AFLAC INC
Form 10-Q
November 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-07434
Aflac Incorporated

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Georgia | 58-1167100 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1932 Wynnton Road, Columbus, Georgia | 31999 |
| (Address of principal executive offices) | (ZIP Code) |

706.323.3431
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

| Class | October 26, 2012 |
|---|---|
| Common Stock, $.10 Par Value | 468,906,913 |

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2012
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Items other than those listed above are omitted because they are not required or are not applicable.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The September 30, 2012, and 2011, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of September 30, 2012, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2012 and 2011, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management.

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

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

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

Atlanta, Georgia
November 2, 2012

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

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

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

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

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

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

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

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

(continued)

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

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

(2) Includes $436 in 2012 and $531 in 2011 of derivatives from consolidated variable interest entities

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

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

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

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

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

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

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

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

Aflac Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
(Interim period data – Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 78% and 75% of the Company's total revenues in the nine-month periods ended September 30, 2012, and 2011, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 88% at September 30, 2012, and 87% at December 31, 2011.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of September 30, 2012, and December 31, 2011, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2012, and 2011, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2012, and 2011. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2011.

Significant Accounting Policies

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

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

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

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

New Accounting Pronouncements
Recently Adopted Accounting Pronouncements

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

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

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

Accounting Pronouncements Pending Adoption

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

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to our business.

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2011.

2. BUSINESS SEGMENT INFORMATION

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

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

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

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

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

Assets were as follows:

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

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

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

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

| (In millions) | September 30, 2012<br>Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities held to maturity, carried at amortized cost: | | | | |
| Fixed maturities: | | | | |
| Yen-denominated: | | | | |
| Japan government and agencies | $34,792 | $715 | $6 | $35,501 |
| Municipalities | 550 | 42 | 0 | 592 |
| Mortgage- and asset-backed securities | 109 | 5 | 0 | 114 |
| Public utilities | 5,494 | 328 | 66 | 5,756 |
| Sovereign and supranational | 3,712 | 230 | 79 | 3,863 |
| Banks/financial institutions | 10,425 | 272 | 399 | 10,298 |
| Other corporate | 4,972 | 239 | 78 | 5,133 |
| Total yen-denominated | 60,054 | 1,831 | 628 | 61,257 |
| Total securities held to maturity | $60,054 | $1,831 | $628 | $61,257 |

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

| (In millions) | December 31, 2011<br>Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities held to maturity, carried at amortized cost: | | | | |
| Fixed maturities: | | | | |
| Yen-denominated: | | | | |
| Japan government and agencies | $18,775 | $297 | $1 | $19,071 |
| Municipalities | 553 | 35 | 4 | 584 |
| Mortgage- and asset-backed securities | 129 | 5 | 0 | 134 |
| Public utilities | 5,615 | 188 | 166 | 5,637 |
| Sovereign and supranational | 4,200 | 148 | 183 | 4,165 |
| Banks/financial institutions | 12,389 | 170 | 1,079 | 11,480 |
| Other corporate | 5,348 | 149 | 185 | 5,312 |
| Total yen-denominated | 47,009 | 992 | 1,618 | 46,383 |
| Total securities held to maturity | $47,009 | $992 | $1,618 | $46,383 |

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

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

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

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at September 30, 2012, were as follows:

| (In millions) | Aflac Japan Amortized Cost | Fair Value | Aflac U.S. Amortized Cost | Fair Value |
|---|---|---|---|---|
| Available for sale: | | | | |
| Due in one year or less | $1,812 | $1,837 | $53 | $54 |
| Due after one year through five years | 2,519 | 2,645 | 336 | 373 |
| Due after five years through 10 years | 4,792 | 5,177 | 1,004 | 1,186 |
| Due after 10 years | 32,928 | 34,042 | 7,980 | 9,568 |
| Mortgage- and asset-backed securities | 1,044 | 1,148 | 44 | 56 |
| Total fixed maturities available for sale | $43,095 | $44,849 | $9,417 | $11,237 |
| Held to maturity: | | | | |
| Due in one year or less | $6,575 | $6,580 | $0 | $0 |
| Due after one year through five years | 819 | 885 | 0 | 0 |
| Due after five years through 10 years | 3,371 | 3,778 | 0 | 0 |
| Due after 10 years | 49,180 | 49,900 | 0 | 0 |
| Mortgage- and asset-backed securities | 109 | 114 | 0 | 0 |
| Total fixed maturities held to maturity | $60,054 | $61,257 | $0 | $0 |

At September 30, 2012, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling $138 million at amortized cost and $162 million at fair value, which is not included in the table above.

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

The majority of our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuer's equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates for the securities. Although perpetual securities have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term interest rate of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at September 30, 2012, were as follows:

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

Investment Concentrations

Our investment process begins with an independent approach to underwriting each issuer's fundamental credit quality. We evaluate independently those factors which we believe could influence an issuer's ability to make payments under the contractual terms of our instruments. This includes a thorough analysis of a variety of items including the issuer's country of domicile (including political, legal, and financial considerations); the industry in which the issuer competes (with an analysis of industry structure, end-market dynamics, and regulation); company specific issues (such as management, assets, earnings, cash generation, and capital needs); and contractual provisions of the instrument (such as financial covenants and position in the capital structure). We further determine the appropriateness of the investment considering portfolio management needs, asset/liability requirements, portfolio diversification, and expected income.

Banks and Financial Institutions

After Japanese government bonds (JGBs), our second largest investment concentration as of September 30, 2012, was banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the bank and financial institution sector through a geographically diverse universe of credit exposures. Within this sector, our credit risk by geographic region or country of issuer at September 30, 2012, based on amortized cost, was: Europe, excluding the United Kingdom (33%); United States (23%); United Kingdom (8%); Japan (8%); and other (28%).

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

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

Derisking

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

Realized Investment Gains and Losses

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

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

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

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

Other-than-temporary Impairment

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

However, in the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment's fair value, to the extent it is below the investment's cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its fair value.

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

When determining our intention to sell a security prior to recovery of its fair value to amortized cost, we evaluate facts and circumstances such as, but not limited to, sales of securities to meet cash flow needs and decisions to reposition our security portfolio. We perform ongoing analyses of our liquidity needs, which includes cash flow testing of our policy liabilities, debt maturities, projected dividend payments and other cash flow and liquidity needs. Our cash flow testing includes extensive duration matching of our investment portfolio and policy liabilities. Based on our analyses, we have concluded that we have sufficient excess cash flows to meet our liquidity needs without selling any of our investments prior to their maturity. Recently, we have started to reposition our security portfolio in an effort to enhance diversification and our credit profile by reducing our risk exposure through opportunistic investment transactions.

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

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

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

Unrealized Investment Gains and Losses
Effect on Shareholders' Equity
The net effect on shareholders' equity of unrealized gains and losses from investment securities was as follows:

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

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

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

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

Analysis of Securities in Unrealized Loss Positions

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

Public Utilities

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

Sovereign and Supranational

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

Bank and Financial Institution Investments

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

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

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

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

Other Corporate Investments

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

Perpetual Securities

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

Details of our holdings of perpetual securities were as follows:

Perpetual Securities

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

An aspect of our efforts during 2011 and the three- and nine-month periods ended September 30, 2012 to reduce risk in our investment portfolio included sales and impairments of certain investments in perpetual securities. With the exception of the Icelandic bank securities that we completely impaired in 2008, none of the perpetual securities we own were in default on interest and principal payments at September 30, 2012. During the second quarter of 2011, we wrote off accrued interest income and stopped accruing further interest income for certain Upper Tier II perpetual securities, which had a deferred coupon and were impaired during that quarter, and we recognized additional impairments on those securities in the third and fourth quarters of 2011. We collected the deferred coupon upon the sale of those securities as part of our derisking investment activities in the first quarter of 2012. Based on amortized cost as of September 30, 2012, the geographic breakdown of our perpetual securities by issuer was as follows: European countries, excluding the United Kingdom, (64%); the United Kingdom (11%); Japan (15%); and other (10%). To determine any credit-related declines in fair value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From that review, we evaluate the issuer's continued ability to service our investment.

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

Variable Interest Entities (VIEs)

The following table details our investments in VIEs.

Investments in Variable Interest Entities

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

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

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

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

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

VIEs-Consolidated

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

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

VIEs-Not Consolidated

The VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We do not have the power to direct the activities that most significantly impact the entity's economic performance, nor do we have (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. These VIE investments comprise securities from 156 separate issuers with an average credit rating of BBB.

Securities Lending

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

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

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

4. DERIVATIVE INSTRUMENTS

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

Derivative Types

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

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

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

Foreign currency forwards with short-term maturities are executed for certain fixed-maturity security investments of our Aflac Japan segment in order to economically convert these dollar-denominated securities into yen. In these transactions, Aflac Japan agrees with another party to buy a fixed amount of yen and sell a corresponding amount of U.S. dollars at a specified future date. The foreign currency forwards are used in fair value hedging relationships to mitigate the foreign exchange risk associated with dollar-denominated investments supporting yen-denominated liabilities.

Credit Risk Assumed through Derivatives

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

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

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

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

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September 30, 2012

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

December 31, 2011

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

Accounting for Derivative Financial Instruments

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

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

Hedge Documentation and Effectiveness Testing

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

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

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

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

Discontinuance of Hedge Accounting

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

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

Derivative Balance Sheet Classification

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

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

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

Cash Flow Hedges

Certain of our consolidated VIEs have foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, we have designated the derivative as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset (“cash flow” hedge). We expect to continue this hedging activity for a weighted-average period of approximately 13 years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting have been designated as held for other investment purposes (“non-qualifying strategies”).

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

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

Derivatives in Cash Flow Hedging Relationships

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

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

Fair Value Hedges

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

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

Derivatives in Fair Value Hedging Relationships

| (In millions) | | Hedging Derivatives | | | Hedged Items | |
|---|---|---|---|---|---|---|
| Hedging Derivatives | Hedged Items | Total Gains (Losses) | Gains (Losses) Excluded from Effectiveness Testing | Gains (Losses) Included in Effectiveness Testing | Foreign Currency Gains (Losses) | Ineffectiveness Recognized for Fair Value Hedge |
| Three and Nine Months Ended September 30, 2012:[1] | | | | | | |
| Foreign currency forwards | Fixed-maturity securities | $17 | $(3) | $20 | $(20) | $0 |

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

Net Investment Hedge

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

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

Non-Derivative Hedging Instruments in
Net Investment Hedging Relationships

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

There was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our net investment hedge during the three- and nine-month periods ended September 30, 2012 and 2011, respectively.

Non-qualifying Strategies

For our derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings within derivative and other gains (losses). The amount of gain or loss recognized in earnings for our VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed income or perpetual securities associated with these swaps is recorded through other comprehensive income.

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

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

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

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

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

Non-qualifying Strategies

Gain (Loss) Recognized within Derivative Gains (Losses)

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

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

## 5. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Fair Value Hierarchy

GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant inputs are not observable in an active market.

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

| (In millions) | September 30, 2012<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Securities available for sale, carried at fair value: | | | | |
| Fixed maturities: | | | | |
| Government and agencies | $13,845 | $814 | $0 | $14,659 |
| Municipalities | 0 | 1,196 | 0 | 1,196 |
| Mortgage- and asset-backed securities | 0 | 820 | 385 | 1,205 |
| Public utilities | 0 | 7,858 | 449 | 8,307 |
| Sovereign and supranational | 0 | 2,127 | 460 | 2,587 |
| Banks/financial institutions | 0 | 6,860 | 1,423 | 8,283 |
| Other corporate | 0 | 18,938 | 1,073 | 20,011 |
| Total fixed maturities | 13,845 | 38,613 | 3,790 | 56,248 |
| Perpetual securities: | | | | |
| Banks/financial institutions | 0 | 3,978 | 370 | 4,348 |
| Other corporate | 0 | 371 | 0 | 371 |
| Total perpetual securities | 0 | 4,349 | 370 | 4,719 |
| Equity securities | 13 | 7 | 4 | 24 |
| Other assets: | | | | |
| Interest rate swaps | 0 | 0 | 39 | 39 |
| Foreign currency swaps | 0 | 16 | 312 | 328 |
| Foreign currency forwards | 0 | 17 | 0 | 17 |
| Total other assets | 0 | 33 | 351 | 384 |
| Cash and cash equivalents | 2,985 | 0 | 0 | 2,985 |
| Total assets | $16,843 | $43,002 | $4,515 | $64,360 |
| Liabilities: | | | | |
| Interest rate swaps | $0 | $0 | $5 | $5 |
| Foreign currency swaps | 0 | 11 | 349 | 360 |
| Credit default swaps | 0 | 0 | 82 | 82 |
| Total liabilities | $0 | $11 | $436 | $447 |

| (In millions) | December 31, 2011<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Securities available for sale, carried at fair value: | | | | |
| Fixed maturities: | | | | |
| Government and agencies | $11,092 | $721 | $0 | $11,813 |
| Municipalities | 0 | 1,159 | 0 | 1,159 |
| Mortgage- and asset-backed securities | 0 | 944 | 394 | 1,338 |
| Public utilities | 0 | 6,803 | 422 | 7,225 |
| Sovereign and supranational | 0 | 1,874 | 434 | 2,308 |
| Banks/financial institutions | 0 | 6,379 | 1,074 | 7,453 |
| Other corporate | 0 | 15,171 | 1,105 | 16,276 |
| Total fixed maturities | 11,092 | 33,051 | 3,429 | 47,572 |
| Perpetual securities: | | | | |
| Banks/financial institutions | 0 | 5,552 | 526 | 6,078 |
| Other corporate | 0 | 361 | 0 | 361 |
| Total perpetual securities | 0 | 5,913 | 526 | 6,439 |
| Equity securities | 15 | 6 | 4 | 25 |
| Other assets: | | | | |
| Interest rate swaps | 0 | 0 | 34 | 34 |
| Foreign currency swaps | 0 | 0 | 341 | 341 |
| Total other assets | 0 | 0 | 375 | 375 |
| Cash and cash equivalents | 2,249 | 0 | 0 | 2,249 |
| Total assets | $13,356 | $38,970 | $4,334 | $56,660 |
| Liabilities: | | | | |
| Interest rate swaps | $0 | $0 | $4 | $4 |
| Foreign currency swaps | 0 | 0 | 397 | 397 |
| Credit default swaps | 0 | 0 | 130 | 130 |
| Total liabilities | $0 | $0 | $531 | $531 |

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

| (In millions) | September 30, 2012<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Securities held to maturity, carried at amortized cost: | | | | |
| Fixed maturities: | | | | |
| Government and agencies | $35,501 | $0 | $0 | $35,501 |
| Municipalities | 0 | 592 | 0 | 592 |
| Mortgage- and asset-backed securities | 0 | 35 | 79 | 114 |
| Public utilities | 0 | 5,756 | 0 | 5,756 |
| Sovereign and supranational | 0 | 3,863 | 0 | 3,863 |
| Banks/financial institutions | 0 | 10,298 | 0 | 10,298 |
| Other corporate | 0 | 5,133 | 0 | 5,133 |
| Total assets | $35,501 | $25,677 | $79 | $61,257 |
| Liabilities: | | | | |
| Notes payable (excluding capital leases) | $0 | $0 | $5,014 | $5,014 |
| Obligation to Japanese policyholder protection corporation | 0 | 0 | | |