|                            | September 30, 2011  |  | December 31, 2010   |  |
|----------------------------|---|--|---|--|
|                            | Percentage of<br>Total Investments in<br>an Unrealized Loss<br>Position | Percentage of<br>Total<br>Unrealized<br>Losses | Percentage of<br>Total Investments in<br>an Unrealized Loss<br>Position | Percentage of<br>Total<br>Unrealized<br>Losses |
| Fixed maturities           | 35 %  | 39 %   | 39 %  | 54 %   |
| Perpetual securities:      |   |  |   |  |
| Upper Tier II              | 9   | 10   | 9   | 10   |
| Tier I                     | 4   | 10   | 5   | 7  |
| Total perpetual securities | 13  | 20   | 14  | 17   |
| Total                      | 48 %  | 59 %   | 53 %  | 71 %   |

As of September 30, 2011, 83% of the \$3.0 billion in unrealized losses on investments in the bank and financial institution sector, including perpetual securities, were related to investments that were investment grade, compared with 53% at December 31, 2010. This improvement is primarily due to the recognition of other-than-temporary impairments and sales of bank and financial institution securities during the first nine months of 2011. Of the \$17.0 billion in investments, at fair value, in the bank and financial institution sector in an unrealized loss position at September 30, 2011, only \$1.1 billion (\$.5 billion in unrealized losses) were below investment grade. Four issuers of investments comprised

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nearly 99% of the \$.5 billion unrealized loss. The remaining investments that comprised the unrealized loss were divided among five issuers with average unrealized losses per issuer of less than \$1 million. We conduct our own independent credit analysis for investments in the bank and financial sector. Our assessment includes analysis of financial information, as well as consultation with the issuers from time to time. Based on

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our credit analysis, we have determined that the majority of the unrealized losses on the investments in this sector was caused by widening credit spreads, the downturn in the global economic environment and, to a lesser extent, changes in foreign exchange rates. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligations to us.

*Other Corporate Investments*

As of September 30, 2011, 67% of the unrealized losses on investments in the other corporate sector were related to investments that were investment grade, compared with 51% at December 31, 2010. For any credit-related declines in market value, we perform a more focused review of the related issuers' credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuers. From those reviews, we evaluate the issuers' continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the other corporate sector was caused by widening credit spreads. Also impacting the unrealized losses in this sector is the decline in creditworthiness of certain issuers in the other corporate sector. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligation to us.

*Perpetual Securities*

At September 30, 2011, 84% of the unrealized losses on investments in perpetual securities were related to investments that were investment grade, compared with 83% at December 31, 2010. The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer's capital structure and the regulatory jurisdiction of the issuer.

Details of our holdings of perpetual securities were as follows:

| (In millions)         | Credit Rating              | September 30, 2011 |                 |                        | December 31, 2010 |                 |                        |
|-----------------------|----------------------------|--------------------|-----------------|------------------------|-------------------|-----------------|------------------------|
|                       |                            | Amortized Cost     | Fair Value      | Unrealized Gain (Loss) | Amortized Cost    | Fair Value      | Unrealized Gain (Loss) |
| <b>Upper Tier II:</b> |                            |                    |                 |                        |                   |                 |                        |
|                       | AA                         | \$ 197             | \$ 195          | \$ (2)                 | \$ 190            | \$ 201          | \$ 11                  |
|                       | A                          | 3,352              | 2,977           | (375)                  | 3,279             | 3,250           | (29)                   |
|                       | BBB                        | 1,174              | 1,104           | (70)                   | 1,274             | 1,164           | (110)                  |
|                       | BB or lower                | 263                | 263             | 0                      | 542               | 476             | (66)                   |
|                       | <b>Total Upper Tier II</b> | <b>4,986</b>       | <b>4,539</b>    | <b>(447)</b>           | <b>5,285</b>      | <b>5,091</b>    | <b>(194)</b>           |
| <b>Tier I:</b>        |                            |                    |                 |                        |                   |                 |                        |
|                       | A                          | 628                | 468             | (160)                  | 632               | 568             | (64)                   |
|                       | BBB                        | 1,175              | 974             | (201)                  | 1,386             | 1,296           | (90)                   |
|                       | BB or lower                | 715                | 549             | (166)                  | 524               | 557             | 33                     |
|                       | <b>Total Tier I</b>        | <b>2,518</b>       | <b>1,991</b>    | <b>(527)</b>           | <b>2,542</b>      | <b>2,421</b>    | <b>(121)</b>           |
|                       | <b>Total</b>               | <b>\$ 7,504</b>    | <b>\$ 6,530</b> | <b>\$ (974)</b>        | <b>\$ 7,827</b>   | <b>\$ 7,512</b> | <b>\$ (315)</b>        |

As discussed previously in the Investments Concentration section, an aspect of our efforts during the first nine months of 2011 to reduce risk in our investment portfolio included sales of certain investments in perpetual securities. With the exception of the Icelandic bank securities that we completely impaired in 2008, none of the perpetual securities we own were in default on interest and principal payments at September 30, 2011. During the second quarter of 2011, we wrote off accrued interest income and stopped accruing further interest income for the Dexia S.A. Upper Tier II perpetual securities which have a deferred coupon and were impaired during that quarter. We recognized an additional impairment on those securities in the third quarter of 2011. Based on amortized cost as of September 30, 2011, the geographic breakdown of our perpetual securities by issuer was as follows: European countries, excluding the United Kingdom, (70%); the United Kingdom (10%); Japan (14%); and other (6%). To determine any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investment.





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

**Variable Interest Entities (VIEs)**

As discussed in Note 1, effective January 1, 2010, we have consolidated all of the components of each former QSPE investment, including a fixed-maturity or perpetual investment and a corresponding derivative transaction. Our risk of loss over the life of each investment is limited to the amount of our original investment. In addition, new criteria for determining the primary beneficiary of a VIE that was effective January 1, 2010, resulted in the consolidation of additional VIE investments. The following table details our investments in VIEs.

**Investments in Variable Interest Entities**

| (In millions)               | September 30, 2011 |               | December 31, 2010 |               |
|-----------------------------|--------------------|---------------|-------------------|---------------|
|                             | Amortized<br>Cost  | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| <b>VIEs:</b>                |                    |               |                   |               |
| Consolidated:               |                    |               |                   |               |
| Total VIEs consolidated     | \$ 7,189           | \$ 7,214      | \$ 7,201          | \$ 7,363      |
| Not consolidated:           |                    |               |                   |               |
| CDOs                        | 0                  | 0             | 5                 | 5             |
| Other                       | 13,948             | 13,626        | 13,914            | 13,214        |
| Total VIEs not consolidated | 13,948             | 13,626        | 13,919            | 13,219        |
| Total VIEs                  | \$ 21,137          | \$ 20,840     | \$ 21,120         | \$ 20,582     |

As a condition to our involvement or investment in a VIE, we enter into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of our investment or our beneficial interest in the VIE.

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

Our ownership interest in the VIEs is limited to holding the obligations issued by them. All of the VIEs in which we invest are static with respect to funding and have no ongoing forms of funding after the initial funding date. We have no direct or contingent obligations to fund the limited activities of these VIEs, nor do we have any direct or indirect financial guarantees related to the limited activities of these VIEs. We have not provided any assistance or any other type of financing support to any of the VIEs we invest in, nor do we have any intention to do so in the future. The weighted-average lives of our notes are very similar to the underlying collateral held by these VIEs where applicable.

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

**VIEs-Consolidated**

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we have the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. We also participate in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding debt and perpetual securities and interest rate, foreign currency, and/or credit default swaps (CDSs), as appropriate, and utilizing the cash flows from these securities to service our investment. Neither we nor any of our creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, we are not a direct counterparty to the swap contracts and have no control over them. Our loss exposure to these VIEs is limited to our original investment. Our consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of our investment in senior secured bank loans through a unit trust structure that we began investing in during the second quarter of 2011, the underlying collateral assets and



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funding of our consolidated VIEs are generally static in nature and the underlying collateral and the reference corporate entities covered by any CDS contracts were all investment grade at the time of issuance.

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

**VIEs-Not Consolidated**

The VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We do not have the power to direct the activities that most significantly impact the entity's economic performance, nor do we have (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. These VIE investments are comprised of securities from 161 separate issuers which have an average credit rating of A.

**Securities Lending**

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

|  | September 30, | December 31, |
|--|---------------|--------------|
| (In millions)                          | 2011          | 2010         |
| Security loans outstanding, fair value | \$ 839        | \$ 186       |
| Cash collateral on loaned securities   | 858           | 191          |

**4. DERIVATIVE INSTRUMENTS**

We do not use derivative financial instruments for trading purposes, nor do we engage in leveraged derivative transactions. The majority of our freestanding derivatives are interest rate, foreign currency and credit default swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary. The remaining derivatives are interest rate swaps associated with our variable interest rate yen-denominated debt.

**Derivative Types**

Interest rate and credit default swaps involve the periodic exchange of cash flows with other parties, at specified intervals, calculated using agreed upon rates or other financial variables and notional principal amounts. Generally, no cash or principal payments are exchanged at the inception of the contract. Typically, at the time a swap is entered into, the cash flow streams exchanged by the counterparties are equal in value. Interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates. These derivatives are predominantly used to better match cash receipts from assets with cash disbursements required to fund liabilities.

Credit default swaps are used to assume credit risk related to an individual security or an index. These contracts entitle the consolidated VIE to receive a periodic fee in exchange for an obligation to compensate the derivative counterparty should the referenced security issuers experience a credit event, as defined in the contract. The consolidated VIE is also exposed to credit risk due to embedded derivatives associated with credit-linked notes.

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

**Table of Contents**Credit Risk Assumed through Derivatives

Our exposure to credit risk in the event of nonperformance by the counterparty to our interest rate swap associated with our variable interest rate Samurai notes as of September 30, 2011, was immaterial. See the Hedging section of this Note for more information on this swap. For the interest rate, foreign currency, and credit default swaps associated with our VIE investments for which we are the primary beneficiary, we do not bear the risk of loss for counterparty default. We are not a direct counterparty to those contracts.

As a result of consolidation of certain VIE investments on January 1, 2010, we began recognizing related credit default swaps that assume credit risk from an asset pool. Those consolidated VIEs will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment by delivery of associated collateral, which consists of highly rated asset-backed securities, if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced obligations. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The credit default swaps in which the consolidated VIE assumes credit risk primarily reference investment grade baskets. The diversified portfolios of corporate issuers are established within sector concentration limits.

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

|                        | September 30, 2011 |            |             |            |            |            |           |            |           |            |
|------------------------|--------------------|------------|-------------|------------|------------|------------|-----------|------------|-----------|------------|
|                        | Less than          |            | One to      |            | Three to   |            | Five to   |            | Total     |            |
|                        | one year           |            | three years |            | five years |            | ten years |            | Maximum   |            |
|                        | Maximum            | Estimated  | Maximum     | Estimated  | Maximum    | Estimated  | Maximum   | Estimated  | Maximum   | Estimated  |
|                        | potential          | potential  | potential   | potential  | potential  | potential  | potential | potential  | potential | potential  |
|                        | risk               | fair value | risk        | fair value | risk       | fair value | risk      | fair value | risk      | fair value |
| (In millions)          |                    |            |             |            |            |            |           |            |           |            |
| <b>Index exposure:</b> |                    |            |             |            |            |            |           |            |           |            |
| Corporate bonds        | \$ 0               | \$ 0       | \$ 0        | \$ 0       | \$ (147)   | \$ (21)    | \$ (280)  | \$ (173)   | \$ (427)  | \$ (194)   |

|                        | December 31, 2010 |            |             |            |            |            |           |            |           |            |
|------------------------|-------------------|------------|-------------|------------|------------|------------|-----------|------------|-----------|------------|
|                        | Less than         |            | One to      |            | Three to   |            | Five to   |            | Total     |            |
|                        | one year          |            | three years |            | five years |            | ten years |            | Maximum   |            |
|                        | Maximum           | Estimated  | Maximum     | Estimated  | Maximum    | Estimated  | Maximum   | Estimated  | Maximum   | Estimated  |
|                        | potential         | potential  | potential   | potential  | potential  | potential  | potential | potential  | potential | potential  |
|                        | risk              | fair value | risk        | fair value | risk       | fair value | risk      | fair value | risk      | fair value |
| (In millions)          |                   |            |             |            |            |            |           |            |           |            |
| <b>Index exposure:</b> |                   |            |             |            |            |            |           |            |           |            |
| Corporate bonds        | \$ 0              | \$ 0       | \$ 0        | \$ 0       | \$ (340)   | \$ (118)   | \$ (416)  | \$ (225)   | \$ (756)  | \$ (343)   |

Derivative Balance Sheet Classification

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

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| (In millions)   | September 30, 2011 |                   |                              |                           |
|---|--------------------|-------------------|------------------------------|---------------------------|
|   | Net Derivatives    |                   | Asset                        | Liability                 |
|   | Notional           | Fair Value        | Derivatives<br>Fair<br>Value | Derivatives<br>Fair Value |
| <b>Hedge Designation/ Derivative Type</b>                   | <b>Amount</b>      | <b>Fair Value</b> | <b>Value</b>                 | <b>Fair Value</b>         |
| <b>Cash flow hedges:</b>                                    |                    |                   |                              |                           |
| Interest rate swaps   | \$ 72              | \$ 0              | \$ 0                         | \$ 0                      |
| Foreign currency swaps                                      | 75                 | 31                | 31                           | 0                         |
| <b>Total cash flow hedges</b>                               | <b>147</b>         | <b>31</b>         | <b>31</b>                    | <b>0</b>                  |
| <b>Non-qualifying strategies:</b>                           |                    |                   |                              |                           |
| Interest rate swaps   | 427                | 59                | 99                           | (40)                      |
| Foreign currency swaps                                      | 4,556              | (97)              | 277                          | (374)                     |
| Credit default swaps  | 427                | (194)             | 0                            | (194)                     |
| <b>Total non-qualifying strategies</b>                      | <b>5,410</b>       | <b>(232)</b>      | <b>376</b>                   | <b>(608)</b>              |
| <b>Total cash flow hedges and non-qualifying strategies</b> | <b>\$ 5,557</b>    | <b>\$ (201)</b>   | <b>\$ 407</b>                | <b>\$ (608)</b>           |
| <b>Balance Sheet Location</b>                               |                    |                   |                              |                           |
| Other assets  | \$ 1,666           | \$ 407            | \$ 407                       | \$ 0                      |
| Other liabilities   | 3,891              | (608)             | 0                            | (608)                     |
| <b>Total derivatives</b>                                    | <b>\$ 5,557</b>    | <b>\$ (201)</b>   | <b>\$ 407</b>                | <b>\$ (608)</b>           |

| (In millions)   | December 31, 2010 |                   |                              |                           |
|---|-------------------|-------------------|------------------------------|---------------------------|
|   | Net Derivatives   |                   | Asset                        | Liability                 |
|   | Notional          | Fair Value        | Derivatives<br>Fair<br>Value | Derivatives<br>Fair Value |
| <b>Hedge Designation/ Derivative Type</b>                   | <b>Amount</b>     | <b>Fair Value</b> | <b>Value</b>                 | <b>Fair Value</b>         |
| <b>Cash flow hedges:</b>                                    |                   |                   |                              |                           |
| Interest rate swaps   | \$ 245            | \$ (2)            | \$ 0                         | \$ (2)                    |
| Foreign currency swaps                                      | 615               | 170               | 180                          | (10)                      |
| <b>Total cash flow hedges</b>                               | <b>860</b>        | <b>168</b>        | <b>180</b>                   | <b>(12)</b>               |
| <b>Non-qualifying strategies:</b>                           |                   |                   |                              |                           |
| Interest rate swaps   | 743               | 56                | 124                          | (68)                      |
| Foreign currency swaps                                      | 3,815             | (58)              | 260                          | (318)                     |
| Credit default swaps  | 756               | (343)             | 0                            | (343)                     |
| <b>Total non-qualifying strategies</b>                      | <b>5,314</b>      | <b>(345)</b>      | <b>384</b>                   | <b>(729)</b>              |
| <b>Total cash flow hedges and non-qualifying strategies</b> | <b>\$ 6,174</b>   | <b>\$ (177)</b>   | <b>\$ 564</b>                | <b>\$ (741)</b>           |
| <b>Balance Sheet Location</b>                               |                   |                   |                              |                           |
| Other assets  | \$ 2,364          | \$ 564            | \$ 564                       | \$ 0                      |
| Other liabilities   | 3,810             | (741)             | 0                            | (741)                     |
| <b>Total derivatives</b>                                    | <b>\$ 6,174</b>   | <b>\$ (177)</b>   | <b>\$ 564</b>                | <b>\$ (741)</b>           |

**Hedging**

Certain of our consolidated VIEs have interest rate and/or foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, we have designated the derivative as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset ( cash flow hedge). We expect to continue this hedging activity for a weighted-average period of approximately 14 years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting have been designated as held for other investment purposes ( non-qualifying strategies ).

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We had interest rate swap agreements related to our 20 billion yen variable interest rate Uridashi notes that matured in September 2011, and we have an interest rate swap agreement related to our 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011 (see Note 6). By entering into these contracts, we swapped the variable interest rate to a fixed interest rate of 1.52% for the Uridashi notes and 1.475% for the Samurai notes. We designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the respective variable interest rate notes. The notional amounts and terms of the swaps match the principal amount and terms of the corresponding variable interest rate notes, and the swaps had no value at inception. Changes in the fair value of the swap contracts are recorded in other comprehensive income so long as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that value would be reported in net earnings.

**Hedge Documentation and Effectiveness Testing**

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated changes in cash flow of the hedged item. At hedge inception, we formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. The documentation process includes linking derivatives that are designated as cash flow hedges to specific assets or liabilities on the statement of financial position or to specific forecasted transactions and defining the effectiveness and ineffectiveness testing methods to be used. At the hedge's inception and on an ongoing quarterly basis, we also formally assess whether the derivatives that are used in hedging transactions have been and are expected to continue to be highly effective in offsetting changes in cash flows of hedged items. Hedge effectiveness is assessed using qualitative and quantitative methods. Qualitative methods may include the comparison of critical terms of the derivative to the hedged item. Quantitative methods include regression or other statistical analysis of changes in cash flows associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the Hypothetical Derivative Method.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings as a component of realized investment gains (losses). All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

**Discontinuance of Hedge Accounting**

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

When hedge accounting is discontinued on a cash-flow hedge, including those where the derivative is sold, terminated or exercised, amounts previously deferred in other comprehensive income are reclassified into earnings when earnings are impacted by the cash flow of the hedged item.

**Cash Flow Hedges**

The following tables present the components of the gain or loss on derivatives that qualify as cash flow hedges:

**Derivatives in Cash Flow Hedging Relationships**

| (In millions)       | Gain (Loss) Recognized in Realized Investment Gains (Losses) |                                    |  |                                    |
|---------------------|--|------------------------------------|--|------------------------------------|
|                     | Other Comprehensive Income                                   |                                    | Recognized in Income                   |                                    |
|                     | on Derivative (Effective Portion)                            |                                    | on Derivative (Ineffective Portion)    |                                    |
|                     | Three Months Ended<br>Sept 30,<br>2011                       | Nine Months Ended<br>Sept 30, 2011 | Three Months Ended<br>Sept 30,<br>2011 | Nine Months Ended<br>Sept 30, 2011 |
| Interest rate swaps | \$ 1   | \$ 2                               | \$ 0                                   | \$ 0                               |

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|                        |      |         |      |        |
|------------------------|------|---------|------|--------|
| Foreign currency swaps | (1)  | (40)    | 0    | (2)    |
| Total                  | \$ 0 | \$ (38) | \$ 0 | \$ (2) |



**Table of Contents****Derivatives in Cash Flow Hedging Relationships**

| (In millions)          | Gain (Loss) Recognized in<br>Other Comprehensive Income |                       |   |                       | Realized Investment Gains (Losses)<br>Recognized in Income |                       |
|------------------------|---|-----------------------|---|-----------------------|--|-----------------------|
|                        | on Derivative (Effective Portion)<br>Three Months Ended |                       | on Derivative (Ineffective Portion)<br>Three Months Ended |                       | September 30,<br>2010                                      | September 30,<br>2010 |
|                        | September 30,<br>2010                                   | September 30,<br>2010 | September 30,<br>2010                                     | September 30,<br>2010 |  |                       |
|                        | September 30,<br>2010                                   | September 30,<br>2010 | September 30,<br>2010                                     | September 30,<br>2010 |  |                       |
| Interest rate swaps    | \$ 0  | \$ 1                  | \$ 0  | \$ 0                  | \$ 0   |                       |
| Foreign currency swaps | 2   | (1)                   | 13  | 13                    | 13   |                       |
| <b>Total</b>           | <b>\$ 2</b>   | <b>\$ 0</b>           | <b>\$ 13</b>  | <b>\$ 13</b>          | <b>\$ 13</b>   |                       |

In the third quarter of 2011, we de-designated certain of the foreign currency swaps with notional values totaling \$500 million used in cash flow hedging strategies as a result of determining that these swaps would no longer be highly effective in offsetting the cash flows of the hedged item. As a result, the net gain recorded in accumulated other comprehensive income for these swaps that are no longer employing hedge accounting is being amortized into earnings over the expected life of the respective hedged item. The amount amortized from accumulated other comprehensive income into earnings related to these swaps was immaterial in the three-month period ended September 30, 2011. Furthermore, there was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our designated cash flow hedges for the three- and nine-month periods ended September 30, 2011 and 2010. As of September 30, 2011, deferred net gains on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months are immaterial.

**Non-qualifying Strategies**

For our derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings as realized investment gains (losses). The following table presents the gain or loss recognized in income on non-qualifying strategies:

**Non-qualifying Strategies****Gain (Loss) Recognized within Realized Investment Gains (Losses)**

| (In millions)          | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |                |
|------------------------|-------------------------------------|-------------|------------------------------------|----------------|
|                        | 2011                                | 2010        | 2011                               | 2010           |
| Interest rate swaps    | \$ (78)                             | \$ 4        | \$ (79)                            | \$ 7           |
| Foreign currency swaps | (72)                                | (33)        | (98)                               | (77)           |
| Credit default swaps   | (74)                                | 30          | (112)                              | (15)           |
| <b>Total</b>           | <b>\$ (224)</b>                     | <b>\$ 1</b> | <b>\$ (289)</b>                    | <b>\$ (85)</b> |

The amount of gain or loss recognized in earnings for our VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed income or perpetual securities associated with these swaps is recorded through other comprehensive income.

**Nonderivative Hedges**

Our primary exposure to be hedged is our net investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains an investment portfolio of dollar-denominated securities on behalf of Aflac U.S., which serves as an economic currency hedge of a portion of our investment in Aflac

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Japan. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars. The foreign exchange gains and losses related to this portfolio are taxable in Japan and the U.S. when the securities mature or are sold. Until maturity or sale, deferred tax expense or benefit associated with the foreign exchange gains or losses are recognized in other comprehensive income.

Second, we have designated a portion of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans - see Note 6) as nonderivative hedges of the foreign currency exposure of our investment in Aflac Japan. Our net investment hedge was effective during the three- and nine-month periods ended September 30, 2011, and 2010, respectively; therefore, there was no impact on net earnings during those periods for the foreign exchange effect of the designated Parent Company yen-denominated liabilities. There was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our net investment hedge for the three- and nine-month periods ended September 30, 2011 and 2010, respectively.

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For additional information on our financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

### **5. FAIR VALUE MEASUREMENTS**

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

Our DCF pricing model incorporates an option adjusted spread and utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing model is most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Prior to March 31, 2010, credit spreads were derived based on pricing data obtained from investment brokers and took into account the current yield curve, time to maturity and subordination levels for similar securities or classes of securities. Subsequent to March 31, 2010, credit spreads were derived from using a bond index to create a credit spread matrix which takes into account the current credit spread, ratings and remaining time to maturity, and subordination levels for securities that are included in the bond index. Our DCF pricing model is based on a widely used global bond index that is comprised of investments in active markets. The index provides a broad-based measure of the global fixed-income bond market. This bond index covers bonds issued by European and American issuers, which account for the majority of bonds that we hold. We validate the reliability of the DCF pricing model periodically by using the model to price investments for which there are quoted market prices from active and inactive markets or, in the alternative, are quoted by our custodian for the same or similar securities.

The pricing data and market quotes we obtain from outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, we re-examine the inputs and assess the reasonableness of the pricing data we receive by comparing it to relevant market indices and other performance measurements. Based on that analysis, the valuation is confirmed or revised.

#### **Fair Value Hierarchy**

GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market. The vast majority of our financial instruments subject to the classification provisions of GAAP relate to our investment securities classified as securities available for sale in our investment portfolio. We determine the fair value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities.

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The following tables present the fair value hierarchy levels of the Company's assets and liabilities that are measured at fair value on a recurring basis.

| (In millions)                         | September 30, 2011 |           |         | Total     |
|---------------------------------------|--------------------|-----------|---------|-----------|
|                                       | Level 1            | Level 2   | Level 3 |           |
| <b>Assets:</b>                        |                    |           |         |           |
| <b>Fixed maturities:</b>              |                    |           |         |           |
| Government and agencies               | \$ 15,484          | \$ 729    | \$ 0    | \$ 16,213 |
| Municipalities                        | 0                  | 1,154     | 0       | 1,154     |
| Mortgage- and asset-backed securities | 0                  | 1,179     | 268     | 1,447     |
| Public utilities                      | 0                  | 6,252     | 0       | 6,252     |
| Collateralized debt obligations       | 0                  | 0         | 0       | 0         |
| Sovereign and supranational           | 0                  | 2,343     | 0       | 2,343     |
| Banks/financial institutions          | 0                  | 7,623     | 25      | 7,648     |
| Other corporate                       | 0                  | 15,818    | 0       | 15,818    |
| Total fixed maturities                | 15,484             | 35,098    | 293     | 50,875    |
| <b>Perpetual securities:</b>          |                    |           |         |           |
| Banks/financial institutions          | 0                  | 6,213     | 0       | 6,213     |
| Other corporate                       | 0                  | 317       | 0       | 317       |
| Total perpetual securities            | 0                  | 6,530     | 0       | 6,530     |
| Equity securities                     | 16                 | 4         | 4       | 24        |
| <b>Other assets:</b>                  |                    |           |         |           |
| Interest rate swaps                   | 0                  | 0         | 99      | 99        |
| Foreign currency swaps                | 0                  | 0         | 308     | 308       |
| Total other assets                    | 0                  | 0         | 407     | 407       |
| Total assets                          | \$ 15,500          | \$ 41,632 | \$ 704  | \$ 57,836 |
| <b>Liabilities:</b>                   |                    |           |         |           |
| Interest rate swaps                   | \$ 0               | \$ 0      | \$ 40   | \$ 40     |
| Foreign currency swaps                | 0                  | 0         | 374     | 374       |
| Credit default swaps                  | 0                  | 0         | 194     | 194       |
| Total liabilities                     | \$ 0               | \$ 0      | \$ 608  | \$ 608    |

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| (In millions)                         | December 31, 2010 |           |         | Total     |
|---------------------------------------|-------------------|-----------|---------|-----------|
|                                       | Level 1           | Level 2   | Level 3 |           |
| <b>Assets:</b>                        |                   |           |         |           |
| <b>Fixed maturities:</b>              |                   |           |         |           |
| Government and agencies               | \$ 16,534         | \$ 679    | \$ 0    | \$ 17,213 |
| Municipalities                        | 0                 | 973       | 0       | 973       |
| Mortgage- and asset-backed securities | 0                 | 1,539     | 267     | 1,806     |
| Public utilities                      | 0                 | 5,369     | 0       | 5,369     |
| Collateralized debt obligations       | 0                 | 0         | 5       | 5         |
| Sovereign and supranational           | 0                 | 1,394     | 0       | 1,394     |
| Banks/financial institutions          | 0                 | 8,047     | 386     | 8,433     |
| Other corporate                       | 0                 | 13,162    | 0       | 13,162    |
| Total fixed maturities                | 16,534            | 31,163    | 658     | 48,355    |
| <b>Perpetual securities:</b>          |                   |           |         |           |
| Banks/financial institutions          | 0                 | 7,169     | 0       | 7,169     |
| Other corporate                       | 0                 | 343       | 0       | 343       |
| Total perpetual securities            | 0                 | 7,512     | 0       | 7,512     |
| Equity securities                     | 14                | 5         | 4       | 23        |
| <b>Other assets:</b>                  |                   |           |         |           |
| Interest rate swaps                   | 0                 | 124       | 0       | 124       |
| Foreign currency swaps                | 0                 | 151       | 289     | 440       |
| Total other assets                    | 0                 | 275       | 289     | 564       |
| Total assets                          | \$ 16,548         | \$ 38,955 | \$ 951  | \$ 56,454 |
| <b>Liabilities:</b>                   |                   |           |         |           |
| Interest rate swaps                   | \$ 0              | \$ 70     | \$ 0    | \$ 70     |
| Foreign currency swaps                | 0                 | 280       | 48      | 328       |
| Credit default swaps                  | 0                 | 0         | 343     | 343       |
| Total liabilities                     | \$ 0              | \$ 350    | \$ 391  | \$ 741    |

Approximately 51% of our fixed income and perpetual investments classified as Level 2 are valued by obtaining quoted market prices from our investment custodian. The custodian obtains price quotes from various third party pricing services that estimate fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 46% of our Level 2 fixed income and perpetual investments is determined using our DCF pricing model. The significant valuation inputs to the DCF model are obtained from, or corroborated by, observable market sources from both active and inactive markets.

For the remaining Level 2 investments that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from up to three outside securities brokers and generally use the average of the quotes to estimate the fair value of the securities.

We use derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified with the same fair value hierarchy as the associated asset. Inputs used to value derivatives include, but are not limited to, interest rates, foreign currency forward and spot rates, and interest volatility. For derivatives associated with VIEs where we are the primary beneficiary, we are not the direct counterparty to the swap contracts. As a result, the fair value measurements incorporate the credit risk of the collateral associated with the VIE and counterparty credit risk.

Prior to the third quarter of 2011, our derivative instruments were reported in Level 2 of the fair value hierarchy, except CDSs and certain foreign currency swaps which were classified as Level 3. The interest rate and certain foreign currency derivative instruments previously classified as Level 2 were priced by broker quotations using inputs that were observable in the market. In the third quarter of 2011, we changed from receiving valuations from brokers to receiving valuations from a third party pricing vendor for our derivatives. Based on an analysis of these derivatives and a review of the methodology employed by the pricing vendor, we determined that due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain assumptions and judgments are required that cannot be corroborated by observable market data in future periods. As a result, we classified the derivatives as Level 3 of the fair value hierarchy as of September 30, 2011.



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The fixed maturities classified as Level 3 consist of securities for which there are limited or no observable valuation inputs. We estimate the fair value of these securities by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. We consider these inputs unobservable.

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

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

| (In millions)   | Three Months Ended                                 |                     |                                      |                                   |                                     |                               |                                     |      |                           |                              |                            | Total    |
|---|--|---------------------|--------------------------------------|-----------------------------------|-------------------------------------|-------------------------------|-------------------------------------|------|---------------------------|------------------------------|----------------------------|----------|
|   | September 30, 2011                                 |                     |                                      |                                   |                                     |                               |                                     |      |                           |                              |                            |          |
|   | Fixed Maturities                                   |                     |                                      |                                   |                                     | Perpetual Securities Equities |                                     |      | Derivatives               |                              |                            |          |
|   | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Collateralized<br>Debt<br>Obligation | Sovereign<br>and<br>Supranational | Banks/<br>Financial<br>Institutions | Other<br>Corporate            | Banks/<br>Financial<br>Institutions |      | Interest<br>Rate<br>Swaps | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps |          |
| Balance, beginning of period                                      | \$ 257   | \$ 0                | \$ 4                                 | \$ 0                              | \$ 398                              | \$ 0                          | \$ 0                                | \$ 4 | \$ 0                      | \$ 164                       | \$ (253)                   | \$ 574   |
| Realized gains or losses included in earnings                     | (1)  | 0                   | (1)                                  | 0                                 | 0                                   | 0                             | 0                                   | 0    | 0                         | (138)                        | (75)                       | (215)    |
| Unrealized gains or losses included in other comprehensive income | 18   | 0                   | 0                                    | 0                                 | 3                                   | 0                             | 0                                   | 0    | 0                         | (2)                          | 0                          | 19       |
| Purchases, issuances, sales and settlements:                      |  |                     |                                      |                                   |                                     |                               |                                     |      |                           |                              |                            |          |
| Purchases   | 0  | 0                   | 0                                    | 0                                 | 0                                   | 0                             | 0                                   | 0    | 0                         | 0                            | 0                          | 0        |
| Issuances   | 0  | 0                   | 0                                    | 0                                 | 0                                   | 0                             | 0                                   | 0    | 0                         | 0                            | 0                          | 0        |
| Sales   | 0  | 0                   | (3)                                  | 0                                 | 0                                   | 0                             | 0                                   | 0    | 0                         | 0                            | 0                          | (3)      |
| Settlements   | (2)  | 0                   | 0                                    | 0                                 | 0                                   | 0                             | 0                                   | 0    | 0                         | 0                            | 134                        | 132      |
| Transfers into Level 3 <sup>(1)</sup>                             | 0  | 0                   | 0                                    | 0                                 | 0                                   | 0                             | 0                                   | 0    | 59                        | (90)                         | 0                          | (31)     |
| Transfers out of Level 3 <sup>(2)</sup>                           | (4)  | 0                   | 0                                    | 0                                 | (376)                               | 0                             | 0                                   | 0    | 0                         | 0                            | 0                          | (380)    |
| Balance, end of period  | \$ 268   | \$ 0                | \$ 0                                 | \$ 0                              | \$ 25                               | \$ 0                          | \$ 0                                | \$ 4 | \$ 59                     | \$ (66)                      | \$ (194)                   | \$ 96    |
| Change in unrealized gains (losses) still held <sup>(3)</sup>     | \$ (1)   | \$ 0                | \$ 0                                 | \$ 0                              | \$ 0                                | \$ 0                          | \$ 0                                | \$ 0 | \$ 0                      | \$ (138)                     | \$ (31)                    | \$ (170) |

<sup>(1)</sup> Due to a lack of visibility to observe significant inputs to price

<sup>(2)</sup> A result of changing our pricing methodology to using a third party pricing vendor for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers

<sup>(3)</sup> Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2011

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Three Months Ended

September 30, 2010

| (In millions)   | Fixed Maturities                                   |                     |                                       |                                   |                                     | Perpetual Securities Equities |                                     |                              | Derivatives                |          | Total  |
|---|--|---------------------|---------------------------------------|-----------------------------------|-------------------------------------|-------------------------------|-------------------------------------|------------------------------|----------------------------|----------|--------|
|   | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Collateralized<br>Debt<br>Obligations | Sovereign<br>and<br>Supranational | Banks/<br>Financial<br>Institutions | Other<br>Corporate            | Banks/<br>Financial<br>Institutions | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps |          |        |
| Balance, beginning of period                                      | \$ 282   | \$ 27               | \$ 4                                  | \$ 0                              | \$ 352                              | \$ 52                         | \$ 0                                | \$ 4                         | \$ 0                       | \$ (357) | \$ 364 |
| Realized gains or losses included in earnings                     | (1)  | 0                   | 1                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 0                          | 30       | 30     |
| Unrealized gains or losses included in other comprehensive income | 17   | 0                   | 0                                     | 0                                 | 65                                  | 0                             | 0                                   | 0                            | 0                          | 0        | 82     |
| Purchases, issuances, sales and settlements:                      |  |                     |                                       |                                   |                                     |                               |                                     |                              |                            |          |        |
| Purchases   | 0  | 0                   | 0                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 0                          | 0        | 0      |
| Issuances   | 0  | 0                   | 0                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 0                          | 0        | 0      |
| Sales   | 0  | 0                   | 0                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 0                          | 0        | 0      |
| Settlements   | (2)  | 0                   | 0                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 0                          | 0        | (2)    |
| Transfers into Level 3 <sup>(1)</sup>                             | 18   | 0                   | 0                                     | 0                                 | 0                                   | 0                             | 0                                   | 0                            | 54                         | 0        | 72     |
| Transfers out of Level 3 <sup>(2)</sup>                           | (44)   | (27)                | 0                                     | 0                                 | 0                                   | (52)                          | 0                                   | 0                            | 0                          | 0        | (123)  |
| Balance, end of period  | \$ 270   | \$ 0                | \$ 5                                  | \$ 0                              | \$ 417                              | \$ 0                          | \$ 0                                | \$ 4                         | \$ 54                      | \$ (327) | \$ 423 |
| Change in unrealized gains (losses) still held <sup>(3)</sup>     | \$ 0   | \$ 0                | \$ 0                                  | \$ 0                              | \$ 0                                | \$ 0                          | \$ 0                                | \$ 0                         | \$ 0                       | \$ 30    | \$ 30  |

<sup>(1)</sup> Due to a lack of visibility to observe significant inputs to price and credit events of respective issuers of securities to below investment grade

<sup>(2)</sup> A result of changing our pricing methodology to using a pricing index for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers

<sup>(3)</sup> Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2010



**Table of Contents****Nine Months Ended****September 30, 2011**

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

<sup>(1)</sup> Due to a lack of visibility to observe significant inputs to price

<sup>(2)</sup> A result of changing our pricing methodology to using a third party pricing vendor for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers.

<sup>(3)</sup> Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2011

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Nine Months Ended

September 30, 2010

| (In millions)   | Fixed Maturities                                   |                     |                                       |                                   |                                     |                    | Perpetual Securities                | Equities                     | Derivatives                |          | Total    |
|---|--|---------------------|---------------------------------------|-----------------------------------|-------------------------------------|--------------------|-------------------------------------|------------------------------|----------------------------|----------|----------|
|   | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Collateralized<br>Debt<br>Obligations | Sovereign<br>and<br>Supranational | Banks/<br>Financial<br>Institutions | Other<br>Corporate | Banks/<br>Financial<br>Institutions | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps |          |          |
| Balance, beginning of period                                      | \$ 62  | \$ 497              | \$ 267                                | \$ 293                            | \$ 1,240                            | \$ 1,248           | \$ 1,441                            | \$ 9                         | \$ 0                       | \$ 0     | \$ 5,057 |
| Effect of change in accounting principle <sup>(1)</sup>           | 0  | 0                   | (263)                                 | 0                                 | 0                                   | 0                  | 0                                   | 0                            | 0                          | (312)    | (575)    |
| Revised balance, beginning of period                              | 62   | 497                 | 4                                     | 293                               | 1,240                               | 1,248              | 1,441                               | 9                            | 0                          | (312)    | 4,482    |
| Realized gains or losses included in earnings                     | (1)  | 0                   | 1                                     | 0                                 | 5                                   | 0                  | 108                                 | 0                            | 0                          | (15)     | 98       |
| Unrealized gains or losses included in other comprehensive income | 19   | (9)                 | 0                                     | 5                                 | 99                                  | 6                  | 51                                  | 0                            | 0                          | 0        | 171      |
| Purchases, issuances, sales and settlements:                      |  |                     |                                       |                                   |                                     |                    |                                     |                              |                            |          |          |
| Purchases   | 0  | 0                   | 0                                     | 0                                 | 0                                   | 0                  | 0                                   | 0                            | 0                          | 0        | 0        |
| Issuances   | 0  | 0                   | 0                                     | 0                                 | 0                                   | 0                  | 0                                   | 0                            | 0                          | 0        | 0        |
| Sales   | (1)  | (2)                 | 0                                     | 0                                 | (175)                               | 0                  | (585)                               | 0                            | 0                          | 0        | (763)    |
| Settlements   | (2)  | 0                   | 0                                     | 0                                 | 0                                   | 0                  | 0                                   | 0                            | 0                          | 0        | (2)      |
| Transfers into Level 3 <sup>(2)</sup>                             | 237  | 0                   | 0                                     | 0                                 | 330                                 | 0                  | 149                                 | 0                            | 54                         | 0        | 770      |
| Transfers out of Level 3 <sup>(3)</sup>                           | (44)   | (486)               | 0                                     | (298)                             | (1,082)                             | (1,254)            | (1,164)                             | (5)                          | 0                          | 0        | (4,333)  |
| Balance, end of period  | \$ 270   | \$ 0                | \$ 5                                  | \$ 0                              | \$ 417                              | \$ 0               | \$ 0                                | \$ 4                         | \$ 54                      | \$ (327) | \$ 423   |
| Change in unrealized gains (losses) still held <sup>(4)</sup>     | \$ 0   | \$ 0                | \$ 0                                  | \$ 0                              | \$ 0                                | \$ 0               | \$ 0                                | \$ 0                         | \$ 0                       | \$ (15)  | \$ (15)  |

<sup>(1)</sup> Change in accounting for VIEs effective January 1, 2010. See Notes 1, 3, and 4 for additional information.

<sup>(2)</sup> Due to a lack of visibility to observe significant inputs to price and credit events of respective issuers of securities to below investment grade

<sup>(3)</sup> A result of changing our pricing methodology to using a pricing index for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers

<sup>(4)</sup> Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2010

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As discussed in Notes 1 and 3, we adopted new accounting guidance on VIEs effective January 1, 2010, and as a result have consolidated certain VIE investments. Upon consolidation, the beneficial interest was derecognized and the underlying securities and derivatives were recognized. In many cases, the fair value hierarchy level differed between the original beneficial interest asset and the underlying securities that are now being recognized. In the Level 3 rollforward, we have separately disclosed the impact of consolidating these VIE investments that were previously categorized as Level 3 and now the underlying securities are Level 2. As noted in the Level 3 rollforward above, the CDSs which are separately recognized as a result of this change in accounting are reported as Level 3 investments. In addition, approximately \$1.0 billion of Level 2 investments were reclassified upon the adoption of this guidance, and their underlying securities are being reported as Level 1 as of January 1, 2010.

The significant valuation inputs that are used in the valuation process for the below-investment-grade, callable RDC and private placement investments classified as Level 3 include forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, certain probability assumptions, and call option data.

Some of these securities require the calculation of a theoretical forward exchange rate which is developed by using yen swap rates, U.S. dollar swap rates, interest rate volatilities, and spot exchange rates. The forward exchange rate is then used to convert all future dollar cash flows of the bond, where applicable, into yen cash flows. Additionally, credit spreads for the individual issuers are key valuation inputs of these securities. Finally, in pricing securities with a call option, the assumptions regarding interest rates in the U.S. and Japan are considered to be significant valuation inputs. Collectively, these valuation inputs are included to estimate the fair values of these securities at each reporting date.

In obtaining the above valuation inputs, we have determined that certain pricing assumptions and data used by our pricing sources are becoming increasingly more difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities and consequently, causes more volatility in their estimated fair values.

### Fair Value of Financial Instruments

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

| (In millions)   | September 30, 2011 |            | December 31, 2010 |            |
|---|--------------------|------------|-------------------|------------|
|   | Carrying Value     | Fair Value | Carrying Value    | Fair Value |
| <b>Assets:</b>  |                    |            |                   |            |
| Fixed-maturity securities   | \$ 86,209          | \$85,087   | \$ 72,570         | \$ 72,999  |
| Fixed-maturity securities - consolidated variable interest entities | 6,017              | 5,899      | 5,869             | 5,825      |
| Perpetual securities  | 5,215              | 5,215      | 5,974             | 5,974      |
| Perpetual securities - consolidated variable interest entities      | 1,315              | 1,315      | 1,538             | 1,538      |
| Equity securities   | 24                 | 24         | 23                | 23         |
| Interest rate, foreign currency, and credit default swaps           | 407                | 407        | 564               | 564        |
| <b>Liabilities:</b>   |                    |            |                   |            |
| Notes payable (excluding capitalized leases)                        | 3,293              | 3,423      | 3,032             | 3,248      |
| Interest rate, foreign currency, and credit default swaps           | 608                | 608        | 741               | 741        |
| Obligation to Japanese policyholder protection corporation          | 72                 | 72         | 108               | 108        |

As mentioned previously, we determine the fair values of our fixed maturity securities, perpetual securities, privately issued equity securities and our derivatives using four basic pricing approaches or techniques: quoted market prices readily available from public exchange markets, price quotes and valuations from third party pricing vendors, pricing models, and price quotes we obtain from outside brokers.

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

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

**Table of Contents**DCF Sensitivity

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

The fair values of our available-for-sale fixed-maturity and perpetual securities valued by our DCF pricing model totaled \$19.1 billion at September 30, 2011. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

| Factor change | Interest Rates                           | Factor change | Credit Spreads                           | Factor change | Interest Rate Volatility                 |
|---------------|--|---------------|--|---------------|--|
|               | Change in<br>fair value<br>(in millions) |               | Change in<br>fair value<br>(in millions) |               | Change in<br>fair value<br>(in millions) |
| +50 bps       | \$(980)                                  | +50 bps       | \$(968)                                  | +50%          | \$(181)                                  |
| -50 bps       | 1,048                                    | -50 bps       | 1,039                                    | -50 %         | 25                                       |

The fair values of our held-to-maturity fixed-maturity securities valued by our DCF pricing model totaled \$26.7 billion at September 30, 2011. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

| Factor change | Interest Rates                           | Factor change | Credit Spreads                           | Factor change | Interest Rate Volatility                 |
|---------------|--|---------------|--|---------------|--|
|               | Change in<br>fair value<br>(in millions) |               | Change in<br>fair value<br>(in millions) |               | Change in<br>fair value<br>(in millions) |
| +50 bps       | \$(1,682)                                | +50 bps       | \$(1,565)                                | +50%          | \$(250)                                  |
| -50 bps       | 1,751                                    | -50 bps       | 1,583                                    | -50 %         | 238                                      |

For additional information on our investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

**Table of Contents****6. NOTES PAYABLE**

A summary of notes payable follows:

| (In millions)   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| 8.50% senior notes due May 2019   | \$ 850                | \$ 850               |
| 6.45% senior notes due August 2040  | 448 <sup>(1)</sup>    | 448 <sup>(1)</sup>   |
| 6.90% senior notes due December 2039  | 396 <sup>(2)</sup>    | 396 <sup>(2)</sup>   |
| 3.45% senior notes due August 2015  | 300                   | 300                  |
| Yen-denominated Uridashi notes:   |                       |                      |
| 1.52% notes paid September 2011 (principal amount 15 billion yen)   | 0                     | 184                  |
| 2.26% notes due September 2016 (principal amount 8 billion yen)   | 104                   | 98                   |
| Variable interest rate notes paid September 2011 (.66% at December 2010, principal amount 20 billion yen) | 0                     | 245                  |
| Yen-denominated Samurai notes:  |                       |                      |
| 1.47% notes due July 2014 (principal amount 28.7 billion yen)   | 374                   | 0                    |
| 1.87% notes due June 2012 (principal amount 26.6 billion yen)   | 347                   | 327                  |
| 1.84% notes due July 2016 (principal amount 15.8 billion yen)   | 206                   | 0                    |
| Variable interest rate notes due July 2014 (1.35% at September 2011, principal amount 5.5 billion yen)    | 72                    | 0                    |
| Yen-denominated loans:  |                       |                      |
| 3.60% loan due July 2015 (principal amount 10 billion yen)  | 131                   | 123                  |
| 3.00% loan due August 2015 (principal amount 5 billion yen)   | 65                    | 61                   |
| Capitalized lease obligations payable through 2022  | 8                     | 6                    |
| Total notes payable   | \$ 3,301              | \$ 3,038             |

<sup>(1)</sup> \$450 issuance net of a \$2 underwriting discount that is being amortized over the life of the notes

<sup>(2)</sup> \$400 issuance net of a \$4 underwriting discount that is being amortized over the life of the notes

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.

In July 2011, we issued three series of Samurai notes totaling 50 billion yen through a public debt offering. The first series, which totaled 28.7 billion yen, bears interest at a fixed rate of 1.47% per annum, payable semi-annually, and has a three-year maturity. The second series, which totaled 15.8 billion yen, bears interest at a fixed rate of 1.84% per annum, payable semi-annually, and has a five-year maturity. The third series, which totaled 5.5 billion yen, bears interest at a variable rate of three-month yen LIBOR plus a spread, payable quarterly, and has a three-year maturity. We have entered into an interest rate swap related to the 5.5 billion yen variable interest rate notes to swap the variable interest rate to a fixed interest rate of 1.475% (see Note 4). These Samurai notes are not available to U.S. persons.

We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of our notes payable at September 30, 2011. No events of default or defaults occurred during the nine-month period ended September 30, 2011.

For additional information, see Notes 4 and 8 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

**Table of Contents****7. SHAREHOLDERS EQUITY**

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

| (In thousands of shares)                                    | 2011    | 2010    |
|---|---------|---------|
| <b>Common stock - issued:</b>                               |         |         |
| Balance, beginning of period                                | 662,660 | 661,209 |
| Exercise of stock options and issuance of restricted shares | 818     | 902     |
| Balance, end of period                                      | 663,478 | 662,111 |
| <b>Treasury stock:</b>                                      |         |         |
| Balance, beginning of period                                | 192,999 | 192,641 |
| Purchases of treasury stock:                                |         |         |
| Open market   | 5,100   | 0       |
| Other   | 157     | 98      |
| Dispositions of treasury stock:                             |         |         |
| Shares issued to AFL Stock Plan                             | (1,253) | 0       |
| Exercise of stock options                                   | (85)    | (1,589) |
| Other   | (79)    | (83)    |
| Balance, end of period                                      | 196,839 | 191,067 |
| Shares outstanding, end of period                           | 466,639 | 471,044 |

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share. The following table presents the approximate number of share-based awards to purchase shares, on a weighted-average basis, that were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share for the following periods.

| (In thousands)                   | Three Months Ended    |       | Nine Months Ended     |       |
|----------------------------------|-----------------------|-------|-----------------------|-------|
|                                  | September 30,<br>2011 | 2010  | September 30,<br>2011 | 2010  |
| Anti-dilutive share-based awards | 9,657                 | 3,320 | 5,498                 | 3,460 |

**Share Repurchase Program:** During the first nine months of 2011, we repurchased 5.1 million shares of our common stock in the open market. During the first nine months of 2010, we did not repurchase any shares of our common stock under our share repurchase program.

As of September 30, 2011, a remaining balance of 25.3 million shares of our common stock was available for purchase under a share repurchase authorization by our board of directors in 2008.

**8. SHARE-BASED COMPENSATION**

The Company has two long-term incentive compensation plans. The first plan, which expired in February 2007, is a stock option plan which allowed grants for incentive stock options (ISOs) to employees and non-qualifying stock options (NQSOs) to employees and non-employee directors. Options granted before the plan's expiration date remain outstanding in accordance with their terms. The second long-term incentive plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, restricted stock, and stock appreciation rights. As of September 30, 2011, approximately 15 million shares were available for future grants under this plan, and the only performance-based awards issued and outstanding were restricted stock awards.

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





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The following table provides information on stock options outstanding and exercisable at September 30, 2011.

|             | <b>Stock<br/>Option Shares<br/>(in thousands)</b> | <b>Weighted-Average<br/>Remaining Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(in millions)</b> | <b>Weighted-Average<br/>Exercise Price Per<br/>Share</b> |
|-------------|---|---|--|--|
| Outstanding | 14,765  | 5.2   | \$26   | \$42.49  |
| Exercisable | 11,455  | 4.2   | 11   | 43.22  |

We received cash from the exercise of stock options in the amount of \$14 million during the first nine months of 2011, compared with \$54 million in the first nine months of 2010. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$12 million in the first nine months of 2011, compared with \$22 million in the first nine months of 2010.

As of September 30, 2011, total compensation cost not yet recognized in our financial statements related to restricted-share-based awards was \$28 million, of which \$14 million (688 thousand shares) was related to restricted-share-based awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately 1.3 years. There are no other contractual terms covering restricted stock awards once vested.

For additional information on our long-term share-based compensation plans and the types of share-based awards, see Note 11 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2010.

**9. BENEFIT PLANS**

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees in Japan and the United States. The components of retirement expense for the Japanese and U.S. pension plans were as follows:

| (In millions)                                   | Three Months Ended September 30, |      |       |      | Nine Months Ended September 30, |       |       |       |
|---|----------------------------------|------|-------|------|---------------------------------|-------|-------|-------|
|   | 2011                             |      | 2010  |      | 2011                            |       | 2010  |       |
|   | Japan                            | U.S. | Japan | U.S. | Japan                           | U.S.  | Japan | U.S.  |
| <b>Components of net periodic benefit cost:</b> |                                  |      |       |      |                                 |       |       |       |
| Service cost                                    | \$ 5                             | \$ 4 | \$ 4  | \$ 3 | \$ 13                           | \$ 11 | \$ 11 | \$ 9  |
| Interest cost                                   | 1                                | 3    | 1     | 3    | 4                               | 11    | 3     | 10    |
| Expected return on plan assets                  | (1)                              | (4)  | (1)   | (4)  | (3)                             | (11)  | (2)   | (10)  |
| Amortization of net actuarial loss              | 0                                | 2    | 1     | 2    | 2                               | 5     | 2     | 4     |
| Net periodic benefit cost                       | \$ 5                             | \$ 5 | \$ 5  | \$ 4 | \$ 16                           | \$ 16 | \$ 14 | \$ 13 |

During the nine months ended September 30, 2011, Aflac Japan contributed approximately \$17 million (using the weighted-average yen/dollar exchange rate for the nine-month period ending September 30, 2011) to the Japanese pension plan, and Aflac U.S. contributed \$20 million to the U.S. pension plan.

For additional information regarding our Japanese and U.S. benefit plans, see Note 13 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

**10. COMMITMENTS AND CONTINGENT LIABILITIES**

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



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD-LOOKING INFORMATION**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. We desire to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as expect, anticipate, believe, goal, objective, may, should, estimate, intends, projects, will, assumes, potential, target or similar words as well as specific projected 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 downgrades in certain 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

subjective determinations 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

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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-month and nine-month periods ended September 30, 2011 and 2010. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2010. 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). Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

**PERFORMANCE HIGHLIGHTS**

Results for the third quarter of 2011 benefited from the stronger yen/dollar exchange rate. Total revenues rose 11.0% to \$6.0 billion, compared with \$5.4 billion in the third quarter of 2010. Net earnings were \$744 million, or \$1.59 per diluted share, compared with \$690 million, or \$1.46 per diluted share, in the third quarter of 2010.

Results for the first nine months of 2011 also benefited from the stronger yen. Total revenues rose 4.9% to \$16.2 billion, compared with \$15.4 billion in the first nine months of 2010. Net earnings were \$1.4 billion, or \$3.02 per diluted share, compared with \$1.9 billion, or \$4.03 per diluted share, for the first nine months of 2010.

Results in the third quarter of 2011 included pretax net realized investment losses of \$83 million (\$34 million after-tax), compared with net gains of \$9 million (\$6 million after-tax) in the third quarter of 2010. A valuation allowance had been recorded in the second quarter of 2011 related to the deferred tax assets associated with our realized investment losses, however we released \$17 million of this allowance in the third quarter of 2011, resulting in a tax benefit which is reflected in the tax-effected total net realized investment losses stated above. Our net investment losses in 2011 included \$166 million (\$108 million after-tax) of other-than-temporary impairment losses; \$307 million of net gains (\$200 million after-tax) primarily from the sale of our two remaining investments in Portuguese financial institutions, a portion of our U.S. Treasury holdings, and various Japanese National Government bonds (JGBs) that were part of a swap program; and \$224 million of net losses (\$145 million after-tax) from valuing derivatives.

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Results for the first nine months of 2011 included pretax net realized investment losses of \$1.3 billion (\$864 million after-tax), compared with net losses of \$127 million (\$83 million after-tax) in the first nine months of 2010. Our net investment losses in 2011 included \$1.1 billion (\$715 million after-tax) of other-than-temporary impairment losses; \$49 million of net gains (\$32 million after-tax) from securities sold or redeemed; and \$279 million of net losses (\$182 million after-tax) from valuing derivatives.

Shareholders' equity at September 30, 2011 included a net unrealized gain on investment securities (including derivatives) of \$708 million, compared with a net unrealized gain of \$64 million at December 31, 2010.

**Table of Contents****CRITICAL ACCOUNTING ESTIMATES**

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, deferred policy acquisition costs, liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 95% of our assets and 84% of our liabilities are reported as of September 30, 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.

There have been no changes in the items that we have identified as critical accounting estimates during the nine months ended September 30, 2011. For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2010.

**New Accounting Pronouncements**

On January 1, 2012, we will adopt amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts. 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. While we are still finalizing our evaluation of the impact of adopting this guidance on our financial position and results of operations, we estimate the after-tax cumulative effect charge to the opening retained earnings based upon December 31, 2010 exchange rates will be \$500 million to \$700 million, or 4.5 % to 6.3% of shareholders' equity, when we retrospectively adopt this accounting standard on January 1, 2012. We also estimate the adoption will result in an immaterial decrease in net income in 2011 and 2012 and for all preceding years impacted by the retrospective adoption. Our estimate of the cumulative effect charge excludes compensation paid to third parties for successful sales. This compensation comprises 70% of our deferred acquisition cost balance as of December 31, 2010. The remaining 30% of our deferred acquisition costs balance was evaluated for deferral under the amended accounting guidance.

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.

|   | <b>Items Impacting Net Earnings</b>     |             |                          |             |  |             |                          |             |
|---|---|-------------|--------------------------|-------------|--|-------------|--------------------------|-------------|
|   | <b>Three Months Ended September 30,</b> |             |                          |             | <b>Nine Months Ended September 30,</b> |             |                          |             |
|   | <b>2011</b>                             | <b>2010</b> | <b>2011</b>              | <b>2010</b> | <b>2011</b>                            | <b>2010</b> | <b>2011</b>              | <b>2010</b> |
|   | <b>In Millions</b>                      |             | <b>Per Diluted Share</b> |             | <b>In Millions</b>                     |             | <b>Per Diluted Share</b> |             |
| Net earnings                                | \$ 744                                  | \$ 690      | \$ 1.59                  | \$ 1.46     | \$ 1,418                               | \$ 1,907    | \$ 3.02                  | \$ 4.03     |
| Items impacting net earnings, net of tax:   |   |             |                          |             |  |             |                          |             |
| Realized investment gains (losses):         |   |             |                          |             |  |             |                          |             |
| Securities transactions and impairments     | 112                                     | (3)         | .24                      | (.01)       | (682)                                  | (37)        | (1.45)                   | (.08)       |
| Impact of derivative and hedging activities | (146)                                   | 9           | (.31)                    | .02         | (182)                                  | (46)        | (.39)                    | (.10)       |

**Table of Contents****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 the three-month period ended September 30, 2011, we realized investment losses as a result of the recognition of other-than-temporary impairments on certain securities, and we realized net investment gains from securities sold or redeemed, primarily as a result of the sale of our two remaining investments in Portuguese financial institutions; a portion of our U.S. Treasury holdings; and various JGBs that were part of a swap program.

During the nine-month period ended September 30, 2011, we realized investment losses as a result of the recognition of other-than-temporary impairments on certain securities, and we realized net investment losses from the sale of securities, primarily as a 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. However, those sales losses were more than offset by the previously mentioned investment gains in the third quarter of 2011.

We had recorded a valuation allowance of \$19 million in the second quarter of 2011 on the deferred tax assets for our realized investment losses, however we released \$17 million of this valuation allowance in the third quarter of 2011, resulting in a remaining valuation allowance of \$2 million as of September 30, 2011.

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

The following table details our pretax other-than-temporary impairment losses by investment category.

| (In millions)   | Three Months Ended |       | Nine Months Ended |       |
|---|--------------------|-------|-------------------|-------|
|   | September 30,      |       | September 30,     |       |
|   | 2011               | 2010  | 2011              | 2010  |
| Perpetual securities                                  | \$ 122             | \$ 0  | \$ 306            | \$ 41 |
| Corporate bonds                                       | 43                 | 0     | 783               | 0     |
| Mortgage- and asset-backed securities                 | 1                  | 12    | 9                 | 12    |
| Municipalities  | 0                  | 0     | 1                 | 0     |
| Equity securities                                     | 0                  | 1     | 1                 | 2     |
| Total other-than-temporary impairment losses realized | \$ 166             | \$ 13 | \$ 1,100          | \$ 55 |

**Impact of Derivative and Hedging Activities**

Our derivative activities, which are primarily passive in nature, include foreign currency, interest rate and credit default swaps in variable interest entities that are consolidated, and securities with embedded derivatives.

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

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

**Foreign Currency Translation**



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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

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translate its yen-denominated balance sheet using the exchange rate at the end of the period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

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

**Income Taxes**

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 32.7% for the three-month period ended September 30, 2011, compared with 34.6% for the same period in 2010. The decrease in the effective income tax rate was due primarily to a \$17 million tax benefit from the release of a valuation allowance in the third quarter of 2011. This valuation allowance, related to the deferred tax assets associated with our realized investment losses, had initially been recognized in the second quarter of 2011. Our combined U.S. and Japanese effective income tax rate on pretax earnings for the nine-month period ended September 30, 2011 was 34.3%, compared with 34.6% for the same period in 2010.

**Earnings Guidance**

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

Subject to the preceding assumptions, our objective for 2011 is to increase net earnings per diluted share by 8% over 2010. We estimate that our fourth quarter 2011 earnings will be impacted by higher expenses, particularly on marketing and information technology (IT) initiatives. If the yen/dollar exchange rate averages 75 to 80 for the last three months of this year, we would expect reported net earnings for the fourth quarter of 2011 to be in the range of \$1.45 to \$1.52 per diluted share. Using that same exchange rate assumption, we would expect full year 2011 reported net earnings to be in the range of \$6.30 to \$6.37 per diluted share. Based on our stated objective for 2011, the following table shows the likely results for 2011 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

| Weighted-Average     |  | 2011 Net Earnings Per Share (EPS) Scenarios <sup>(1)</sup> |                                |                    |
|----------------------|--|--|--------------------------------|--------------------|
|                      |  | Yen/Dollar   | Net Earnings Per Diluted Share | % Growth Over 2010 |
| Exchange Rate        |  |  |                                |                    |
| 75.00                |  | \$ 6.61  | 19.5 %                         | \$ .64             |
| 80.00                |  | 6.34   | 14.6                           | .37                |
| 85.00                |  | 6.09   | 10.1                           | .12                |
| 87.69 <sup>(2)</sup> |  | 5.97   | 8.0                            | 0                  |
| 90.00                |  | 5.87   | 6.1                            | (.10)              |
| 95.00                |  | 5.68   | 2.7                            | (.29)              |

<sup>(1)</sup> Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items in 2011 and 2010

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<sup>(2)</sup> *Actual 2010 weighted-average exchange rate*

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 earnings objective assumes no additional significant

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investment losses and no further material decline in 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 believe the rate of earnings growth in future years should improve.

### **INSURANCE OPERATIONS**

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

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

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

### **AFLAC JAPAN SEGMENT**

#### **Aflac Japan Pretax Operating Earnings**

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

**Table of Contents****Aflac Japan Summary of Operating Results**

| (In millions)                                     | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30,      |         | September 30,     |         |
|   | 2011               | 2010    | 2011              | 2010    |
| Premium income                                    | <b>\$4,018</b>     | \$3,456 | <b>\$11,490</b>   | \$9,849 |
| Net investment income:                            |                    |         |                   |         |
| Yen-denominated investment income                 | <b>461</b>         | 419     | <b>1,327</b>      | 1,212   |
| Dollar-denominated investment income              | <b>234</b>         | 205     | <b>653</b>        | 598     |
| Net investment income                             | <b>695</b>         | 624     | <b>1,980</b>      | 1,810   |
| Other income                                      | <b>7</b>           | 5       | <b>33</b>         | 31      |
| Total operating revenues                          | <b>4,720</b>       | 4,085   | <b>13,503</b>     | 11,690  |
| Benefits and claims                               | <b>2,813</b>       | 2,434   | <b>8,027</b>      | 6,939   |
| Operating expenses:                               |                    |         |                   |         |
| Amortization of deferred policy acquisition costs | <b>173</b>         | 146     | <b>503</b>        | 428     |
| Insurance commissions                             | <b>302</b>         | 279     | <b>880</b>        | 814     |
| Insurance and other expenses                      | <b>405</b>         | 360     | <b>1,156</b>      | 1,024   |
| Total operating expenses                          | <b>880</b>         | 785     | <b>2,539</b>      | 2,266   |
| Total benefits and expenses                       | <b>3,693</b>       | 3,219   | <b>10,566</b>     | 9,205   |
| Pretax operating earnings <sup>(1)</sup>          | <b>\$1,027</b>     | \$ 866  | <b>\$ 2,937</b>   | \$2,485 |
| Weighted-average yen/dollar exchange rate         | <b>77.78</b>       | 85.74   | <b>80.48</b>      | 89.33   |

| Percentage change over                   | In Dollars         |       |                   |      | In Yen             |      |                   |      |
|--|--------------------|-------|-------------------|------|--------------------|------|-------------------|------|
|  | Three Months Ended |       | Nine Months Ended |      | Three Months Ended |      | Nine Months Ended |      |
|  | September 30,      |       | September 30,     |      | September 30,      |      | September 30,     |      |
| previous period:                         | 2011               | 2010  | 2011              | 2010 | 2011               | 2010 | 2011              | 2010 |
| Premium income                           | <b>16.3%</b>       | 13.2% | <b>16.7%</b>      | 9.8% | <b>5.4%</b>        | 3.8% | <b>5.1%</b>       | 3.6% |
| Net investment income                    | <b>11.3</b>        | 9.9   | <b>9.4</b>        | 8.2  | <b>.9</b>          | .8   | <b>(1.6)</b>      | 2.1  |
| Total operating revenues                 | <b>15.5</b>        | 12.5  | <b>15.5</b>       | 9.6  | <b>4.8</b>         | 3.2  | <b>4.1</b>        | 3.4  |
| Pretax operating earnings <sup>(1)</sup> | <b>18.5</b>        | 19.5  | <b>18.2</b>       | 19.1 | <b>7.5</b>         | 9.5  | <b>6.5</b>        | 12.3 |

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

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The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 5.9% in the first nine months of 2011 and 4.2% for the same period of 2010 reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized premiums in force at September 30, 2011, were 1.31 trillion yen, compared with 1.24 trillion yen a year ago. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were \$17.1 billion at September 30, 2011, compared with \$14.8 billion a year ago.

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 the first nine months of 2011 and 2010. In periods when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In periods when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. Excluding foreign currency changes from prior year, dollar-denominated investment income accounted for approximately 35% of Aflac Japan's investment income during the first nine months of 2011. The following table illustrates the effect of translating Aflac Japan's dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the comparable period in the prior year.

**Aflac Japan Percentage Changes Over Previous Period**

(Yen Operating Results)

For the Periods Ended September 30,

|  | Including Foreign<br>Currency Changes |      |             |       | Excluding Foreign<br>Currency Changes <sup>(2)</sup> |       |             |       |
|--|---------------------------------------|------|-------------|-------|--|-------|-------------|-------|
|  | Three Months                          |      | Nine Months |       | Three Months   |       | Nine Months |       |
|  | 2011                                  | 2010 | 2011        | 2010  | 2011   | 2010  | 2011        | 2010  |
| Net investment income                    | .9 %                                  | .8 % | (1.6) %     | 2.1 % | 4.4 %  | 3.8 % | 2.0 %       | 4.1 % |
| Total operating revenues                 | 4.8                                   | 3.2  | 4.1         | 3.4   | 5.4  | 3.9   | 4.7         | 3.8   |
| Pretax operating earnings <sup>(1)</sup> | 7.5                                   | 9.5  | 6.5         | 12.3  | 10.5   | 12.5  | 9.1         | 14.3  |

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

<sup>(2)</sup> Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current period as the comparable period in the prior year.

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

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2011                                | 2010   | 2011                               | 2010   |
| <b>Ratios to total revenues:</b>                  |                                     |        |                                    |        |
| Benefits and claims                               | 59.6 %                              | 59.6 % | 59.5 %                             | 59.4 % |
| Operating expenses:                               |                                     |        |                                    |        |
| Amortization of deferred policy acquisition costs | 3.7                                 | 3.6    | 3.7                                | 3.7    |
| Insurance commissions                             | 6.4                                 | 6.8    | 6.5                                | 7.0    |
| Insurance and other expenses                      | 8.6                                 | 8.8    | 8.6                                | 8.7    |
| Total operating expenses                          | 18.7                                | 19.2   | 18.8                               | 19.4   |
| Pretax operating earnings <sup>(1)</sup>          | 21.7                                | 21.2   | 21.7                               | 21.2   |

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

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Aflac Japan's financial results for the first quarter of 2011 reflected a provision of 3.0 billion yen, or \$37 million, for claims related to the earthquake and tsunami that occurred in Japan on March 11, 2011. These claims were offset by reserve releases and reinsurance of 2.0 billion yen, or \$25 million, resulting in a net income statement impact of 1.0 billion yen, or \$12 million, for benefits expense in the first quarter of 2011. The financial results for the first quarter of 2011 also reflected .7 billion yen, or \$8 million, of operating expenses 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 has declined, driven primarily by favorable claim trends in our cancer product line. We expect this downward claim trend to continue. Our operating ratios have also been impacted by 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, which impacts our profit margin by reducing the spread between investment yields and required interest on policy reserves. In the three-month period ended September 30, 2011, the benefit ratio remained constant. However, the operating expense ratio decreased, resulting in the pretax operating profit margin expanding, compared with the same period in 2010. In the second quarter of 2011, net investment income was impacted by the write-off of the accrued interest income on our investments in Dexia S.A. and Irish Life and Permanent PLC, totaling \$32 million, which caused the ratio of benefits to total revenue for the nine-month period ended September 30, 2011 to be higher than it otherwise would have been due to the lower total revenue. Although the benefit ratio increased slightly in nine-month period ended September 30, 2011, the operating expense ratio decreased, resulting in the pretax operating profit margin expanding compared with the same period in 2010. We expect the benefit and expense ratios to be higher in the fourth quarter of 2011 as we evaluate reserves and focus on initiatives to drive growth for 2012. These higher ratios will result in a modestly lower pretax operating profit margin in the fourth quarter of 2011, compared with the level experienced for the nine-month period ended September 30, 2011. For the full year 2011, we expect the benefit and expense ratios to decrease and the pretax operating profit margin to increase compared with 2010.

### Aflac Japan Sales

In 2011, Aflac Japan has generated its largest first-, second- and third-quarter production in its 36-year history. New annualized premium sales significantly exceeded our expectations in the third quarter of 2011 and rose to 42.3 billion yen, a 22.2% increase compared with the same period in the prior year. The following table presents Aflac Japan's new annualized premium sales for the periods ended September 30.

| (In millions of dollars and billions of yen)             | In Dollars   |        |             |          | In Yen       |        |             |        |
|--|--------------|--------|-------------|----------|--------------|--------|-------------|--------|
|  | Three Months |        | Nine Months |          | Three Months |        | Nine Months |        |
|  | 2011         | 2010   | 2011        | 2010     | 2011         | 2010   | 2011        | 2010   |
| New annualized premium sales                             | \$ 544       | \$ 403 | \$ 1,400    | \$ 1,105 | 42.3         | 34.6   | 112.5       | 98.7   |
| Increase (decrease) over comparable period in prior year | 34.8 %       | 25.8 % | 26.7 %      | 19.8 %   | 22.2 %       | 15.5 % | 13.9 %      | 12.8 % |

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

|                     | Three Months |       | Nine Months |       |
|---------------------|--------------|-------|-------------|-------|
|                     | 2011         | 2010  | 2011        | 2010  |
| Medical             | 20 %         | 34 %  | 24 %        | 36 %  |
| Cancer              | 19           | 21    | 20          | 22    |
| Ordinary life:      |              |       |             |       |
| Child endowment     | 16           | 21    | 18          | 18    |
| WAYS                | 32           | 8     | 23          | 7     |
| Other ordinary life | 9            | 13    | 11          | 13    |
| Other               | 4            | 3     | 4           | 4     |
| Total               | 100 %        | 100 % | 100 %       | 100 % |

The bank channel generated new annualized premium sales of 14.5 billion yen in the third quarter of 2011, an increase of 146.6% over the third quarter of 2010 and 90.7% over the second quarter of 2011. Bank channel sales generated 34.3% of new annualized premium sales for Aflac Japan in the third quarter of 2011, compared with 17.0% during the same period a year ago. As the bank channel has become a larger contributor



to sales, Aflac Japan has enhanced its

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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 13.4 billion yen during the third quarter of 2011, an increase of 362.8% over the third quarter of 2010 and 99.3% over the second quarter of 2011. 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 8.5% during the third quarter of 2011, compared with the same period a year ago. 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 26.0% during the three-month period ended September 30, 2011, compared with the same period a year ago, 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.

As anticipated, sales of our child endowment product declined for the second consecutive quarter, decreasing 8.0% compared with the third quarter of 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. For the remainder of the year, we expect child endowment sales to continue declining as our distribution channels remain focused on selling WAYS and our new cancer product DAYS.

At September 30, 2011, we had agreements to sell our products at 369 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 also remain committed to selling through our traditional channels. These channels include affiliated corporate agencies, independent corporate agencies and individual agencies. In the third quarter of 2011, we recruited more than 1,100 new sales agencies, an increase of 3.2% over the same period a year ago. At September 30, 2011, Aflac Japan was represented by approximately 20,000 sales agencies and more than 119,000 licensed sales associates employed by those agencies.

We believe that there is still a continued need for our products in Japan. We are ahead of our annual sales target for 2011 of achieving a flat to 5% increase in Aflac Japan's new annualized premium sales. We expect that our strong sales results in 2011 will create difficult comparisons in 2012.

### **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.

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

|   | Three Months |        | Nine Months |        |
|---|--------------|--------|-------------|--------|
|   | 2011         | 2010   | 2011        | 2010   |
| New money yield - yen only                                    | 2.12 %       | 2.14 % | 2.19 %      | 2.41 % |
| New money yield - blended                                     | 2.26         | 2.45   | 2.66        | 2.65   |
| Return on average invested assets, net of investment expenses | 3.17         | 3.44   | 3.21        | 3.52   |

The decrease in the Aflac Japan's yen only new money yield reflects the low interest rate environment and an increase in new money allocation from yen private placements to JGBs. At September 30, 2011, the yield on Aflac Japan's investment portfolio, including dollar-denominated investments, was 3.42%, compared with 3.64% a year ago. In order to address our challenge of investing in Japan's low-interest-rate environment, in 2010 and continuing into the first nine months of 2011, we started increasing the amount Aflac Japan invests in higher-yielding dollar-denominated securities. 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 had experienced downward pressure due to the effects of the earthquake and tsunami that occurred on March 11, 2011. However, The Bank of Japan's October 2011 *Monthly Report of Recent Economic and Financial Developments* stated that Japan's economic activity is continuing to improve. Production and exports have continued to increase at a moderate pace after declining sharply following the earthquake. Private consumption continues to improve, however, weakness remains in some aspects of consumer behavior. Housing investment has shown clear signs of improvement. Financial conditions have continued to ease, while weakness has been observed in the financial positions of some firms, mainly small businesses.

Prior to the earthquake and tsunami, Japan's economic conditions had been showing signs of improvement. Japan's economy is still expected to return to a moderate recovery path, following the effects of the natural disaster earlier this year. For additional information, see the Japanese Economy subsection of MD&A in our annual report to shareholders for the year ended December 31, 2010.

**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 the 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. Aflac Japan's solvency margin ratio, most recently reported as of June 30, 2011, was 952.8% using the current calculation method and, disclosed as reference information, was 528.6% 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 post offices, and, in 2008, we began selling cancer insurance through these post offices. Japan Post has historically been a popular place for consumers to purchase insurance products. Currently, our products are being offered in approximately 1,000 post offices.

Japan Post reform legislation was introduced in the 2010 Japanese ordinary Diet session, but the session ended before the legislation could be passed. The legislation again failed to pass in the 2010 fall Diet session and again in the 2011 ordinary Diet session and is scheduled to be taken up in the 2011 extraordinary Diet session, which opened in October 2011. Given that the ruling coalition no longer controls a majority in the Diet's upper house following its defeat in the July 2010 election, it is unclear whether the postal reform legislation will be passed in the 2011 extraordinary Diet session. Regardless, we believe that the Diet debate on postal reform is unlikely to change Aflac Japan's relationship with the post office company.



**Table of Contents****AFLAC U.S. SEGMENT****Aflac U.S. Pretax Operating Earnings**

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

**Aflac U.S. Summary of Operating Results**

| (In millions)                                     | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2011                                | 2010     | 2011                               | 2010     |
| Premium income                                    | \$ 1,192                            | \$ 1,150 | \$ 3,547                           | \$ 3,438 |
| Net investment income                             | 147                                 | 138      | 439                                | 404      |
| Other income                                      | 3                                   | 2        | 8                                  | 9        |
| Total operating revenues                          | 1,342                               | 1,290    | 3,994                              | 3,851    |
| Benefits and claims                               | 704                                 | 668      | 2,022                              | 1,904    |
| Operating expenses:                               |                                     |          |                                    |          |
| Amortization of deferred policy acquisition costs | 99                                  | 96       | 312                                | 324      |
| Insurance commissions                             | 136                                 | 133      | 407                                | 399      |
| Insurance and other expenses                      | 183                                 | 165      | 534                                | 525      |
| Total operating expenses                          | 418                                 | 394      | 1,253                              | 1,248    |
| Total benefits and expenses                       | 1,122                               | 1,062    | 3,275                              | 3,152    |
| Pretax operating earnings <sup>(1)</sup>          | \$ 220                              | \$ 228   | \$ 719                             | \$ 699   |
| <b>Percentage change over previous period:</b>    |                                     |          |                                    |          |
| Premium income                                    | 3.7 %                               | 3.6 %    | 3.2 %                              | 4.0 %    |
| Net investment income                             | 7.1                                 | 11.9     | 8.5                                | 7.8      |
| Total operating revenues                          | 4.0                                 | 4.4      | 3.7                                | 4.4      |
| Pretax operating earnings <sup>(1)</sup>          | (3.8)                               | 5.8      | 2.7                                | 13.3     |

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

Annualized premiums in force increased 3.8% in the first nine months of 2011 and 2.6% in the same period of 2010. Annualized premiums in force at September 30, 2011, were \$5.1 billion, compared with \$4.9 billion a year ago.

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

| Ratios to total revenues:                         | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2011                                | 2010   | 2011                               | 2010   |
| Benefits and claims                               | 52.5 %                              | 51.8 % | 50.6 %                             | 49.4 % |
| Operating expenses:                               |                                     |        |                                    |        |
| Amortization of deferred policy acquisition costs | 7.4                                 | 7.5    | 7.8                                | 8.4    |
| Insurance commissions                             | 10.1                                | 10.3   | 10.2                               | 10.4   |
| Insurance and other expenses                      | 13.6                                | 12.7   | 13.4                               | 13.6   |
| Total operating expenses                          | 31.1                                | 30.5   | 31.4                               | 32.4   |
| Pretax operating earnings <sup>(1)</sup>          | 16.4                                | 17.7   | 18.0                               | 18.2   |

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

In the third quarter of 2011, the pretax operating profit margin declined, compared with the same period a year ago, due to somewhat higher benefit and expense ratios. In the first quarter of 2010, we experienced 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 this account; the net result had a positive impact on the profit margin in the first nine months of 2010. In the first nine months of 2011, as expected our benefit ratio increased, compared with the same period of 2010, although it is still somewhat below normal levels. We believe we have benefited from the overall low level of healthcare utilization that has been experienced in the first half of this year in the United States. The expense ratio decreased in the first nine months of 2011. However, the offsetting increase in the benefit ratio resulted in a slight decline in the pretax operating profit margin, compared with the same period of 2010. For the remainder of 2011, we expect the benefit ratio to increase somewhat as healthcare utilization returns to a more normal level. We also expect the expense ratio to be higher in the remainder of the year as we invest in marketing and IT initiatives in preparation for 2012.

**Table of Contents****Aflac U.S. Sales**

For the third consecutive quarter in 2011, Aflac U.S. generated positive sales growth. We believe this sales improvement reflects our intense focus on supporting our field force with enhanced products, including group products, and better resources and training 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 periods ended September 30.

| (In millions)  | Three Months |         | Nine Months    |         |
|--|--------------|---------|----------------|---------|
|  | 2011         | 2010    | 2011           | 2010    |
| New annualized premium sales                             | <b>\$340</b> | \$324   | <b>\$1,029</b> | \$973   |
| Increase (decrease) over comparable period in prior year | <b>5.0 %</b> | (5.3) % | <b>5.7 %</b>   | (5.9) % |

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

|                              | Three Months |       | Nine Months  |       |
|------------------------------|--------------|-------|--------------|-------|
|                              | 2011         | 2010  | 2011         | 2010  |
| Income-loss protection:      |              |       |              |       |
| Short-term disability        | <b>19 %</b>  | 17 %  | <b>18 %</b>  | 17 %  |
| Life                         | <b>5</b>     | 6     | <b>6</b>     | 6     |
| Asset-loss protection:       |              |       |              |       |
| Accident                     | <b>31</b>    | 31    | <b>30</b>    | 31    |
| Critical care <sup>(1)</sup> | <b>23</b>    | 23    | <b>23</b>    | 22    |
| Supplemental medical:        |              |       |              |       |
| Hospital indemnity           | <b>15</b>    | 17    | <b>16</b>    | 18    |
| Dental/vision                | <b>7</b>     | 6     | <b>7</b>     | 6     |
| Total                        | <b>100 %</b> | 100 % | <b>100 %</b> | 100 % |

<sup>(1)</sup> Includes cancer, critical illness, and hospital intensive care products

New annualized premium sales for accident insurance, our leading product category, increased 6%, short-term disability sales increased 15%, critical care insurance sales (including cancer insurance) increased 7%, and hospital indemnity insurance sales decreased 10% in the third quarter of 2011, compared with the same period a year ago.

Our sales and marketing areas have synchronized their efforts by creating strategies that continue to benefit our sales results. We are pursuing sales through Smart Launches, which are product-specific coordinated sales marketing efforts. Our first Smart Launch was in the first quarter of 2011, and it focused our sales force on selling our dental product. Continuing the success of that effort from the first six months of 2011, the results were very positive with our dental category generating a 19% sales increase in the third quarter of 2011, compared with the same period a year ago. Our second Smart Launch promoted our new Critical Care and Recovery product, which was previously known as our Specified Health Event product. This Smart Launch, which began in the middle of the second quarter of 2011, resulted in sales of our Critical Care and Recovery product increasing 11.9% in the third quarter of 2011, compared with the same period in 2010. We will maintain this successful initiative to promote more products.

As part of our U.S. sales strategy, we continue to focus on growing and enhancing the effectiveness of our U.S. sales force. Field force recruiting continued to benefit from targeted national advertising campaigns that we began in January 2011. These campaigns contributed significantly to our 10.4% increase in recruits for the third quarter of 2011, compared with the same period a year ago. We recruited more than 6,000 new sales associates in the third quarter of 2011, resulting in approximately 73,300 licensed sales associates as of September 30, 2011. This quarter marked the third consecutive quarter of double-digit recruiting gains, generating an 11.4% increase in field force recruits for the first nine months of 2011, compared with the same period a year ago.

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In addition to expanding the size and capabilities of our traditional sales force, we are encouraged about the opportunities to broaden our distribution by pursuing and strengthening relationships with insurance brokers. Insurance brokers have been a historically underleveraged sales channel for Aflac, so we have been developing relationships that complement our traditional distribution system with the Aflac for Brokers<sup>SM</sup> initiative that we launched in 2009. We have 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.



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Our group products sold through CAIC, now branded as Aflac Group Insurance, have enhanced sales opportunities not only for brokers but also for our traditional sales force of individual associates, especially when they pursue larger payroll accounts. For the three-month period ended September 30, 2011, sales from Aflac Group Insurance increased to \$37 million, or 10.9% of new annualized premium sales for Aflac U.S. For the nine-month period ended September 30, 2011, sales from Aflac Group Insurance increased to \$107 million, or 10.4% of new annualized premium sales for Aflac U.S.

Although we remain somewhat cautious in our short-term sales outlook for Aflac U.S., our longer-term view has not changed. We believe the need for the products we sell remains strong, and that the United States provides a vast and accessible market for our products. We are taking measures to better reach potential customers through our product and distribution strategy, which includes broadening our product portfolio to include group products in addition to our traditional individually issued products. The addition of the group product platform and our growing broker initiative only serve to enhance our ability to leverage the Aflac brand to reach more companies, large and small, across the United States. Following the passage of health care reform in 2010, we believe employers and consumers will increasingly come to understand the need for the products we offer, just as they have in Japan.

### **Aflac U.S. Investments**

The following table presents the results of Aflac's U.S. investment yields for the periods ended September 30.

|   | Three Months |        | Nine Months |        |
|---|--------------|--------|-------------|--------|
|   | 2011         | 2010   | 2011        | 2010   |
| New money yield   | 5.77 %       | 5.69 % | 5.75 %      | 5.89 % |
| Return on average invested assets, net of investment expenses | 6.36         | 6.25   | 6.40        | 6.32   |

For the nine-month period ended September 30, 2011, the decrease in the U.S. new money yield reflects a low level of interest rates and tightening credit spreads. At September 30, 2011, the portfolio yield on Aflac's U.S. portfolio was 6.72%, compared with 6.96% a year ago. 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.

### **U.S. Economy**

Operating in the U.S. economy continues to be challenging. Ongoing low confidence levels from consumers and small businesses coupled with fewer employees at the worksite continue to pose challenges to our U.S. sales growth. Most of our business continues to revolve around small business owners and accounts with fewer than 100 employees. Small businesses, in particular, have proven to be especially vulnerable to ongoing economic weakness, and both small-business owners and their workers are anxious about the future. Workers at small businesses are holding back on increasing their spending for voluntary insurance products. Although we believe that the weakened U.S. economy has dampened our sales growth, we also believe our products remain affordable to the average American consumer. We believe that consumers' underlying need for our U.S. product line remains strong, and that the United States remains a sizeable and attractive market for our products.

### **U.S. Regulatory Environment**

In March 2010, President Barack Obama signed the Patient Protection and Affordable Care Act (PPACA) to give Americans of all ages and income levels access to comprehensive major medical health insurance. The primary subject of the new legislation is major medical insurance, therefore, the PPACA, as enacted, does not directly affect the design of our insurance products or our sales model. Our experience with Japan's national healthcare environment leads us to believe that the need for our products will only increase over the coming years.

In July 2010, President Obama signed 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

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crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other

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future regulatory action, which in some cases will take a period of years to implement. We believe that Aflac would not likely be considered a company that would pose a systemic risk to the financial stability of the United States. However, at the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will have on our U.S. business, financial condition, or results of operations.

**ANALYSIS OF FINANCIAL CONDITION**

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

The following table demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at September 30, 2011, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2010.

**Impact of Foreign Exchange on Balance Sheet Items**

As

| (In millions)                           | Reported   | Exchange Effect | Net of Exchange Effect |
|---|------------|-----------------|------------------------|
| Yen/dollar exchange rate <sup>(1)</sup> | 76.65      |                 | 81.49                  |
| Investments and cash                    | \$ 100,808 | \$ 4,671        | \$ 96,137              |
| Deferred policy acquisition costs       | 10,575     | 458             | 10,117                 |
| Total assets                            | 114,720    | 5,226           | 109,494                |
| Policy liabilities                      | 92,992     | 5,053           | 87,939                 |
| Total liabilities                       | 102,006    | 5,384           | 96,622                 |

<sup>(1)</sup> The exchange rate at September 30, 2011, was 76.65 yen to one dollar, or 6.3% stronger than the December 31, 2010, exchange rate of 81.49.

**Market Risks of Financial Instruments**

Our investment philosophy is to maximize investment income while emphasizing liquidity, safety and quality. Our investment objective, subject to appropriate risk constraints, is to fund policyholder obligations and other liabilities in a manner that enhances shareholders' equity. We seek to achieve this objective through a diversified portfolio of fixed-income investments that reflects the characteristics of the liabilities it supports. Aflac invests primarily within the fixed income securities markets.

The following table details investment securities by segment.

| (In millions)  | Investment Securities by Segment |                   |                         |                         |
|--|----------------------------------|-------------------|-------------------------|-------------------------|
|  | Aflac Japan                      |                   | Aflac U.S.              |                         |
|  | September 30, 2011               | December 31, 2010 | September 30, 2011      | December 31, 2010       |
| <b>Securities available for sale, at fair value:</b>   |                                  |                   |                         |                         |
| Fixed maturities                                       | \$ 40,844                        | \$ 39,485         | \$ 9,892 <sup>(1)</sup> | \$ 8,750 <sup>(1)</sup> |
| Perpetual securities                                   | 6,365                            | 7,233             | 165                     | 279                     |
| Equity securities                                      | 24                               | 23                | 0                       | 0                       |
| Total available for sale                               | 47,233                           | 46,741            | 10,057                  | 9,029                   |
| <b>Securities held to maturity, at amortized cost:</b> |                                  |                   |                         |                         |
| Fixed maturities                                       | 41,351                           | 30,084            | 0                       | 0                       |
| Total held to maturity                                 | 41,351                           | 30,084            | 0                       | 0                       |
| Total investment securities                            | \$ 88,584                        | \$ 76,825         | \$ 10,057               | \$ 9,029                |

*(1) Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of \$139 in 2011 and \$120 in 2010.*

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

### **Currency Risk**

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

Although we generally do not convert yen into dollars, we do translate financial statement amounts from yen into dollars for financial reporting purposes. Therefore, reported amounts are affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income.

Aflac Japan maintains a portfolio of reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments), which exposes Aflac to changes in foreign exchange rates. This foreign currency effect is accounted for as a component of unrealized gains or losses on available-for-sale securities in accumulated other comprehensive income. When the yen strengthens against the dollar, shareholders' equity is negatively impacted and, conversely, when the yen weakens against the dollar, shareholders' equity is positively impacted. Aflac Japan invests a portion of its assets in reverse-dual currency securities to provide a higher yield than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards of credit quality. The yen/dollar exchange rate would have to strengthen to approximately 46 before the yield on these instruments would equal that of a comparable yen-denominated instrument.

On a consolidated basis, we attempt to minimize the exposure of shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan's investment portfolio in dollar-denominated securities and by the Parent Company's issuance of yen-denominated debt (for additional information, see the discussion under the Hedging Activities subsection of MD&A). As a result, the effect of currency fluctuations on our net assets is reduced.

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

**Table of Contents****Dollar Value of Yen-Denominated Assets and Liabilities**

| (In millions)   | at Selected Exchange Rates |                      |            |                   |                      |           |
|---|----------------------------|----------------------|------------|-------------------|----------------------|-----------|
|   | September 30, 2011         |                      |            | December 31, 2010 |                      |           |
| Yen/dollar exchange rates   | 61.65                      | 76.65 <sup>(1)</sup> | 91.65      | 66.49             | 81.49 <sup>(1)</sup> | 96.49     |
| <b>Yen-denominated financial instruments:</b>   |                            |                      |            |                   |                      |           |
| Assets:   |                            |                      |            |                   |                      |           |
| Securities available for sale:  |                            |                      |            |                   |                      |           |
| Fixed maturities  | \$ 33,862                  | \$ 27,237            | \$ 22,778  | \$ 35,905         | \$ 29,296            | \$ 24,742 |
| Fixed maturities - consolidated variable interest entities                                    | 3,500                      | 2,815                | 2,354      | 3,637             | 2,968                | 2,506     |
| Perpetual securities  | 6,217                      | 5,001                | 4,182      | 6,911             | 5,638                | 4,762     |
| Perpetual securities - consolidated variable interest entities                                | 1,504                      | 1,209                | 1,012      | 1,745             | 1,424                | 1,203     |
| Equity securities   | 26                         | 21                   | 17         | 23                | 19                   | 16        |
| Securities held to maturity:  |                            |                      |            |                   |                      |           |
| Fixed maturities  | 50,601                     | 40,699               | 34,038     | 36,119            | 29,470               | 24,889    |
| Fixed maturities - consolidated variable interest entities                                    | 811                        | 652                  | 546        | 752               | 614                  | 518       |
| Cash and cash equivalents   | 1,083                      | 871                  | 729        | 939               | 766                  | 647       |
| Other financial instruments   | 181                        | 144                  | 121        | 153               | 125                  | 105       |
| Subtotal  | 97,785                     | 78,649               | 65,777     | 86,184            | 70,320               | 59,388    |
| Liabilities:  |                            |                      |            |                   |                      |           |
| Notes payable   | 1,625                      | 1,307                | 1,093      | 1,280             | 1,044                | 882       |
| Japanese policyholder protection corporation  | 90                         | 72                   | 60         | 132               | 108                  | 91        |
| Subtotal  | 1,715                      | 1,379                | 1,153      | 1,412             | 1,152                | 973       |
| Net yen-denominated financial instruments   | 96,070                     | 77,270               | 64,624     | 84,772            | 69,168               | 58,415    |
| Other yen-denominated assets  | 11,616                     | 9,343                | 7,814      | 10,338            | 8,435                | 7,124     |
| Other yen-denominated liabilities   | 110,997                    | 89,276               | 74,665     | 95,441            | 77,873               | 65,767    |
| Consolidated yen-denominated net assets (liabilities) subject to foreign currency fluctuation | \$ (3,311)                 | \$ (2,663)           | \$ (2,227) | \$ (331)          | \$ (270)             | \$ (228)  |

<sup>(1)</sup> Actual period-end exchange rate

Effective January 1, 2010, we were required to consolidate certain variable interest entities (VIEs) upon the adoption of new accounting guidance. Prior to the adoption of this new accounting guidance, our beneficial interest in certain VIEs was a yen-denominated available-for-sale fixed maturity security. Upon consolidation on January 1, 2010, the original yen-denominated investment was derecognized and the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps were recognized. While the combination of a U.S. dollar-denominated investment and cross-currency swap economically creates a yen-denominated investment, these investments will create foreign currency fluctuations but have no impact on our net investment hedge position. For additional information, see the Hedging Activities subsection of MD&A.

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

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This primarily occurs when we repatriate funds from Aflac Japan to Aflac U.S., which is generally done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits were earned. A portion of the repatriation may be used to service Aflac Incorporated's yen-denominated notes payable with the remainder converted into dollars.

**Table of Contents**Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt and perpetual securities. We estimate that the reduction in the fair value of debt and perpetual securities we own resulting from a 100 basis point increase in market interest rates, based on our portfolios at September 30, 2011, and December 31, 2010, would be as follows:

| (In millions)  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Effect on yen-denominated debt and perpetual securities    | \$ (8,877)            | \$ (7,833)           |
| Effect on dollar-denominated debt and perpetual securities | (2,098)               | (1,366)              |
| Effect on total debt and perpetual securities              | \$ (10,975)           | \$ (9,199)           |

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

We attempt to match the duration of our assets with the duration of our liabilities. Currently, when debt and perpetual securities we own mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, adding riders to our older policies has helped offset negative investment spreads on these policies. Overall, adequate profit margins exist in Aflac Japan's aggregate block of business because of changes in the mix of business and favorable experience from mortality, morbidity and expenses.

We entered into interest rate swap agreements related to our 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011, and we had interest rate swap agreements related to our 20 billion yen variable interest rate Uridashi notes that matured in September 2011. These agreements effectively converted the variable interest rate notes to fixed rate notes to eliminate the volatility in our interest expense. We also have interest rate swaps related to some of our consolidated VIEs. These interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates. For further information, see Note 4 of the accompanying Notes to the Consolidated Financial Statements and Note 8 of the Notes to the Consolidated Financial Statements and the Interest Rate Risk subsection of MD&A in our annual report to shareholders for the year ended December 31, 2010.

Credit Risk

Our investment activities expose us to credit risk, which is a consequence of extending credit and/or carrying investment positions. However, we continue to adhere to prudent standards for credit quality. We accomplish this by considering our product needs and overall corporate objectives, in addition to credit risk. In evaluating the initial rating, we look at the overall senior issuer rating, the explicit rating for the actual issue or the rating for the security class, and, where applicable, the appropriate designation from the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC). All of our securities have ratings from either a nationally recognized statistical rating organization or the SVO of the NAIC. In addition, we perform extensive internal credit reviews to ensure that we are consistent in applying rating criteria for all of our securities.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. The distributions by credit rating of our purchases of debt securities, based on acquisition cost, were as follows:

**Table of Contents****Composition of Purchases by Credit Rating**

|             | Nine Months Ended<br>September 30, 2011 | Twelve Months Ended<br>December 31, 2010 | Nine Months Ended<br>September 30, 2010 |
|-------------|---|--|---|
| AAA         | 9.6 %                                   | 1.0 %                                    | .8 %                                    |
| AA          | 69.4                                    | 60.7                                     | 58.7                                    |
| A           | 10.9                                    | 24.5                                     | 28.2                                    |
| BBB         | 9.4                                     | 13.8                                     | 12.3                                    |
| BB or lower | .7                                      | .0                                       | .0                                      |
| Total       | 100.0 %                                 | 100.0 %                                  | 100.0 %                                 |

Purchases of securities from period to period are determined based on diversification objectives, relative value and availability of investment opportunities, while meeting our investment policy guidelines for liquidity, safety, and quality. We did not purchase any perpetual securities during the periods presented in the table above. The increase in purchases of AAA rated securities during the first nine months of 2011 was due to an increase in purchases of U.S. Treasury securities. The increase in purchases of AA rated securities during the first nine months of 2011 was primarily due to an increase in purchases of Japanese Government Bonds as part of a swap program. The purchases of BB or lower rated securities during the first nine months of 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 an 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.

The distributions of debt and perpetual securities we own, by credit rating, were as follows:

**Composition of Portfolio by Credit Rating**

|             | September 30, 2011 |         | December 31, 2010 |         |
|-------------|--------------------|---------|-------------------|---------|
|             | Amortized          | Fair    | Amortized         | Fair    |
|             | Cost               | Value   | Cost              | Value   |
| AAA         | 3.7 %              | 4.3 %   | 3.3 %             | 3.6 %   |
| AA          | 39.8               | 41.0    | 35.7              | 36.5    |
| A           | 32.6               | 32.9    | 36.0              | 36.6    |
| BBB         | 18.8               | 17.6    | 18.8              | 18.7    |
| BB or lower | 5.1                | 4.2     | 6.2               | 4.6     |
| Total       | 100.0 %            | 100.0 % | 100.0 %           | 100.0 % |

As of September 30, 2011, our direct and indirect exposure to securities in our investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

*Subordination Distribution*

The majority of our total investments in debt and perpetual securities was senior debt at September 30, 2011, and December 31, 2010. We also maintained investments in subordinated financial instruments that primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities, listed in order of seniority. The Lower Tier II (LTII) securities are debt instruments with fixed maturities. Our Upper Tier II (UTII) and Tier I investments consisted of debt instruments with fixed maturities and perpetual securities, which have an economic maturity as opposed to a stated maturity.





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The following table shows the subordination distribution of our debt and perpetual securities.

|  | September 30, 2011 |            | December 31, 2010 |            |
|--|--------------------|------------|-------------------|------------|
|  | Amortized          | Percentage | Amortized         | Percentage |
| (In millions)                                  | Cost               | of Total   | Cost              | of Total   |
| Senior notes                                   | \$ 83,026          | 84.9 %     | \$ 68,407         | 79.5 %     |
| Subordinated securities:                       |                    |            |                   |            |
| Fixed maturities (stated maturity date):       |                    |            |                   |            |
| Lower Tier II                                  | 6,175              | 6.3        | 8,679             | 10.1       |
| Upper Tier II                                  | 0                  | .0         | 15                | .0         |
| Tier I <sup>(1)</sup>                          | 559                | .6         | 613               | .7         |
| Surplus notes                                  | 335                | .3         | 335               | .4         |
| Trust preferred - non-banks                    | 85                 | .1         | 85                | .1         |
| Other subordinated - non-banks                 | 52                 | .1         | 52                | .1         |
| Total fixed maturities                         | 7,206              | 7.4        | 9,779             | 11.4       |
| Perpetual securities (economic maturity date): |                    |            |                   |            |
| Upper Tier II                                  | 4,986              | 5.1        | 5,285             | 6.1        |
| Tier I   | 2,518              | 2.6        | 2,542             | 3.0        |
| Total perpetual securities                     | 7,504              | 7.7        | 7,827             | 9.1        |
| Total debt and perpetual securities            | \$ 97,736          | 100.0 %    | \$ 86,013         | 100.0 %    |

<sup>(1)</sup> Includes trust preferred securities

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

*Portfolio Composition*

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

*Investment Concentrations*

As of September 30, 2011, our largest investment industry sector concentration was banks and financial institutions. Throughout 2008 and during the first half of 2009, concerns related to troubled residential mortgages in the United States, United Kingdom and Europe spread to structured investment securities. As a result, banks and financial institutions suffered significant write-downs of asset values, which pressured banks and financial institutions to seek capital and liquidity support. National governments responded with various forms of support, ranging from guarantees on new and existing debt to significant injections of capital. In the second half of 2009, asset valuations generally improved, and banks and other institutions continued to use exchanges and tender offers to enhance their core capital. However, 2010 brought new concerns about the fiscal integrity of peripheral European sovereign nations. As a result, Greece, Ireland, and most recently Portugal were forced to accept external funding aid in various forms to meet their financial obligations, as public markets were not accessible. The financial institutions of these countries have faced both liquidity and asset valuation pressures. Nationalization and/or recapitalization, along with loss-sharing among bondholders, all remain distinct risks for financial institutions in these countries and others facing similar fiscal pressures. While European politicians have become increasingly hesitant to put taxpayers at risk, with few exceptions, we believe nationalizations and burden-sharing among debt holders remain options of last resort.

See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of our investment discipline, further discussion of our largest investment industry sector concentration (banks and financial institutions), and disclosure on our investment exposure to certain Eurozone countries (Greece, Ireland, Italy, Portugal and Spain).



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Our largest global investment exposures as of September 30, 2011, were as follows:

| (In millions)  | Largest Global Investment Positions |              |          | Seniority     | Ratings     |             |             |
|--|-------------------------------------|--------------|----------|---------------|-------------|-------------|-------------|
|  | Amortized Cost                      | % of Total   | %        |               | Moody's     | S&P         | Fitch       |
| <b>Japan National Government<sup>(1)</sup></b>                   | <b>\$ 24,570</b>                    | <b>25.1</b>  | <b>%</b> | <b>Senior</b> | <b>Aa3</b>  | <b>AA-</b>  | <b>AA-</b>  |
| <b>United States Treasury</b>                                    | <b>1,326</b>                        | <b>1.4</b>   |          | <b>Senior</b> | <b>Aaa</b>  | <b>AA+</b>  | <b>AAA</b>  |
| <b>Israel Electric Corp.</b>                                     | <b>955</b>                          | <b>1.0</b>   |          | <b>Senior</b> | <b>Baa2</b> | <b>BB+</b>  | <b>-</b>    |
| <b>Republic of Tunisia<sup>(2)</sup></b>                         | <b>834</b>                          | <b>.9</b>    |          | <b>Senior</b> | <b>Baa3</b> | <b>BBB-</b> | <b>BBB-</b> |
| <b>Republic of South Africa</b>                                  | <b>797</b>                          | <b>.8</b>    |          | <b>Senior</b> | <b>A3</b>   | <b>BBB+</b> | <b>BBB+</b> |
| <b>HSBC Holdings PLC</b>   | <b>772</b>                          | <b>.8</b>    |          |               |             |             |             |
| HSBC Finance Corporation (formerly Household Finance)            | 652                                 | .7           |          | Senior        | A3          | A           | AA-         |
| HSBC Bank PLC  | 40                                  | .0           |          | Upper Tier II | A3          | A           | A+          |
| The Hongkong & Shanghai Banking Corporation Ltd.                 | 80                                  | .1           |          | Upper Tier II | Aa3         | -           | -           |
| <b>UniCredit SpA</b>   | <b>651</b>                          | <b>.7</b>    |          |               |             |             |             |
| UniCredit Bank Austria AG  | 11                                  | .0           |          | Lower Tier II | Aa3         | AA+         | -           |
| UniCredit Bank AG (Hypovereinsbank)                              | 261                                 | .3           |          | Lower Tier II | Baa2        | BBB+        | A           |
| UniCredit Bank AG (HVB Funding Trust I, III & VI)                | 379                                 | .4           |          | Tier I        | Baa3        | BBB         | BBB         |
| <b>Mizuho Financial Group Inc.</b>                               | <b>612</b>                          | <b>.6</b>    |          |               |             |             |             |
| Mizuho Bank, Mizuho Finance Cayman & Aruba                       | 612                                 | .6           |          | Upper Tier II | A3          | A-          | -           |
| <b>Bank of America Corp. (includes Merrill Lynch)</b>            | <b>587</b>                          | <b>.6</b>    |          |               |             |             |             |
| Merrill Lynch & Co. Inc.   | 326                                 | .3           |          | Senior        | Baa1        | A           | A+          |
| Bank of America Corp.  | 261                                 | .3           |          | Lower Tier II | Baa2        | A-          | A           |
| <b>Bank of Tokyo-Mitsubishi UFJ Ltd.</b>                         | <b>587</b>                          | <b>.6</b>    |          |               |             |             |             |
| Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao Holdings NV)     | 587                                 | .6           |          | Lower Tier II | A1          | A           | A-          |
| <b>BNP Paribas (includes Fortis)</b>                             | <b>587</b>                          | <b>.6</b>    |          |               |             |             |             |
| BNP Paribas  | 130                                 | .1           |          | Senior        | Aa2         | AA          | AA-         |
| Fortis Bank SA-NV  | 327                                 | .4           |          | Upper Tier II | A3          | A           | A-          |
| BNP Paribas Fortis Funding                                       | 130                                 | .1           |          | Upper Tier II | A3          | A           | A-          |
| <b>Erste Group Bank AG</b>                                       | <b>560</b>                          | <b>.6</b>    |          |               |             |             |             |
| Erste Group Bank   | 130                                 | .1           |          | Lower Tier II | A2          | A-          | A-          |
| Erste Group Bank (Erste Finance Jersey Ltd. 3 & 5)               | 430                                 | .5           |          | Tier I        | Ba1         | -           | -           |
| <b>Investcorp SA</b>   | <b>533</b>                          | <b>.6</b>    |          |               |             |             |             |
| Investcorp Capital Limited                                       | 533                                 | .6           |          | Senior        | Ba2         | -           | BB+         |
| <b>Commerzbank AG (includes Dresdner Bank)</b>                   | <b>527</b>                          | <b>.5</b>    |          |               |             |             |             |
| Commerzbank AG   | 326                                 | .3           |          | Lower Tier II | Baa3        | BBB-        | A           |
| Dresdner Bank AG (Dresdner Funding Trust IV)                     | 201                                 | .2           |          | Lower Tier II | Baa3        | BBB-        | A           |
| <b>National Grid PLC</b>   | <b>522</b>                          | <b>.6</b>    |          |               |             |             |             |
| National Grid Gas PLC  | 261                                 | .3           |          | Senior        | A3          | A-          | A           |
| National Grid Electricity Transmission PLC                       | 261                                 | .3           |          | Senior        | A3          | A-          | A           |
| <b>Telecom Italia SpA</b>  | <b>522</b>                          | <b>.5</b>    |          |               |             |             |             |
| Telecom Italia Finance SA  | 522                                 | .5           |          | Senior        | Baa2        | BBB         | BBB         |
| <b>Sumitomo Mitsui Financial Group Inc.</b>                      | <b>522</b>                          | <b>.5</b>    |          |               |             |             |             |
| Sumitomo Mitsui Banking Corporation                              | 131                                 | .1           |          | Lower Tier II | A1          | A           | A-          |
| Sumitomo Mitsui Banking Corporation (SMBC International Finance) | 391                                 | .4           |          | Upper Tier II | A2          | A-          | -           |
| <b>Citigroup Inc.</b>  | <b>515</b>                          | <b>.5</b>    |          |               |             |             |             |
| Citigroup Inc (includes Citigroup Global Markets Holdings Inc.)  | 514                                 | .5           |          | Senior        | A3          | A           | A+          |
| Citigroup Inc. (Citicorp)  | 1                                   | .0           |          | Lower Tier II | Baa1        | A-          | A           |
| <b>JP Morgan Chase &amp; Co. (including Bear Stearns)</b>        | <b>511</b>                          | <b>.5</b>    |          |               |             |             |             |
| JPMorgan Chase & Co (including Bear Stearns Companies Inc.)      | 457                                 | .5           |          | Senior        | Aa3         | A+          | AA-         |
| JPMorgan Chase & Co (FNBC)                                       | 26                                  | .0           |          | Senior        | Aa1         | AA-         | -           |
| JPMorgan Chase & Co (Bank One Corp.)                             | 17                                  | .0           |          | Lower Tier II | A1          | A           | A+          |
| JPMorgan Chase & Co (NBD Bank)                                   | 11                                  | .0           |          | Lower Tier II | Aa2         | A+          | A+          |
| <b>Commonwealth Bank of Australia</b>                            | <b>509</b>                          | <b>.5</b>    |          |               |             |             |             |
| Commonwealth Bank of Australia                                   | 131                                 | .1           |          | Lower Tier II | Aa3         | AA-         | AA-         |
| Commonwealth Bank of Australia                                   | 261                                 | .3           |          | Upper Tier II | -           | A+          | -           |
| Bankwest   | 117                                 | .1           |          | Upper Tier II | Aa3         | AA-         | -           |
| <b>Total</b>   | <b>\$ 36,999</b>                    | <b>37.9</b>  | <b>%</b> |               |             |             |             |
| <b>Total debt and perpetual securities</b>                       | <b>\$ 97,736</b>                    | <b>100.0</b> | <b>%</b> |               |             |             |             |

*(1) JGBs or JGB-backed securities*

*(2) Deemed by the Company to be below investment grade*

As previously disclosed, we own long-dated debt instruments in support of our long-dated policyholder obligations. Included in our largest global investment holdings are legacy issues that date back many years. Additionally, the concentration of certain of our holdings of individual credit exposures has grown over time through merger and consolidation activity. Beginning in 2005, we have generally limited our investment exposures to issuers to no more than 5% of total adjusted capital (TAC) on a statutory accounting basis, with the exception of obligations of the Japanese and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this guidance was adopted, or exposures that may exceed this threshold from time to time through merger and consolidation activity, are not automatically reduced through sales of the issuers' securities but rather are reduced over time consistent with our investment policy.

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During the nine-month period ended September 30, 2011, we pursued strategic investment activities to lower the risk profile of our investment portfolio. Our primary focus was reducing our exposure to peripheral Eurozone investments, perpetual securities, investments in certain banks/financial institutions and concentrated investment positions. We believe that as of the end of the second quarter of 2011, we had substantially completed our investment derisking activities from a realized investment loss perspective, absent the development of additional financial problems in the entities in which we hold securities. The activity in the third quarter of 2011 reflected our ongoing effort to address investment risk issues as they arose. Our primary derisking activities are summarized as follows:

**Investment Derisking Activities**

| (In millions)  | Three Months Ended September 30, 2011 |                   |                                       |             |                           |                   |
|--|---------------------------------------|-------------------|---------------------------------------|-------------|---------------------------|-------------------|
|  | Balance,<br>Beginning of Period       |                   | Realized Investment<br>Gains (Losses) |             | Balance,<br>End of Period |                   |
|  | Par Value                             | Amortized<br>Cost | Sales and<br>Redemptions              | Impairments | Par Value                 | Amortized<br>Cost |
| <b>Peripheral Eurozone banks/financial institutions, by country:</b> |                                       |                   |                                       |             |                           |                   |
| Ireland  | \$ 525                                | \$ 525            | \$ 0                                  | \$ 0        | \$ 552                    | \$ 552            |
| Portugal   | 558                                   | 282               | 106                                   | 0           | 0                         | 0                 |
| <b>Perpetual securities:</b>   |                                       |                   |                                       |             |                           |                   |
| Dexia SA (includes Dexia Bank Belgium & Dexia Overseas)              | \$ 557                                | \$ 268            | \$ 0                                  | \$ (19)     | \$ 587                    | \$ 263            |
| BAWAG Capital Finance Jersey   | 173                                   | 122               | 0                                     | (47)        | 183                       | 81                |
| Hypo Vorarlberg Capital Finance                                      | 136                                   | 109               | 0                                     | (31)        | 144                       | 84                |
| KBL European Private Bankers S.A. (Part of KBC Group NV)             | 248                                   | 138               | 0                                     | (24)        | 261                       | 121               |
| <b>Nine Months Ended September 30, 2011</b>                          |                                       |                   |                                       |             |                           |                   |
| (In millions)  | Balance,<br>Beginning of Period       |                   | Realized Investment<br>Gains (Losses) |             | Balance,<br>End of Period |                   |
|  | Par Value                             | Amortized<br>Cost | Sales and<br>Redemptions              | Impairments | Par Value                 | Amortized<br>Cost |
|  | Par Value                             | Amortized<br>Cost | Sales and<br>Redemptions              | Impairments | Par Value                 | Amortized<br>Cost |
| <b>Peripheral Eurozone banks/financial institutions, by country:</b> |                                       |                   |                                       |             |                           |                   |
| Ireland <sup>(1)</sup>   | \$ 1,220                              | \$ 710            | \$ (72)                               | \$ 0        | \$ 552                    | \$ 552            |
| Greece   | 1,154                                 | 1,152             | (222)                                 | (397)       | 0                         | 0                 |
| Portugal   | 859                                   | 859               | 7                                     | (275)       | 0                         | 0                 |
| <b>Perpetual securities:</b>   |                                       |                   |                                       |             |                           |                   |
| Dexia SA (includes Dexia Bank Belgium & Dexia Overseas)              | \$ 552                                | \$ 448            | \$ 0                                  | \$ (203)    | \$ 587                    | \$ 263            |
| Royal Bank of Scotland Group PLC                                     | 58                                    | 19                | 28                                    | 0           | 0                         | 0                 |
| Lloyds Banking Group PLC <sup>(2)</sup>                              | 33                                    | 7                 | 18                                    | 0           | 0                         | 0                 |
| Swedbank   | 356                                   | 299               | 2                                     | 0           | 248                       | 187               |
| HSBC Holdings PLC  | 166                                   | 155               | 4                                     | 0           | 136                       | 120               |
| BAWAG Capital Finance Jersey   | 172                                   | 120               | 0                                     | (47)        | 183                       | 81                |
| Hypo Vorarlberg Capital Finance                                      | 135                                   | 108               | 0                                     | (31)        | 144                       | 84                |
| KBL European Private Bankers S.A. (Part of KBC Group NV)             | 245                                   | 137               | 0                                     | (24)        | 261                       | 121               |

<sup>(1)</sup> Includes Irish Life and Permanent PLC perpetual securities

<sup>(2)</sup> Remainder of exposure to this issuer does not consist of perpetual securities

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Any increases in par value or amortized cost for the peripheral Eurozone or perpetual security investments were due to the strengthening of the yen against the U.S. dollar. As a result of our investment derisking activities, we have experienced significant reductions in peripheral Eurozone, perpetual, and financial exposures on an amortized cost basis. At the start of 2008, sovereign and financial investments in peripheral Eurozone countries comprised 5.9% of total investments and cash, declining to 2.4% by the end of the third quarter of 2011. At the start of 2008, investments in perpetual securities comprised 14.7% of total investments and cash, declining to 7.5% by the end of the third quarter of 2011. At the start of 2008, investments in financial securities comprised 41.9% of total investments and cash, declining to 27.9% by the end of the third quarter of 2011. As a result of these derisking activities, we have no direct sovereign or financial investment exposure to Greece or Portugal, and we have only senior indebtedness in Ireland.

As a result of derisking activities to reduce our exposure to large concentrated positions that exceed 10% of total adjusted capital (TAC) on a statutory accounting basis, in the first nine months of 2011 we reduced our exposure to Israel Electric by \$89 million, the Republic of Tunisia by \$104 million, HSBC by \$100 million, Commerzbank by \$94 million, and Bank of America Corp. by \$104 million, on an amortized cost basis, resulting in a pretax net gain of \$6 million (\$4 million after-tax) for the nine-month period ended September 30, 2011.

See the Investment Concentrations section of Note 3 of the Notes to the Consolidated Financial Statements for additional information on our investment derisking activities.

We have investments in both publicly and privately issued securities. The outstanding amount of a particular issuance, as well as the level of activity in a particular issuance and market conditions, including credit events and the interest rate environment, affect liquidity regardless of whether it is publicly or privately issued.

The following table details investment securities by type of issuance.

| (In millions)                       | <b>Investment Securities by Type of Issuance</b> |              |                          |              |
|-------------------------------------|--|--------------|--------------------------|--------------|
|                                     | <b>September 30, 2011</b>                        |              | <b>December 31, 2010</b> |              |
|                                     | <b>Amortized</b>                                 | <b>Fair</b>  | <b>Amortized</b>         | <b>Fair</b>  |
|                                     | <b>Cost</b>                                      | <b>Value</b> | <b>Cost</b>              | <b>Value</b> |
| <b>Publicly issued securities:</b>  |  |              |                          |              |
| Fixed maturities                    | \$ 42,164  | \$ 45,351    | \$ 31,098                | \$ 32,457    |
| Perpetual securities                | 216  | 188          | 235                      | 256          |
| Equity securities                   | 13   | 16           | 13                       | 14           |
| Total publicly issued               | 42,393   | 45,555       | 31,346                   | 32,727       |
| <b>Privately issued securities:</b> |  |              |                          |              |
| Fixed maturities                    | 48,068   | 45,635       | 47,088                   | 46,367       |
| Perpetual securities                | 7,288  | 6,342        | 7,592                    | 7,256        |
| Equity securities                   | 9  | 8            | 9                        | 9            |
| Total privately issued              | 55,365   | 51,985       | 54,689                   | 53,632       |
| Total investment securities         | \$ 97,758  | \$ 97,540    | \$ 86,035                | \$ 86,359    |

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The following table details our privately issued investment securities.

| <b>Privately Issued Securities</b>   |                      |              |
|--|----------------------|--------------|
|  | <b>September 30,</b> | December 31, |
| (Amortized cost, in millions)  | <b>2011</b>          | 2010         |
| Privately issued securities as a percentage of total debt and perpetual securities                     | <b>56.6 %</b>        | 63.6 %       |
| Privately issued securities held by Aflac Japan  | <b>\$ 52,538</b>     | \$ 51,702    |
| Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities | <b>53.8 %</b>        | 60.1 %       |
| <b>Reverse-Dual Currency Securities <sup>(1)</sup></b>   |                      |              |
|  | <b>September 30,</b> | December 31, |
| (Amortized cost, in millions)  | <b>2011</b>          | 2010         |
| Privately issued reverse-dual currency securities  | <b>\$ 13,433</b>     | \$ 12,790    |
| Publicly issued collateral structured as reverse-dual currency securities                              | <b>2,937</b>         | 2,844        |
| Total reverse-dual currency securities   | <b>\$ 16,370</b>     | \$ 15,634    |
| Reverse-dual currency securities as a percentage of total debt and perpetual securities                | <b>16.7 %</b>        | 18.2 %       |

*<sup>(1)</sup> Principal payments in yen and interest payments in dollars*

The decrease in privately issued securities as a percentage of total debt and perpetual securities was due primarily to sales and impairments of investments and the allocation of new investments to JGBs and U.S. Treasury securities in the first nine months of 2011.

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

*Below-Investment-Grade and Split-Rated Securities*

Below-investment-grade debt and perpetual securities represented 5.0% of total debt and perpetual securities at September 30, 2011, compared with 6.2% of total debt and perpetual securities at December 31, 2010, at amortized cost. Debt and perpetual securities classified as below investment grade at September 30, 2011 and December 31, 2010, were generally reported as available for sale and carried at fair value.

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



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|   | Below-Investment-Grade Securities <sup>(1)</sup> |           |          |            |                   |           |          |            |
|---|--|-----------|----------|------------|-------------------|-----------|----------|------------|
|   | September 30, 2011                               |           |          |            | December 31, 2010 |           |          |            |
|   | Par  | Amortized | Fair     | Unrealized | Par               | Amortized | Fair     | Unrealized |
| (In millions)   | Value  | Cost      | Value    | Gain/Loss  | Value             | Cost      | Value    | Gain/Loss  |
| Republic of Tunisia <sup>(2)</sup>                                      | \$ 835   | \$ 834    | \$ 838   | \$ 4       | \$ *              | \$ *      | \$ *     | \$ *       |
| Dexia SA (includes Dexia Bank Belgium & Dexia Overseas) <sup>(3)</sup>  | 587  | 263       | 263      | 0          | 368               | 264       | 186      | (78)       |
| Investcorp Capital Limited  | 533  | 533       | 422      | (111)      | 504               | 504       | 337      | (167)      |
| Erste Group Bank (Erste Finance Jersey Ltd. 3 & 5) <sup>(3)</sup>       | 457  | 430       | 264      | (166)      | *                 | *         | *        | *          |
| Lloyds Banking Group PLC <sup>(4)</sup>                                 | 408  | 359       | 300      | (59)       | 440               | 364       | 387      | 23         |
| UPM-Kymmene   | 404  | 404       | 235      | (169)      | 380               | 380       | 290      | (90)       |
| Ford Motor Credit Company   | 391  | 391       | 389      | (2)        | 368               | 368       | 374      | 6          |
| CSAV (Tollo Shipping Co. S.A.)  | 313  | 313       | 123      | (190)      | 295               | 295       | 161      | (134)      |
| Bank of Ireland   | 261  | 261       | 100      | (161)      | *                 | *         | *        | *          |
| KBL European Private Bankers S.A. (Part of KBC Group NV) <sup>(3)</sup> | 261  | 121       | 121      | 0          | 245               | 137       | 144      | 7          |
| Tokyo Electric Power Co., Inc.  | 235  | 238       | 229      | (9)        | *                 | *         | *        | *          |
| BAWAG Capital Finance Jersey <sup>(3)</sup>                             | 183  | 81        | 81       | 0          | 172               | 120       | 116      | (4)        |
| IKB Deutsche Industriebank AG   | 170  | 97        | 97       | 0          | 160               | 160       | 104      | (56)       |
| Hypo Vorarlberg Capital Finance <sup>(3)</sup>                          | 144  | 84        | 84       | 0          | 135               | 108       | 97       | (11)       |
| Finance For Danish Industry (FIH)                                       | 130  | 104       | 104      | 0          | 123               | 123       | 104      | (19)       |
| Irish Life and Permanent PLC <sup>(3)</sup>                             | 0  | 0         | 0        | 0          | 454               | 112       | 112      | 0          |
| EFG Eurobank Ergasias   | 0  | 0         | 0        | 0          | 417               | 416       | 131      | (285)      |
| NBG (National Bank of Greece)   | 0  | 0         | 0        | 0          | 368               | 368       | 146      | (222)      |
| Alpha Bank  | 0  | 0         | 0        | 0          | 368               | 368       | 115      | (253)      |
| Swedbank <sup>(3)</sup>   | *  | *         | *        | *          | 356               | 299       | 314      | 15         |
| Hella KG Hueck & Co.  | *  | *         | *        | *          | 270               | 269       | 224      | (45)       |
| Allied Irish Banks PLC  | 0  | 0         | 0        | 0          | 245               | 77        | 77       | 0          |
| Aiful Corporation   | 0  | 0         | 0        | 0          | 184               | 67        | 67       | 0          |
| Royal Bank of Scotland Group PLC <sup>(3)</sup>                         | 0  | 0         | 0        | 0          | 58                | 19        | 42       | 23         |
| Commerzbank AG (formerly Dresdner Bank AG) (Tier 1 only)                | 0  | 0         | 0        | 0          | 53                | 55        | 46       | (9)        |
| Macy's Inc.   | *  | *         | *        | *          | 53                | 58        | 58       | 0          |
| Various Other Issuers (below \$50 million in par value) <sup>(5)</sup>  | 401  | 385       | 343      | (42)       | 386               | 366       | 326      | (40)       |
| Total   | \$ 5,713   | \$ 4,898  | \$ 3,993 | \$ (905)   | \$ 6,402          | \$ 5,297  | \$ 3,958 | \$ (1,339) |

\* Investment grade at respective reporting date

<sup>(1)</sup> Does not include an externally managed portfolio of senior secured bank loans

<sup>(2)</sup> Deemed by the Company to be below investment grade

<sup>(3)</sup> Perpetual security

<sup>(4)</sup> Includes perpetual securities only at December 31, 2010

<sup>(5)</sup> Includes 17 different issuers in 2011 and 19 different issuers in 2010

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In May 2011, we initiated a limited program to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. The program is managed externally by a third party firm specializing in this asset class. Its mandate requires an 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. As of September 30, 2011, our investments in this program totaled \$124 million at amortized cost.

Occasionally, a debt or perpetual security will be split rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. Our policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the issuer's credit position as well as current market pricing and other factors, such as the issuer's or security's inclusion on a credit rating downgrade watch list. Split-rated securities totaled \$2.3 billion as of September 30, 2011, and \$2.4 billion as of December 31, 2010, and represented 2% and 3% of total debt and perpetual securities, at amortized cost, at September 30, 2011, and December 31, 2010, respectively. The 10 largest split-rated securities as of September 30, 2011, were as follows:

|                                  | Split-Rated Securities |                         |
|----------------------------------|------------------------|-------------------------|
|                                  | Amortized              | Investment-Grade Status |
| (In millions)                    | Cost                   |                         |
| Israel Electric Corp.            | \$ 955                 | Investment-Grade        |
| SLM Corp.                        | 421                    | Investment-Grade        |
| Bank of Ireland                  | 261                    | Below Investment Grade  |
| Swedbank <sup>(1)</sup>          | 141                    | Investment-Grade        |
| Dexia Overseas SA <sup>(1)</sup> | 88                     | Below Investment Grade  |
| Sparebanken Vest <sup>(1)</sup>  | 60                     | Investment-Grade        |
| Macy's Inc.                      | 58                     | Investment-Grade        |
| Lafarge SA                       | 47                     | Below Investment Grade  |
| DP World Ltd.                    | 44                     | Investment-Grade        |
| Ameren Energy Generating Company | 40                     | Below Investment Grade  |

<sup>(1)</sup> Perpetual security

**Other-than-temporary Impairment**

See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of our impairment policy.

**Unrealized Investment Gains and Losses**

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt and perpetual securities by investment-grade status as of September 30, 2011.

|                                   | Total     | Total     | Percentage    | Gross      | Gross      |
|-----------------------------------|-----------|-----------|---------------|------------|------------|
|                                   | Amortized | Fair      | of Total Fair | Unrealized | Unrealized |
| (In millions)                     | Cost      | Value     | Value         | Gains      | Losses     |
| Available-for-sale securities:    |           |           |               |            |            |
| Investment-grade securities       | \$ 51,370 | \$ 53,298 | 54.7 %        | \$ 3,913   | \$ 1,985   |
| Below-investment-grade securities | 5,015     | 4,107     | 4.2           | 35         | 943        |
| Held-to-maturity securities:      |           |           |               |            |            |
| Investment-grade securities       | 41,351    | 40,111    | 41.1          | 869        | 2,109      |

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|       |           |           |         |          |          |
|-------|-----------|-----------|---------|----------|----------|
| Total | \$ 97,736 | \$ 97,516 | 100.0 % | \$ 4,817 | \$ 5,037 |
|-------|-----------|-----------|---------|----------|----------|

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The following table presents an aging of debt and perpetual securities in an unrealized loss position as of September 30, 2011.

| (In millions)                     | Aging of Unrealized Losses |                             |                      |                    |                                      |                    |                        |                    |
|-----------------------------------|----------------------------|-----------------------------|----------------------|--------------------|--------------------------------------|--------------------|------------------------|--------------------|
|                                   | Total<br>Amortized<br>Cost | Total<br>Unrealized<br>Loss | Less than Six Months |                    | Six Months to Less<br>than 12 Months |                    | 12 Months<br>or Longer |                    |
|                                   |                            |                             | Amortized<br>Cost    | Unrealized<br>Loss | Amortized<br>Cost                    | Unrealized<br>Loss | Amortized<br>Cost      | Unrealized<br>Loss |
| Available-for-sale securities:    |                            |                             |                      |                    |                                      |                    |                        |                    |
| Investment-grade securities       | \$ 16,198                  | \$ 1,985                    | \$ 6,634             | \$ 419             | \$ 440                               | \$ 30              | \$ 9,124               | \$ 1,536           |
| Below-investment-grade securities | 3,695                      | 943                         | 1,533                | 100                | 25                                   | 1                  | 2,137                  | 842                |
| Held-to-maturity securities:      |                            |                             |                      |                    |                                      |                    |                        |                    |
| Investment-grade securities       | 20,527                     | 2,109                       | 5,805                | 236                | 2,195                                | 224                | 12,527                 | 1,649              |
| Total                             | \$ 40,420                  | \$ 5,037                    | \$ 13,972            | \$ 755             | \$ 2,660                             | \$ 255             | \$ 23,788              | \$ 4,027           |

The following table presents a distribution of unrealized losses on debt and perpetual securities by magnitude as of September 30, 2011.

| (In millions)                     | Percentage Decline From Amortized Cost |                             |                   |                    |                   |                    |                   |                    |
|-----------------------------------|--|-----------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|                                   | Total<br>Amortized<br>Cost             | Total<br>Unrealized<br>Loss | Less than 20%     |                    | 20% to 50%        |                    | Greater than 50%  |                    |
|                                   |  |                             | Amortized<br>Cost | Unrealized<br>Loss | Amortized<br>Cost | Unrealized<br>Loss | Amortized<br>Cost | Unrealized<br>Loss |
| Available-for-sale securities:    |  |                             |                   |                    |                   |                    |                   |                    |
| Investment-grade securities       | \$ 16,198                              | \$ 1,985                    | \$ 12,871         | \$ 1,165           | \$ 3,327          | \$ 820             | \$ 0              | \$ 0               |
| Below-investment-grade securities | 3,695                                  | 943                         | 1,748             | 129                | 1,372             | 464                | 575               | 350                |
| Held-to-maturity securities:      |  |                             |                   |                    |                   |                    |                   |                    |
| Investment-grade securities       | 20,527                                 | 2,109                       | 17,833            | 1,417              | 2,694             | 692                | 0                 | 0                  |
| Total                             | \$ 40,420                              | \$ 5,037                    | \$ 32,452         | \$ 2,711           | \$ 7,393          | \$ 1,976           | \$ 575            | \$ 350             |

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The following table presents the 10 largest unrealized loss positions in our portfolio as of September 30, 2011.

| (In millions)  | Credit Rating | Amortized Cost | Fair Value | Unrealized Loss |
|--|---------------|----------------|------------|-----------------|
| CSAV (Tollo Shipping Co. S.A.)                               | B             | \$ 313         | \$ 123     | \$ (190)        |
| Erste Group Bank AG (Lower Tier II & Tier I <sup>(1)</sup> ) | BB            | 560            | 382        | (178)           |
| UPM-Kymmene  | BB            | 404            | 235        | (169)           |
| Bank of Ireland  | BB            | 261            | 100        | (161)           |
| SLM Corp.  | BBB           | 421            | 262        | (159)           |
| UniCredit SpA (includes HVB and Bank Austria)                | BBB           | 651            | 501        | (150)           |
| Israel Electric Corp.  | BBB           | 955            | 843        | (112)           |
| Investcorp Capital Limited                                   | BB            | 533            | 422        | (111)           |
| Bank of Tokyo-Mitsubishi UFJ Ltd.                            | A             | 587            | 482        | (105)           |
| Nordea Bank AB <sup>(1)</sup>                                | A             | 466            | 363        | (103)           |

<sup>(1)</sup> Perpetual security

Declines in fair value noted above were impacted by changes in interest rates and credit spreads, yen/dollar exchange rates, and issuer credit status. However, we believe it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary. See the Investment Concentrations and Unrealized Investment Gains and Losses sections in Note 3 of the Notes to the Consolidated Financial Statements for further discussions of unrealized losses related to Ireland, financial institutions including perpetual securities, and other corporate investments.

**Investment Valuation and Cash**

We estimate the fair values of our securities available for sale on a monthly basis. We monitor the estimated fair values derived from our discounted cash flow pricing model and those obtained from our custodian, pricing vendors and brokers for consistency from month to month, while considering current market conditions. We also periodically discuss with our custodian and pricing brokers and vendors the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. See Note 5 of the Notes to the Consolidated Financial Statements for the fair value hierarchy classification of our securities available for sale as of September 30, 2011.

Cash and cash equivalents totaled \$1.9 billion, or 1.8% of total investments and cash, as of September 30, 2011, compared with \$2.1 billion, or 2.4%, at December 31, 2010. For a discussion of the factors affecting our cash balance, see the Operating Activities, Investing Activities and Financing Activities subsections of this MD&A.

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

**Deferred Policy Acquisition Costs**

The following table presents deferred policy acquisition costs by segment.

| (In millions) | September 30, 2011 | December 31, 2010 | % Change              |
|---------------|--------------------|-------------------|-----------------------|
| Aflac Japan   | \$ 7,716           | \$ 6,964          | 10.8 % <sup>(1)</sup> |
| Aflac U.S.    | 2,859              | 2,770             | 3.2                   |
| Total         | \$ 10,575          | \$ 9,734          | 8.6 %                 |

<sup>(1)</sup> Aflac Japan's deferred policy acquisition costs increased 4.2% in yen during the nine months ended September 30, 2011.

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The increase in deferred policy acquisition costs was primarily driven by new annualized premium sales and the strengthening of the yen against the U.S. dollar.

**Table of Contents****Policy Liabilities**

The following table presents policy liabilities by segment.

| (In millions) | September 30, 2011 | December 31, 2010 | % Change              |
|---------------|--------------------|-------------------|-----------------------|
| Aflac Japan   | \$ 85,074          | \$ 74,872         | 13.6 % <sup>(1)</sup> |
| Aflac U.S.    | 7,916              | 7,581             | 4.4                   |
| Other         | 2                  | 3                 | .0                    |
| Total         | \$ 92,992          | \$ 82,456         | 12.8 %                |

<sup>(1)</sup> Aflac Japan's policy liabilities increased 6.9% in yen during the nine months ended September 30, 2011.

The increase in total policy liabilities was primarily the result of the growth and aging of our in-force business and the strengthening of the yen against the U.S. dollar.

**Notes Payable**

Notes payable totaled \$3.3 billion at September 30, 2011, compared with \$3.0 billion at December 31, 2010. 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. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities and derivatives) was 21.6% as of September 30, 2011, compared with 21.7% as of December 31, 2010. See Note 6 of the accompanying Notes to the Consolidated Financial Statements for additional information on our notes payable.

**Benefit Plans**

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on our Japanese and U.S. plans, see Note 9 of the accompanying Notes to the Consolidated Financial Statements and Note 13 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010.

**Policyholder Protection Corporation**

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. On December 12, 2008, legislation was enacted extending the framework of the Life Insurance Policyholder Protection Corporation (LIPPC), which included government fiscal measures supporting the LIPPC through March 2012.

See the Policyholder Protection Corporation subsection of MD&A in our annual report to shareholders for the year ended December 31, 2010, for additional information.

**Hedging Activities**Net Investment Hedge

Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains a portfolio of dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. The foreign exchange gains and losses related to this portfolio are taxable in Japan and the U.S. when the securities mature or are sold. Until maturity or sale, deferred tax expense or benefit associated with the foreign exchange gains or losses are recognized in other comprehensive income. Second, we have designated a portion of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans) as a hedge of our investment in Aflac Japan. At the beginning of each quarter, we make our net investment hedge designation. If the total of our designated yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect on the liabilities is reported in the unrealized foreign currency component of other comprehensive income. Should these designated yen-denominated liabilities exceed our investment in Aflac Japan, the foreign exchange effect on the portion of the liabilities that exceeds our investment in Aflac Japan would be recognized in net earnings. We estimate that if our yen-denominated liabilities exceeded our investment in Aflac Japan by 10 billion

yen, we would report a foreign exchange gain/loss of approximately \$1 million for every 1% yen weakening/strengthening



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in the end-of-period yen/dollar exchange rate. Our net investment hedge was effective during the three- and nine-month periods ended September 30, 2011 and 2010, respectively.

Effective January 1, 2010, the yen net asset figure calculated for hedging purposes differs from the yen-denominated net asset position as discussed in the Currency Risk subsection of MD&A. As disclosed in that subsection, the consolidation of the underlying assets in certain VIEs on January 1, 2010, required that we derecognize our yen-denominated investment in the VIE and recognize the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps. While these U.S. dollar investments will create foreign currency fluctuations, the combination of the U.S. dollar-denominated investment and the cross-currency swap economically creates a yen-denominated investment that qualifies for inclusion as a component of our investment in Aflac Japan.

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

| (In millions)  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Aflac Japan yen-denominated net assets   | \$ 1,224              | \$ 3,282             |
| Parent Company yen-denominated net liabilities   | (1,236)               | (1,041)              |
| Consolidated yen-denominated net assets (liabilities) subject to foreign currency translation fluctuations | \$ (12)               | \$ 2,241             |

The decline in yen-denominated net assets subject to foreign currency fluctuation is primarily due to an increase in the amount of investment in dollar-denominated investments during the first nine months of 2011 and the decline in the market value of our yen-denominated available-for-sale investment securities as a result of widening credit spreads.

**Cash Flow Hedges**

Effective January 1, 2010, as a result of the adoption of new accounting guidance and the corresponding consolidation of additional VIEs, we have freestanding derivative instruments that are reported in the consolidated balance sheet at fair value and are reported in other assets and other liabilities. Some of these freestanding derivatives qualify for hedge accounting, including interest rate and foreign currency swaps. Interest rate and foreign currency swaps are used within VIEs to hedge the risk arising from changes in interest rates and foreign currency exchange rates, respectively. Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income. Any hedge ineffectiveness is recorded immediately in current period earnings as realized investment gains or losses. While an immaterial amount of ineffectiveness was recorded during the three- and nine-month periods ended September 30, 2011 and 2010, respectively, these hedging relationships were effective during those periods. In the third quarter of 2011, we de-designated certain of the swaps used in cash flow hedging strategies as a result of determining that these swaps would no longer be highly effective in offsetting the cash flows of the hedged item. The \$7 million after-tax gain recorded in accumulated other comprehensive income for these swaps that are no longer employing hedge accounting is being amortized into earnings over the expected life of the respective hedged item. The amount amortized from accumulated other comprehensive income into earnings related to these swaps was immaterial in the three-month period ended September 30, 2011. See Note 4 of the Notes to the Consolidated Financial Statements for additional information.

We entered into interest rate swap agreements related to our 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011, and we had interest rate swap agreements related to our 20 billion yen variable interest rate Uridashi notes that matured in September 2011. By entering into these contracts, we swapped the variable interest rates to a fixed interest rate of 1.475% for the Samurai notes and 1.52% for the Uridashi notes. We designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the respective variable interest rate notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate notes, and the swaps had no value at inception. Changes in the fair value of swap contracts that are designated and qualify as cash flow hedges are recorded in other comprehensive income so long as the hedge is deemed effective. Any hedge ineffectiveness is recognized in current period earnings as realized investment gains or losses. These hedges were effective during the three- and nine-month periods ended September 30, 2011 and 2010, respectively. See Note 4 of the Notes to the Consolidated Financial Statements for additional information.

**Off-Balance Sheet Arrangements**

As of September 30, 2011, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 14 of the Notes to the Consolidated Financial Statements in our annual report to



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shareholders for the year ended December 31, 2010, for information on material unconditional purchase obligations that are not recorded on our balance sheet.

**CAPITAL RESOURCES AND LIQUIDITY**

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following table presents the amounts provided for the nine-month periods ending September 30:

**Liquidity Provided by Aflac to Parent Company**

| (In millions)                       | 2011   | 2010   |
|-------------------------------------|--------|--------|
| Dividends declared or paid by Aflac | \$ 282 | \$ 370 |
| Management fees paid by Aflac       | 173    | 149    |

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

The Parent Company also accesses debt security markets to provide additional sources of capital. In March 2009, we filed a shelf registration statement with the SEC that allows us to issue an indefinite amount of senior and subordinated debt, in one or more series, from time to time through May 2012. As of June 30, 2011, we have issued \$2.0 billion of senior notes under this registration statement. In November 2009, we filed an additional shelf registration statement with Japanese regulatory authorities that allows us to issue up to 100 billion yen of yen-denominated Samurai notes in Japan through November 2011. In July 2011, the Parent Company issued 50 billion yen of yen-denominated Samurai notes under this registration statement. If issued, the remaining 50 billion yen (approximately \$652 million using the September 30, 2011, exchange rate) of yen-denominated Samurai notes will not be available to U.S. persons. We believe outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 6 of the Notes to the Consolidated Financial Statements.

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

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

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

Our financial statements adequately convey our financing arrangements during the periods presented. We have not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in our balance sheet. We do not have any restrictive financial covenants related to our notes payable, and we were in compliance with all of the covenants of our notes payable at September 30, 2011. We have not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial assets that have been accounted for as a sale under applicable accounting standards, including securities lending transactions. See Note 3 of the Notes to the Consolidated Financial Statements and Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2010, for more information on our securities lending activity. We do not have a known trend, demand, commitment, event or uncertainty that would reasonably result in our liquidity increasing or decreasing by a material amount. Our cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

**Table of Contents****Consolidated Cash Flows**

We translate cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. 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.

The following table summarizes consolidated cash flows by activity for the nine-month periods ended September 30.

| (In millions)                                | 2011     | 2010     |
|--|----------|----------|
| Operating activities                         | \$ 7,486 | \$ 4,869 |
| Investing activities                         | (7,779)  | (5,080)  |
| Financing activities                         | (15)     | 266      |
| Exchange effect on cash and cash equivalents | 49       | 56       |
| Net change in cash and cash equivalents      | \$ (259) | \$ 111   |

**Operating Activities**

The following table summarizes operating cash flows by source for the nine-month periods ended September 30.

| (In millions)                   | 2011     | 2010     |
|---------------------------------|----------|----------|
| Aflac Japan                     | \$ 7,056 | \$ 4,297 |
| Aflac U.S. and other operations | 430      | 572      |
| Total                           | \$ 7,486 | \$ 4,869 |

**Investing Activities**

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. The following table summarizes investing cash flows by source for the nine-month periods ended September 30.

| (In millions)                   | 2011       | 2010       |
|---------------------------------|------------|------------|
| Aflac Japan                     | \$ (7,374) | \$ (4,067) |
| Aflac U.S. and other operations | (405)      | (1,013)    |
| Total                           | \$ (7,779) | \$ (5,080) |

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when our debt and perpetual securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt and perpetual securities that are available for sale to improve the duration matching of our assets and liabilities, improve future investment yields, and/or rebalance our portfolio. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 13% of the year-to-date average investment portfolio of debt and perpetual securities available for sale during the nine-month period ended September 30, 2011, compared with 5% during the same period a year ago.

**Financing Activities**

Consolidated cash used by financing activities was \$15 million in the first nine months of 2011, compared with consolidated cash provided by financing activities of \$266 million for the same period of 2010. Cash returned to shareholders through dividends and treasury stock purchases was \$672 million during the nine-month period ended September 30, 2011, compared with \$395 million through dividends during the

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nine-month period ended September 30, 2010.

In July 2011, the Parent Company issued 50 billion yen of yen-denominated Samurai notes (approximately \$652 million using the September 30, 2011, exchange rate). See Note 6 of the Notes to the Consolidated Financial Statements for further information on this debt issuance. 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.

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We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of our notes payable at September 30, 2011.

The following tables present a summary of treasury stock activity during the nine-month periods ended September 30.

| <b>Treasury Stock Purchased</b>                  |               |      |
|--|---------------|------|
| (In millions of dollars and thousands of shares) | <b>2011</b>   | 2010 |
| Treasury stock purchases                         | <b>\$ 268</b> | \$ 5 |
| Number of shares purchased:                      |               |      |
| Open market                                      | <b>5,100</b>  | 0    |
| Other  | <b>157</b>    | 98   |
| <b>Total shares purchased</b>                    | <b>5,257</b>  | 98   |

| <b>Treasury Stock Issued</b>                     |              |       |
|--|--------------|-------|
| (In millions of dollars and thousands of shares) | <b>2011</b>  | 2010  |
| Stock issued from treasury                       | <b>\$ 18</b> | \$ 39 |
| Number of shares issued                          | <b>1,417</b> | 1,672 |

During the first nine months of 2011, we purchased 5.1 million shares of our common stock as part of our share repurchase program. As of September 30, 2011, a remaining balance of 25.3 million shares of our common stock was available for purchase under a share repurchase authorization by our board of directors in 2008. We anticipate repurchasing a total of six million shares in 2011, and we anticipate our share repurchase activity to increase in 2012.

Cash dividends paid to shareholders were \$.30 per share in the third quarter of 2011, compared with \$.28 per share in the third quarter of 2010. The following table presents the dividend activity for the nine-month periods ended September 30.

| (In millions)                                 | <b>2011</b>   | 2010   |
|---|---------------|--------|
| Dividends paid in cash                        | <b>\$ 404</b> | \$ 395 |
| Dividends declared but not paid               | <b>0</b>      | 139    |
| Dividends through issuance of treasury shares | <b>17</b>     | 0      |
| <b>Total dividends to shareholders</b>        | <b>\$ 421</b> | \$ 534 |

In October 2011, the board of directors declared the fourth quarter cash dividend of \$.33 per share, an increase of 10% compared to the same period a year ago. The dividend is payable on December 1, 2011, to shareholders of record at the close of business on November 16, 2011.

**Regulatory Restrictions**

Aflac is domiciled in Nebraska and is subject to its regulations. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency. The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. Aflac's company action level RBC ratio was estimated to be within the range of 500% and 540% as of September 30, 2011. Aflac's RBC ratio remains high and reflects a strong capital and surplus position.

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In addition to limitations and restrictions imposed by U.S. insurance regulators, Japan's FSA may not allow profit repatriations from Aflac Japan if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard. See the Japanese Regulatory Environment subsection of this MD&A for a discussion of changes to the calculation of the solvency margin ratio. Aflac Japan's solvency margin ratio, most recently reported as of June 30, 2011, was 952.8% using the current calculation method, which significantly exceeded regulatory minimums, and was 528.6% under the new standards, disclosed as reference information. As expected, based on the results of the calculation of the solvency margin ratio under the new standards, our

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relative position within the industry has not materially changed. Given the sensitivity of the solvency margin ratio and the low interest rate environment, we increased our allocation of JGBs classified as held to maturity during the third quarter of 2011. We continue to evaluate other alternatives for reducing the sensitivity of the solvency margin ratio against interest rate changes.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following details Aflac Japan remittances for the nine-month periods ended September 30.

| <b>Aflac Japan Remittances</b>                          |                 |          |
|---|-----------------|----------|
| (In millions of dollars and billions of yen)            | <b>2011</b>     | 2010     |
| Aflac Japan management fees paid to Parent Company      | <b>\$ 20</b>    | \$ 23    |
| Expenses allocated to Aflac Japan                       | <b>32</b>       | 25       |
| Aflac Japan profit remittances to Aflac U.S. in dollars | <b>143</b>      | 317      |
| <br>Aflac Japan profit remittances to Aflac U.S. in yen | <br><b>11.0</b> | <br>28.7 |

Profit repatriation from Aflac Japan for the full year of 2011 was complete as of September 30, 2011. The total amount of profit remittances in 2011 was lower than that in 2010 due to realized investment losses.

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 12 of the Notes to the Consolidated Financial Statements and the Regulatory Restrictions subsection of MD&A, both in our annual report to shareholders for the year ended December 31, 2010.

**Other**

For information regarding commitments and contingent liabilities, see Note 10 of the Notes to the Consolidated Financial Statements.



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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The information required by Item 3 is incorporated by reference from the Market Risks of Financial Instruments subsection of MD&A in Part I, Item 2 of this report.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report (the Evaluation Date). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

The following should be read in conjunction with and supplements and amends the risk factors that may affect the Company's business or operations described under "Risk Factors" in Part I, Item 1A. of our 2010 annual report on Form 10-K for the year ended December 31, 2010.

**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.**

The 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. Events or developments that have a negative impact on any particular single-issuer, industry, group of related industries or geographic sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified. At September 30, 2011, approximately 28% 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 September 30, 2011, with the exception of investments in Japanese government bonds (JGBs) and U.S. Treasury securities, we had four legacy 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.

**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.**

Aflac Japan's first quarter 2011 financial results reflected a provision of 3.0 billion yen, or \$37 million, for claims related to the earthquake and tsunami that struck 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, for benefits expense in the first quarter. Our financial results in the first quarter of 2011 also reflected .7 billion yen, or \$8 million, of operating expenses resulting from the earthquake and tsunami. Our claims estimates were 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. The policy response from the Japanese government to the disaster could involve the issuance of JGBs. Increased borrowing to finance reconstruction of the affected areas coupled with the fiscal challenges already facing Japan could reduce the creditworthiness of JGBs, which account for a significant portion of our investment portfolio.

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.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities**

During the third quarter of 2011, we repurchased shares of Aflac common stock as follows:

| <b>Period</b>              | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>Per<br/>Share</b> | <b>Total<br/>Number<br/>of Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum<br/>Number of<br/>Shares that<br/>May Yet<br/>Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|----------------------------|---|---|---|---|
| July 1 - July 31           | 1,457   | \$ 45.35  | 0   | 26,270,254  |
| August 1 - August 31       | 606,000   | 39.40   | 606,000   | 25,664,254  |
| September 1 - September 30 | 394,819   | 33.79   | 394,000   | 25,270,254  |
| Total                      | 1,002,276   | <sup>(2)</sup> \$ 37.20                         | 1,000,000   | 25,270,254 <sup>(1)</sup>   |

<sup>(1)</sup> The total remaining shares available for purchase at September 30, 2011, consisted of 25,270,254 shares related to a 30,000,000 share repurchase authorization by the board of directors announced in January 2008.

<sup>(2)</sup> During the third quarter of 2011, 2,276 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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- 3.0 - Articles of Incorporation, as amended incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended incorporated by reference from Form 10-Q for March 31, 2010, Exhibit 3.1 (File No. 001-07434).
- 4.0 - There are no instruments with respect to long-term debt not being registered in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 4.1 - Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.2 - First Supplemental Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of 8.500% Senior Note due 2019) incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.2 (File No. 001-07434).
- 4.3 - Second Supplemental Indenture, dated as of December 17, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of 6.900% Senior Note due 2039) incorporated by reference from Form 8-K dated December 14, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.4 - Third Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of 6.45% Senior Note due 2040) - incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.1 (File No. 001-07434).
- 4.5 - Fourth Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York and Mellon Trust Company, N.A., as trustee (including form of 3.45% Senior Note due 2015) incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.2 (File No. 001-07434).
- 10.0\* - American Family Corporation Retirement Plan for Senior Officers, as amended and restated October 1, 1989 incorporated by reference from 1993 Form 10-K, Exhibit 10.2 (File No. 001-07434).
- 10.1\* - Amendment to American Family Corporation Retirement Plan for Senior Officers, dated December 8, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.1 (File No. 001-07434).
- 10.2\* - Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 incorporated by reference from 2008 Form 10-K, Exhibit 10.5 (File No. 001-07434).
- 10.3\* - Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2009 incorporated by reference from 2008 Form 10-K, Exhibit 10.9 (File No. 001-07434).
- 10.4\* - First Amendment to the Aflac Incorporated Executive Deferred Compensation Plan dated June 1, 2009 incorporated by reference from Form 10-Q for June 30, 2009, Exhibit 10.4 (File No. 001-07434).
- 10.5\* - Aflac Incorporated Amended and Restated 2009 Management Incentive Plan incorporated by reference from the 2008 Shareholders Proxy Statement, Appendix B (File No. 001-07434).
- 10.6\* - First Amendment to the Aflac Incorporated Amended and Restated 2009 Management Incentive Plan, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.11 (File No. 001-07434).

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- 10.7\* - Aflac Incorporated Sales Incentive Plan incorporated by reference from 2007 Form 10-K, Exhibit 10.8 (File No. 001-07434).
- 10.8\* - 1999 Aflac Associate Stock Bonus Plan, as amended, dated February 11, 2003 incorporated by reference from 2002 Form 10-K, Exhibit 99.2 (File No. 001-07434).
- 10.9\* - Aflac Incorporated 1997 Stock Option Plan incorporated by reference from the 1997 Shareholders Proxy Statement, Appendix B (File No. 001-07434).
- 10.10\* - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.5 (File No. 001-07434).
- 10.11\* - Form of Officer Stock Option Agreement (Incentive Stock Option) under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.6 (File No. 001-07434).
- 10.12\* - Notice of grant of stock options and stock option agreement to officers under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.7 (File No. 001-07434).
- 10.13\* - 2004 Aflac Incorporated Long-Term Incentive Plan, dated May 3, 2004 incorporated by reference from the 2004 Notice and Proxy Statement, Exhibit B (File No. 001-07434).
- 10.14\* - First Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated May 2, 2005 incorporated by reference from Form 10-Q for March 31, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.15\* - Second Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated February 14, 2006 incorporated by reference from Form 10-Q for March 31, 2006, Exhibit 10.32 (File No. 001-07434).
- 10.16\* - Third Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.21 (File No. 001-07434).
- 10.17\* - Form of Non-Employee Director Stock Option Agreement (NQS0) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.18\* - Notice of grant of stock options to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.2 (File No. 001-07434).
- 10.19\* - Form of Non-Employee Director Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.3 (File No. 001-07434).
- 10.20\* - Notice of restricted stock award to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.4 (File No. 001-07434).
- 10.21\* - Form of Officer Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.22\* - Notice of restricted stock award to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.2 (File No. 001-07434).
- 10.23\* - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.3 (File No. 001-07434).
- 10.24\* - Form of Officer Stock Option Agreement (Incentive Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.4 (File No. 001-07434).

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| 10.25*      | - | Notice of grant of stock options to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.5 (File No. 001-07434).                  |
| 10.26*      | - | Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated February 9, 2010 incorporated by reference from 2009 Form 10-K, Exhibit 10.26 (File No. 001-07434).                               |
| 10.27*      | - | Amendment to Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated August 10, 2010 incorporated by reference from Form 10-Q for September 30, 2010, Exhibit 10.27 (File No. 001-07434). |
| 10.28*      | - | Aflac Incorporated Employment Agreement with Daniel P. Amos, dated August 1, 1993 incorporated by reference from 1993 Form 10-K, Exhibit 10.4 (File No. 001-07434).   |
| 10.29*      | - | Amendment to Aflac Incorporated Employment Agreement with Daniel P. Amos, dated December 8, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.32 (File No. 001-07434).   |
| 10.30*      | - | Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated February 14, 1992, and as amended November 12, 1993 incorporated by reference from 1993 Form 10-K, Exhibit 10.6 (File No. 001-07434).               |
| 10.31*      | - | Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated November 3, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.34 (File No. 001-07434).                                    |
| 10.32*      | - | Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.35 (File No. 001-07434).                                   |
| 10.33*      | - | Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated March 15, 2011 incorporated by reference from Form 10-Q for March 31, 2011, Exhibit 10.33 (File No. 001-07434).                        |
| 10.34*      | - | Aflac Incorporated Employment Agreement with Paul S. Amos II, dated January 1, 2005 incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.2 (File No. 001-07434).                                      |
| 10.35*      | - | Amendment to Aflac Incorporated Employment Agreement with Paul S. Amos II, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.39 (File No. 001-07434).                                       |
| 10.36*      | - | Aflac Incorporated Employment Agreement with Joey Loudermilk, dated September 12, 1994 and as amended December 10, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.40 (File No. 001-07434).                  |
| 10.37*      | - | Aflac Incorporated Employment Agreement with Tohru Tonoike, effective February 1, 2007 incorporated by reference from 2008 Form 10-K, Exhibit 10.41 (File No. 001-07434).   |
| 10.38*      | - | Amendment to Aflac Incorporated Employment Agreement with Tohru Tonoike, dated February 9, 2010 incorporated by reference from 2009 Form 10-K, Exhibit 10.36 (File No. 001-07434).  |
| 10.39*      | - | Aflac Retirement Agreement with E. Stephen Purdom, dated February 15, 2000 incorporated by reference from 2000 Form 10-K, Exhibit 10.13 (File No. 001-07434).   |
| <u>11</u>   | - | Statement regarding the computation of per-share earnings for the Registrant.   |
| <u>12</u>   | - | Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.   |
| <u>15</u>   | - | Letter from KPMG LLP regarding unaudited interim financial information.   |
| <u>31.1</u> | - | Certification of CEO dated November 4, 2011, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.   |
| <u>31.2</u> | - | Certification of CFO dated November 4, 2011, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.   |
| <u>32</u>   | - | Certification of CEO and CFO dated November 4, 2011, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS     | - | XBRL Instance Document. <sup>(1)</sup>  |

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|---------|---|--|
| 101.SCH | - | XBRL Taxonomy Extension Schema.                |
| 101.CAL | - | XBRL Taxonomy Extension Calculation Linkbase.  |
| 101.DEF | - | XBRL Taxonomy Extension Definition Linkbase.   |
| 101.LAB | - | XBRL Taxonomy Extension Label Linkbase.        |
| 101.PRE | - | XBRL Taxonomy Extension Presentation Linkbase. |

(1) *Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Earnings, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Comprehensive Income (Loss), (vi) Notes to the Consolidated Financial Statements*

\* *Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 6 of this report*

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Aflac Incorporated**

November 4, 2011

*/s/ Kriss Cloninger III*  
(Kriss Cloninger III)  
President, Chief Financial Officer,

Treasurer and Director

November 4, 2011

*/s/ June Howard*  
(June Howard)

Senior Vice President, Financial Services; Chief  
Accounting Officer