

AFLAC INC
Form 10-K
February 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of registrant as specified in its charter)

Georgia

58-1167100

(State or other jurisdiction of incorporation or organization)

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

1932 Wynnton Road, Columbus, Georgia

31999

(Address of principal executive offices)

(ZIP Code)

Registrant's telephone number, including area code: 706.323.3431

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

Title of each class

Name of each exchange on which registered

Common Stock, \$.10 Par Value

New York Stock Exchange

Tokyo Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

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

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

Documents Incorporated By Reference

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

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

ITEM 1. BUSINESS

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

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

General Description

Aflac Incorporated (the Parent Company) was incorporated in 1973 under the laws of the state of Georgia. Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

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

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

Results of Operations

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

Foreign Currency Translation

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

Insurance Premiums

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

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

Insurance - Japan

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

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

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

Insurance - U.S.

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

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

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

Insurance Products - Japan

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

consumers, who in turn have become increasingly interested in insurance products that help them manage those costs. Aflac Japan has responded to this consumer need by enhancing existing products and developing new products. Aflac Japan's product portfolio has expanded beyond traditional health-related products to include more life products. Some of the life products that we offer in Japan provide death benefits and cash surrender values. These products are available as stand-alone policies and riders. Some plans, such as our WAYS product, have features that allow policyholders to convert a portion of their life insurance to medical, nursing care, or fixed annuity benefits at a predetermined age. Our child endowment product offers a death benefit until a child reaches age 18. It also pays a lump-sum benefit at the time of the child's entry into high school, as well as an educational annuity for each of the four years during his or her college education. We believe that life insurance products provide further opportunities for us to sell our third sector cancer and medical products.

Aflac Japan's stand-alone medical product, EVER, offers a basic level of hospitalization coverage with an affordable premium. Since its initial introduction in 2002, we have expanded our suite of EVER product offerings to appeal to specific types of Japanese consumers and achieve greater market penetration. New EVER, introduced in 2009, offers enhanced surgical benefits and gender-specific premium rates. The most recent upgrade to our New EVER product, released in January 2012, includes more advanced medical treatment options than its predecessor. Gentle EVER, our non-standard medical product, is designed to meet the needs of certain consumers who cannot qualify for our base EVER plan. The most recent upgrade to our Gentle EVER product, released in July 2012, includes expanded benefits and a newly attached advanced medical care rider. We continue to believe that the entire medical category will remain an important part of our product portfolio in Japan.

The cancer insurance plans we offer in Japan provide a lump-sum benefit upon initial diagnosis of internal cancer and benefits for treatment received due to internal cancer such as fixed daily benefits for hospitalization, outpatient services and convalescent care, and surgical and terminal care benefits. In March 2011, we introduced a new cancer policy, DAYS, and a bridge policy, DAYS PLUS, which upgrades older cancer policies. The enhancements in these new policies reflect the changes in cancer treatment. As the number one provider of cancer insurance in Japan, we believe this product further strengthens our brand, and most importantly, provides valuable benefits to consumers who are looking for solutions to manage cancer-related costs. We are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

We also offer traditional fixed-income annuities and care policies. For additional information on Aflac Japan's products and composition of sales, see the Aflac Japan Segment subsection of MD&A in this report.

Insurance Products - U.S.

We design our U.S. insurance products to provide supplemental coverage for people who already have major medical or primary insurance coverage. Most of our U.S. policies are individually underwritten and marketed through independent agents. Additionally, we started to market and administer group insurance products in 2009.

Our individually issued policies are portable and pay regardless of other insurance. Most products' benefits are paid in cash directly to policyholders; therefore, our customers have the opportunity to use this cash to help with expenses of their choosing. Our individually issued health insurance plans are typically guaranteed-renewable for the lifetime of the policyholder (to age 75 for short-term disability policies). Our group insurance policies are underwritten on a group basis and often have some element of guaranteed issue. This coverage is generally not portable, which means the insurance coverage may terminate upon separation from employment or affiliation with the entity holding the group contract or upon termination of the master policy group contract.

Aflac U.S. offers accident coverage on both an individual and group basis. These policies are designed to protect against losses resulting from accidents. The accident portion of the policy includes lump-sum benefits for accidental death, dismemberment and specific injuries as well as fixed benefits for hospital confinement. In addition, other benefits such as short-term disability are available as riders.

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

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

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

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

Distribution - Japan

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

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

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

Distribution - U.S.

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

We concentrate on marketing our insurance products at the worksite. This method offers policies to individuals through employment, trade and other associations. Historically, our policies have been individually underwritten with premiums generally paid by the employee. Additionally, Aflac's individual policies are portable, meaning that

individuals may retain their full insurance coverage upon separation from employment or such affiliation, generally at the same premium. We collect a major portion of premiums on such sales through payroll deduction or other forms of centralized billing. With our brokerage sales expansion and the acquisition of CAIC, branded as Aflac Group Insurance, we offer group voluntary insurance products desired by many large employers. These products are sold on a group basis and often have some element of guaranteed issue. This coverage is generally not portable, which means the insurance coverage may terminate upon separation from employment or affiliation with the entity holding the group contract.

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

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

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

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

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

Competition - Japan

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

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

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

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

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Competition - U.S.

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

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

Investments and Investment Results

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

Regulation - Japan

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

The FSA maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The FSA has applied a revised method of calculating the solvency margin ratio (SMR) for life insurance companies as of fiscal year-end 2011 (March 31, 2012). The FSA had commented that the revision would

generally reduce life insurance companies' solvency margin ratios to approximately half the level of those reported under the former calculation method. As of December 31, 2012, Aflac Japan's solvency margin ratio was 669.1% using the new standards. As expected, based on the results of the calculation of the solvency margin ratio under the new standards, Aflac Japan's relative position within the industry has not materially changed.

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

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adversely affect the funds available for payments of allocated expenses to Aflac U.S. and management fees to the Parent Company.

In 2005, legislation aimed at privatizing Japan's postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four operating entities that began operations in October 2007. In 2007, one of these entities selected Aflac Japan as its provider of cancer insurance to be sold through its post offices, and, in 2008, we began selling cancer insurance through these post offices. Japan Post has historically been a popular place for consumers to purchase insurance products. Currently, our products are being offered in approximately 1,000 post offices.

Legislation to reform the postal system passed the Diet in April 2012 and resulted in the merger of two of the postal operating entities (the one that delivers the mail and the one that runs the post offices) on October 1, 2012. At the current time, it is not possible to predict with any degree of certainty what impact, if any, this legislation will have on Aflac Japan's operations. Regardless, we believe that postal reform is unlikely to change Aflac Japan's relationship with Japan Post.

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

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

Regulation - U.S.

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

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

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

The insurance laws of Nebraska that govern Aflac's activities provide that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval

of the Nebraska Department of Insurance. A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company (in the case of Aflac, the Parent Company) must generally file with the Nebraska Department of Insurance an application for change of control containing certain information required by statute and published regulations and provide a copy to Aflac. In Nebraska, control is generally

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presumed to exist if any person, directly or indirectly, acquires 10% or more of an insurance company or of any other person or entity controlling the insurance company. The 10% presumption is not conclusive and control may be found to exist at less than 10%. Similar laws apply in New York and South Carolina, the domiciliary jurisdictions of the Parent Company's other insurance subsidiaries, Aflac New York and CAIC.

Additionally, the National Association of Insurance Commissioners (NAIC) continually reviews regulatory matters and recommends changes and revisions for adoption by state legislators and insurance departments.

The NAIC uses a risk-based capital formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon the types and mix of risk inherent in the insurer's operations. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital to its authorized control level risk-based capital as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The levels are company action, regulatory action, authorized control, and mandatory control. Aflac's NAIC risk-based capital ratio remains high and reflects a very strong capital and surplus position. As of December 31, 2012, based on year-end statutory accounting results, Aflac's company action level RBC ratio was 630%.

New federal legislation and administrative policies in several areas, including health care reform legislation, financial services reform legislation, securities regulation, pension regulation, privacy, tort reform legislation and taxation, can significantly and adversely affect insurance companies. Various forms of federal oversight and regulation of insurance have been passed by the U.S. Congress and signed into law by the President. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (PPACA), federal health care reform legislation, gives the U.S. federal government direct regulatory authority over the business of health insurance. The reform includes major changes to the U.S. health care insurance marketplace. Among other changes, the reform legislation includes an individual medical insurance coverage mandate, provides for penalties on certain employers for failing to provide adequate coverage, creates health insurance exchanges, and addresses coverage and exclusions as well as medical loss ratios. The legislation also includes changes in government reimbursements and tax credits for individuals and employers and alters federal and state regulation of health insurers. These changes, directed toward major medical health insurance coverage which Aflac does not offer, have already begun and will continue to be phased in over the next several years. We believe that the PPACA, as enacted, does not materially affect the design of our insurance products. However, indirect consequences of the legislation and regulations could present challenges and/or opportunities that could potentially have an impact on our sales model, financial condition and results of operations.

In 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Dodd-Frank Act, which, among other things, created a Financial Stability Oversight Council (the Council). The Council may designate by a two-thirds vote whether certain nonbank financial companies, including potentially insurance companies and insurance holding companies, could pose a threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the Board of Governors of the U.S. Federal Reserve System (the Board), including capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit such company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. In April 2012, the Council released a final rule describing the general process the Council will follow in determining whether to designate a nonbank financial company for supervision by the Board. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. The director of the Federal Insurance Office has the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. We believe that Aflac would not likely be considered a company that

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

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

Other Operations

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

Employees

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

Executive Officers of the Registrant

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

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

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

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

ITEM 1A. RISK FACTORS

We face a wide range of risks, and our continued success depends on our ability to identify, prioritize and appropriately manage our enterprise risk exposures. Readers should carefully consider each of the following risks and all of the other information set forth in this Form 10-K. These risks and other factors may affect forward-looking statements, including those in this document or made by the Company elsewhere, such as in earnings release webcasts, investor conference presentations or press releases. The risks and uncertainties described herein may not be the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks and uncertainties develop into actual events, there could be a material impact on the Company.

Difficult conditions in global capital markets and the economy could have a material adverse effect on our investments, capital position, revenue, profitability, and liquidity and harm our business.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, in the United States and Japan and elsewhere. Global capital markets experienced extreme disruption during the latter part of 2008 and much of 2009 driven by concerns with overall economic conditions originating largely from the U.S. mortgage and housing market. Economic risks continued to rise as business and consumer confidence declined amid concerns with the availability and cost of credit, the weak U.S. mortgage market, and a declining real estate market in the United States. Rising energy costs, volatile commodity prices, increasing unemployment and geopolitical issues further contributed to the extreme volatility of this period. This financial market volatility resulted in a dramatic reduction in the availability of credit and substantially increased the cost of borrowing.

As the financial crisis continued, beginning in early 2010, the risk of sovereign defaults or restructurings, combined with decreased valuations and reduced liquidity for certain entities in the European banking sector, negatively impacted securities issued by these entities. Although recent actions by the European Central Bank (ECB) and other Euro-wide institutions have helped reduce many of the major risk fears of investors, these developments continue to impact the market for financial products. Many European economies are projected to remain in recession in 2013 as the austerity programs required to appease markets start to take hold. As we hold in our investment portfolio a significant amount of fixed maturity and perpetual securities, including a large portion issued by banks and financial institutions, sovereigns and other corporate borrowers based throughout Europe, our financial condition could be adversely affected by these developments. A continuation or worsening of the European crisis could adversely affect our capital position and our overall profitability. Recessionary pressures could result in an increase in credit losses due to severe price declines of our portfolio, default in payment of interest, and credit rating downgrades.

We need liquidity to pay our operating expenses, dividends on our common stock, interest on our debt, and liabilities. For a further description of our liquidity needs, including maturing indebtedness, see Item 7 of this Form 10-K - Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity. In the event our current resources do not meet our needs, we may need to seek additional financing. Our access to additional funding will depend on a variety of factors such as market conditions, the general availability of credit to the financial services industry and our credit rating. Should investor concern with the European sovereign crisis increase overall market volatility and reduce access to market financing, we could be severely impacted given our large exposure to European securities in our investment portfolio. There is a possibility that lenders or debt investors may develop a negative perception of us if we incur large investment losses or if the level of our business activity decreases due to a market downturn or there are further adverse economic trends in the United States or Japan. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Broad economic factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, indirectly, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. This adverse effect could be particularly significant for companies such as ours that distribute supplemental, discretionary insurance products primarily through the worksite in the event that economic conditions result in a decrease in the number of new hires and total employees. Adverse

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

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

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

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

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

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

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

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

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

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

monitor the creditworthiness of the issuers in our portfolio. Any credit-related declines in the fair value of positions held in our portfolio we believe are not temporary in nature will negatively impact our net income through impairment and other credit related losses.

We are also subject to the risk that any collateral providing credit enhancement to our positions could deteriorate. These instruments include loan-backed securities such as: collateralized debt obligations (CDOs) and mortgage-backed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported financial position and results of operations. Aflac Japan's premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into dollars for financial reporting purposes. Accordingly, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported financial position and results of operations. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. Any unrealized foreign currency translation adjustments are reported in accumulated other comprehensive income. As a result, yen weakening has the effect of suppressing current year results in relation to the prior year, while yen strengthening has the effect of magnifying current year results in relation to the prior year. In addition, the weakening of the yen relative to the dollar will generally adversely affect the value of our yen-denominated investments in dollar terms. Foreign currency translation also impacts the computation of our risk-based capital ratio because Aflac Japan is consolidated in our U.S. statutory filings due to its status as a branch. Our required capital, as determined by the application of risk factors to our assets and liabilities, is proportionately more sensitive to changes in the exchange rate than our total adjusted capital. As a result, when the yen strengthens relative to the dollar, our risk-based capital ratio is suppressed. We engage in certain foreign currency hedging activities for the purpose of hedging the yen exposure to

our net investment in our branch operations in Japan. These hedging activities are limited in scope and we cannot provide assurance that these activities will be effective.

Additionally, we are exposed to economic currency risk when yen cash flows are converted into dollars, resulting in an increase or decrease in our earnings when exchange gains or losses are realized. This primarily occurs when we repatriate funds from Aflac Japan to Aflac U.S., which is generally done on an annual basis. The exchange rates prevailing at the time of repatriation may differ from the exchange rates prevailing at the time the yen profits were earned.

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

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

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

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

We operate in an industry that is subject to ongoing changes.

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

We are exposed to significant interest rate risk, which may adversely affect our results of operations, financial condition and liquidity.

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

We also have exposure to interest rates related to the value of the substantial investment portfolios that support our policy liabilities. Prolonged periods of low interest rates, as have been experienced in recent years, heighten the risk of future increases in interest rates because of an increasing proportion of our investment portfolio includes investments

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

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either cause us to dispose of some or all of these investments prior to their maturity, or cause the issuers of these securities to default, both of which could result in our having to recognize such gains or losses.

Rising interest rates also negatively impact the solvency margin ratio since unrealized losses on the available-for-sale investment portfolio are included in the calculation. While we closely monitor the solvency margin ratio and have taken steps to reduce the sensitivity of Aflac Japan's available-for-sale portfolio to increases in interest rates, there is no assurance that these measures will be fully effective, particularly for sharp increases in interest rates.

Significant changes in interest rates could have a material adverse effect on our consolidated results of operations, financial condition or cash flows through realized losses, impairments, changes in unrealized positions, and liquidity. For more information regarding interest rate risk, see the Interest Rate Risk subsection within the Market Risks of Financial Instruments section of MD&A in this report.

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

We establish and carry, as a liability, reserves based on estimates of how much will be required to pay for future benefits and claims. We calculate these reserves using various assumptions and estimates, including premiums we will receive over the assumed life of the policy; the timing, frequency and severity of the events covered by the insurance policy; and the investment returns on the assets we purchase with a portion of our net cash flow from operations. These assumptions and estimates are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove inadequate. As a result, we would incur a charge to earnings in the period in which we determine such a shortfall exists, which could have a material adverse effect on our business, results of operations and financial condition.

As a holding company, the Parent Company depends on the ability of its subsidiaries to transfer funds to it to meet its debt service and other obligations and to pay dividends on its common stock.

The Parent Company is a holding company and has no direct operations or significant assets other than the stock of its subsidiaries. Because we conduct our operations through our operating subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our debt service and other obligations and to pay dividends on our common stock. Aflac is domiciled in Nebraska and is subject to insurance regulations that impose certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. In addition, the FSA may not allow profit repatriations or other transfers from Aflac Japan if they would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders.

The ability of Aflac to pay dividends or make other payments to the Parent Company could also be constrained by our dependence on financial strength ratings from independent rating agencies. Our ratings from these agencies depend to a large extent on Aflac's capitalization level. Any inability of Aflac to pay dividends or make other payments to the Parent Company could have a material adverse effect on our financial condition and results of operations. There is no assurance that the earnings from, or other available assets of, our operating subsidiaries will be sufficient to make distributions to us to enable us to operate.

Extensive regulation and changes in legislation can impact profitability and growth.

Aflac's insurance subsidiaries are subject to complex laws and regulations that are administered and enforced by a number of governmental authorities, including state insurance regulators, the SEC, the NAIC, the FSA and Ministry of Finance (MOF) in Japan, the U.S. Department of Justice, state attorneys general, and the U.S. Treasury, including the Internal Revenue Service, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal or regulatory issue may not result in compliance with another regulator's or enforcement authority's interpretation of the

same issue, particularly when compliance is judged in hindsight. There is also a risk that any particular regulator's or enforcement

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

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

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

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

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

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

leverage limits, liquidity requirements and examinations. The Board may limit such company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. In April 2012, the Council released a final rule describing the general process the Council will follow in determining whether to designate a nonbank financial company for supervision by the Board. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and

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

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

Sales of our products and services are dependent on our ability to attract, retain and support a network of qualified sales associates.

Our sales could be adversely affected if our sales networks deteriorate or if we do not adequately provide support, training and education for our existing network. Competition exists for sales associates with demonstrated ability. We compete with other insurers and financial institutions primarily on the basis of our products, compensation, support services and financial rating. An inability to attract and retain qualified sales associates could have a material adverse effect on sales and our results of operations and financial condition. Our sales associates are independent contractors and may sell products of our competitors. If our competitors offer products that are more attractive than ours, or pay higher commissions than we do, these sales associates may concentrate their efforts on selling our competitors' products instead of ours.

Any decrease in our financial strength or debt ratings may have an adverse effect on our competitive position. Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on the business of insurance companies. On an ongoing basis NRSROs review the financial performance and condition of insurers and may downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management; or other considerations that may or may not be under the insurer's control.

In addition to financial strength ratings, various NRSROs also publish ratings on our debt. These ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner and are important factors in our ability to access liquidity in the debt markets. Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital markets, increasing the cost of debt, and causing termination of certain derivative agreements.

In view of the difficulties experienced in the last several years by many financial institutions, including in the insurance industry, the NRSROs have heightened the level of scrutiny that they apply to such institutions, increased the frequency and scope of their reviews, requested additional information from the companies that they rate, including additional information regarding the valuation of investment securities held, and, in certain cases, have increased the capital and other requirements employed in their models for maintenance of certain rating levels. A downgrade in any of these ratings could have a material adverse effect on agent recruiting and retention, sales, competitiveness and the marketability of our products which could negatively impact our liquidity, operating results and financial condition. Additionally, sales through the bank channel in Japan could be adversely affected as a result of their reliance and sensitivity to ratings levels.

We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notice by any NRSRO.

The success of our business depends in part on effective information technology systems and on continuing to develop and implement improvements in technology.

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

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

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

Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of generally accepted accounting principles in both the United States and Japan, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

The FASB and IASB have announced their commitment to achieving a single set of high-quality global accounting standards, and the SEC continues to encourage the convergence of U.S. GAAP and IFRS in order to narrow the differences between the two sets of standards. In 2010, the SEC announced a work plan, the results of which would aid the Commission in its evaluation of the impact that the use of IFRS by U.S. companies would have on the U.S. securities market. Included in this work plan is consideration of IFRS, as it exists today and after the completion of various convergence projects currently underway between U.S. and international accounting standards-setters. In October 2010, the SEC issued its first progress report on the work plan, summarizing the objectives as well as the efforts and preliminary observations as of that time. In November 2011, the SEC released two staff papers. The papers help to address whether IFRS has developed sufficiently enough to be used in the United States. These papers were designed to aid the SEC in determining whether or not to incorporate IFRS into the U.S. financial reporting system. For the insurance industry, key components of the convergence between U.S. GAAP and IFRS have yet to be clarified. In 2012, the SEC issued the final report which stated that adopting IFRS would present challenges and that the majority of the U.S. capital market participants did not support adopting IFRS. However, the report also stated there was significant support for other methods of incorporating IFRS through endorsement into U.S. GAAP. The FASB and IASB are currently working on a joint insurance contracts project that will change the way insurance liabilities are determined and reported. The insurance contracts exposure draft is expected to be released in the second

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

and/or the effects of accounting standards convergence could significantly alter the presentation of our financial position and results of operations in our financial statements.

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

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

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

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

We face risks related to litigation.

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

Managing key executive succession is critical to our success.

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

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

Our insurance operations are exposed to the risk of catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, and acts of terrorism. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity

of the event. Certain events such as earthquakes, tsunamis, hurricanes and man-made catastrophes could cause substantial damage or loss of life in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year

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and could materially reduce our profitability or harm our financial condition, as well as affect our ability to write new business.

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

Any event, including one external to our operations, could damage our reputation.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

In the United States, Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as our worldwide headquarters and house administrative support and information technology functions for our U.S. operations. Aflac also owns land and office buildings in Columbia, South Carolina, which house our CAIC subsidiary. Aflac leases office space in New York that houses our global investment division. Aflac leases additional administrative office space in Georgia, South Carolina, New York, and Nebraska.

In Tokyo, Japan, Aflac has two primary campuses. The first campus includes a building, owned by Aflac, for the customer call center, information technology departments, and training facility. It also includes a leased property, which houses our policy administration and customer service departments. The second campus comprises leased space, which serves as our Japan branch headquarters and houses administrative support functions for the Japan branch. Aflac also leases additional office space in Tokyo, along with regional offices located throughout the country.

ITEM 3. LEGAL PROCEEDINGS

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

cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER

PURCHASES OF EQUITY SECURITIES

Market Information

Aflac Incorporated's common stock is principally traded on the New York Stock Exchange under the symbol AFL. Our stock is also listed on the Tokyo Stock Exchange. The quarterly high and low market prices for the Company's common stock, as reported on the New York Stock Exchange for the two years ended December 31 were as follows:

Quarterly Common Stock Prices

2012	High	Low
4th Quarter	\$54.93	\$47.25
3rd Quarter	50.24	40.97
2nd Quarter	46.58	38.14
1st Quarter	50.33	42.30
2011	High	Low
4th Quarter	\$47.98	\$32.74
3rd Quarter	47.50	31.25
2nd Quarter	57.39	44.15
1st Quarter	59.54	48.00

Holders

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

Dividends

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

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

Stock Performance Graph

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

Performance Graphic Index

December 31,

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

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 (www.researchdatagroup.com/S&P.htm)

Issuer Purchases of Equity Securities

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

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

⁽¹⁾The total remaining shares available for purchase at December 31, 2012, consisted of 22,422,204 shares related to a 30,000,000

share repurchase authorization by the board of directors announced in January 2008.

⁽²⁾During the year ended December 31, 2012, 153,700 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

ITEM 6. SELECTED FINANCIAL DATA

Aflac Incorporated and Subsidiaries

Years Ended December 31,

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

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

Aflac Incorporated and Subsidiaries
December 31,

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

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

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

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and credit downgrades of securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac's investment in perpetual securities
- differing judgments applied to investment valuations
- significant valuation judgments in determination of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular single-issuer or sector
- concentration of business in Japan
- increased derivative activities
- ongoing changes in our industry
- exposure to significant financial and capital markets risk
- fluctuations in foreign currency exchange rates
- significant changes in investment yield rates
- deviations in actual experience from pricing and reserving assumptions
- subsidiaries' ability to pay dividends to Aflac Incorporated
- changes in law or regulation by governmental authorities
- ability to attract and retain qualified sales associates and employees
- decreases in our financial strength or debt ratings
- ability to continue to develop and implement improvements in information technology systems
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems
- changes in U.S. and/or Japanese accounting standards
- failure to comply with restrictions on patient privacy and information security
- level and outcome of litigation
- ability to effectively manage key executive succession

• catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes,
• earthquakes, tsunamis, acts of terrorism and damage incidental to such events
• failure of internal controls or corporate governance policies and procedures

MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-year period ended December 31, 2012. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes. This MD&A is divided into the following sections:

Our Business

Performance Highlights

Critical Accounting Estimates

Results of Operations, consolidated and by segment

Analysis of Financial Condition, including discussion of market risks of financial instruments

Capital Resources and Liquidity, including discussion of availability of capital and the sources and uses of cash

OUR BUSINESS

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

PERFORMANCE HIGHLIGHTS

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to GAAP issued by the FASB are derived from the FASB Accounting Standards CodificationTM (ASC). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and

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derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 96% of our assets and 73% of our liabilities are reported as of December 31, 2012, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

Investments and Derivatives

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

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

Our derivative activities include foreign currency, interest rate and credit default swaps in variable interest entities (VIEs) that are consolidated; foreign currency forwards on certain fixed-maturity securities; cross-currency interest rate swaps associated with our senior notes due February 2017 and February 2022 and subordinated debentures due September 2052; and an interest rate swap associated with our variable interest rate yen-denominated debt. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility. For derivatives associated with VIEs where we are the primary beneficiary, we receive valuations from a third party pricing vendor. The fair values of the foreign currency forwards associated with certain fixed-maturity securities and the fair values of the swaps associated with our senior notes and subordinated debentures and yen-denominated notes are based on the amounts we would expect to receive or pay to terminate the swaps as determined with observable market inputs.

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

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

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

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

Deferred Policy Acquisition Cost Ratios

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

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

Policy Liabilities

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

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

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

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate

future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

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

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

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

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

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

Future Policy Benefits

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

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

In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we

do not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2012, to changes in severity and frequency of claims. For the years 2010 through 2012, our assumptions changed on average by approximately 1% in total, and we believe that a variation in assumptions in a range of plus or minus 1% in total is reasonably likely to occur.

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Sensitivity of Unpaid Policy Claims Liability

(In millions)

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

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

Income Taxes

Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse. The evaluation of a tax position in accordance with GAAP is a two-step process. Under the first step, the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities. The second step is measurement, whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

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

New Accounting Pronouncements

As of January 1, 2012, we retrospectively adopted the amended accounting guidance on accounting for DAC, costs associated with acquiring or renewing insurance contracts. Under the previous guidance, we capitalized costs that varied with and were primarily related to the acquisition of a policy. Under the amended accounting guidance, only incremental direct costs associated with the successful acquisition of new or renewal contracts may be capitalized, and direct-response advertising costs may be capitalized under certain conditions. Approximately 70% of our deferred acquisition costs balance prior to the adoption of this guidance was related to compensation paid to third party agents for successful sales and remains deferrable under the amended accounting guidance. The remaining 30% of the deferred acquisition costs balance was evaluated for deferral under the amended accounting guidance. The retrospective adoption of this accounting standard resulted in an after-tax cumulative reduction to retained earnings of \$391 million and an after-tax cumulative reduction to unrealized foreign currency translation gains in accumulated other comprehensive income of \$67 million, resulting in a total reduction to shareholders' equity of \$458 million as of December 31, 2009, the opening balance sheet date presented in this report. The adoption of this accounting standard had an immaterial impact on net income in 2011 and all preceding years.

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. For additional information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated

Financial Statements.

RESULTS OF OPERATIONS

The following discussion includes references to our performance measures, operating earnings and operating earnings per diluted share, that are not based on accounting principles generally accepted in the United States of America (“GAAP”). After-tax operating earnings (operating earnings) is the measure of segment profit or loss we use to evaluate segment performance and allocate resources. Consistent with GAAP accounting guidance for segment

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reporting, operating earnings is our measure of segment performance. Aflac believes that an analysis of operating earnings is vitally important to an understanding of our underlying profitability drivers.

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

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

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

Reconciliation of Operating Earnings to Net Earnings

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

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

Realized Investment Gains and Losses

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

Securities Transactions and Impairments

During 2012, we recognized pretax other-than-temporary impairment losses of \$977 million (\$635 million after-tax). We realized pretax investment gains, net of losses, of \$474 million (\$309 million after-tax) from sales and redemptions of securities. These net gains primarily resulted from sales of Japanese Government Bonds (JGBs) in a

bond-swap program in the third quarter of 2012 and sales resulting from our efforts to reduce risk exposure in our investment portfolio.

In 2011, we recognized pretax other-than-temporary impairment losses of \$1.9 billion (\$1.2 billion after-tax). We realized pretax investment gains, net of losses, of \$594 million (\$386 million after-tax) from the sale of securities. The impairments and many of the sales were the result of an implemented plan to reduce the risk exposure in our investment

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portfolio, coupled with the continued decline in the creditworthiness of certain issuers. The sales gains were primarily driven by the sale of U.S. Treasury strips and JGBs that were part of a bond-swap program.

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

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

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

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

⁽¹⁾ Includes \$597 and \$1,286 for the years ended December 31, 2012 and 2011, respectively, for credit-related impairments;

\$353 and \$615 for the years ended December 31, 2012 and 2011, respectively, from change in intent to sell securities;

and \$27 for the year ended December 31, 2012 for impairments due to severity and duration of decline in fair value

⁽²⁾ Consisted completely of credit-related impairments

Impact of Derivative and Hedging Activities

Our derivative activities include foreign currency, interest rate and credit default swaps in VIEs that are consolidated; foreign currency forwards on certain fixed-maturity securities; cross-currency interest rate swaps associated with our senior notes due February 2017 and February 2022 and subordinated debentures due September 2052; and an interest rate swap associated with our variable interest rate yen-denominated debt. We realized pretax investment gains, net of losses, of \$154 million (\$100 million after-tax) in 2012, compared with pretax investment losses, net of gains, of \$245 million (\$159 million after-tax) in 2011 and \$1 million (\$.7 million after-tax) in 2010 as a result of valuing these derivatives. For a description of other items that could be included in the Impact of Derivative and Hedging Activities, see the Hedging Activities subsection of MD&A and Note 4 of the accompanying Notes to the Consolidated Financial Statements.

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

Foreign Currency Translation

Aflac Japan's premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we have yen-denominated assets that support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate Aflac Japan's yen-denominated income statement into dollars using an average exchange rate for the reporting period, and we translate its yen-denominated balance sheet using the exchange rate at the end of the period.

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current period results in relation to the comparable prior period, while yen strengthening has the effect of magnifying current period results in

relation to the comparable prior period. As a result, we view foreign currency translation as a financial reporting issue for Aflac and not an economic event to our Company or shareholders. Because changes in exchange rates distort the growth rates of our operations, management evaluates Aflac's financial performance excluding the impact of foreign currency translation.

Income Taxes

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

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

Earnings Guidance

Certain items that cannot be predicted or that are outside of management's control may have a significant impact on net earnings. Therefore, in comparing period-over-period results, we also analyze operating earnings (a non-GAAP financial measure) which excludes realized investment gains and losses (securities transactions, impairments, and the impact of derivative and hedging activities) and nonrecurring items from net earnings. We also assume no impact from foreign currency translation on the Aflac Japan segment and the Parent Company's yen-denominated interest expense for a given period in relation to the prior period.

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

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

2013 Operating Earnings Per Diluted Share Scenarios⁽¹⁾

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

⁽¹⁾Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities)

and nonrecurring items in 2013 and 2012

⁽²⁾Actual 2012 weighted-average exchange rate

INSURANCE OPERATIONS

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

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

into U.S. dollars.

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

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earned premiums, is a financial performance measure that reflects collected or due premiums that have been earned ratably on policies in force during the reporting period.

AFLAC JAPAN SEGMENT

Aflac Japan Pretax Operating Earnings

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

Aflac Japan Summary of Operating Results

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

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

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

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

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

Aflac Japan's investment portfolios include dollar-denominated securities and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 33% of Aflac Japan's investment income in 2012, 2011 and 2010. In years when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers

growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. Excluding foreign currency changes from the respective prior year, dollar-denominated investment income accounted for approximately 33% of Aflac Japan's investment income during 2012, compared with 35% in 2011 and 34% in 2010.

The following table illustrates the effect of translating Aflac Japan's dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the prior year.

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

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

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

⁽²⁾Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current year as each respective prior year.

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

The following table presents a summary of operating ratios in yen terms for Aflac Japan for the years ended December 31.

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

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

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

In the past several years, the ratio of benefits and claims to total revenues (benefit ratio) for our health products has been positively impacted by favorable claim trends, primarily in our cancer product line. We expect this downward claim trend to continue. However, over the last several years, the rate of decline in Aflac Japan's benefit ratio has moderated, due primarily to strong sales results in our ordinary products, including WAYS and child endowment. These products have higher benefit ratios and lower expense ratios than our health products. The benefit ratio has also been impacted by the effect of low investment yields and portfolio derisking, both of which impact our profit margin by reducing the spread between investment yields and required interest on policy reserves (see table and discussion in the Interest Rate Risk subsection of this MD&A). In 2012, the benefit ratio increased and the operating expense ratio decreased, resulting in a lower pretax operating profit margin, compared with 2011, primarily due to the change in business mix discussed above. We expect this trend to continue in 2013.

Aflac Japan Sales

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

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

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

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

The bank channel generated new annualized premium sales of 95.9 billion yen in 2012, an increase of 106.4% over 2011. Bank channel sales accounted for 45.6% of new annualized premium sales for Aflac Japan in 2012, compared with 28.9% in 2011 and 14.6% in 2010. WAYS, a unique hybrid whole-life product that we first launched in 2006 and introduced to the bank channel in 2009, has been a significant contributor to bank sales growth. The average premium for WAYS sold through the bank channel, the primary distribution outlet for this product, is about ten times the average premium for cancer and medical products, making it a strong contributor to revenue growth. The WAYS profit margin is lower than our traditional health insurance products, however the profit margin is significantly enhanced when policyholders elect to pay premiums upfront using the discounted advance premium option. More than 90% of customers at banks choose this payment option. Beginning on October 22, 2012, the profit margin for WAYS was enhanced even further through a reduction in the interest rate credit for discounted advance premium, which essentially increases the total premium paid. Additionally, we will be repricing products in April 2013, reflecting Japan's Financial Services Agency's (FSA) reduction in the Japan Standard Interest Rate, which is used to determine FSA-based policy reserves. Sales of WAYS of 94.5 billion yen during 2012, an increase of 124.2% over 2011, represented 44.9% of total sales for Aflac Japan in 2012.

The foundation of Aflac Japan's product portfolio has been, and continues to be, our cancer and medical products. Medical insurance sales increased 2.5% during 2012, compared with 2011, benefiting from the introduction of our upgraded new EVER product in January 2012 and our revised non-standard medical product, Gentle EVER, in July 2012. With continued cost pressure on Japan's health care system, we expect the need for medical products will continue to rise in the future, and we remain encouraged about the outlook for the medical insurance market.

Cancer insurance sales decreased 12.7% during 2012, compared with 2011, reflecting a difficult comparison to prior year sales, which had benefited from the favorable consumer response to our new cancer policy, DAYS, that was introduced at the end of March 2011. We remain convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

At December 31, 2012, we had agreements to sell our products at 372 banks, or more than 90% of the total number of banks in Japan. We have seen sales steadily improve at many of these bank branches as training has taken place and as many banks expand their offerings of Aflac products. We believe we have significantly more banks selling our supplemental health insurance products than any other insurer operating in Japan. Japanese consumers rely on banks not only to provide traditional bank services, but also to provide insurance solutions, among other services. Approximately 70% of our customers at banks are new customers to Aflac. We believe our long-standing and strong relationships within the Japanese banking sector have proven to be advantageous to us in this channel. Our partnership

with banks provides us with a wider demographic of potential customers than we would otherwise have been able to reach, and it also allows banks to expand their product and service offerings to consumers. Our access through the bank channel gives us the opportunity to cross-sell our medical and cancer policies along with WAYS and child endowment policies.

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

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

Japanese Economy

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

Japanese Regulatory Environment

Japan's Financial Services Agency (FSA) maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The FSA has applied a revised method of calculating the solvency margin ratio for life insurance companies as of fiscal year-end 2011 (March 31, 2012). The FSA had commented that the revision would generally reduce life insurance companies' solvency margin ratios to approximately half the level of those reported under the former calculation method. As of December 31, 2012, Aflac Japan's solvency margin ratio was 669.1% under the new standards. As expected, based on the results of the calculation of the solvency margin ratio under the new standards, Aflac Japan's relative position within the industry has not materially changed.

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

Aflac Japan Investments

The level of investment income in yen is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan primarily has invested in Japanese Government Bonds (JGBs) and privately issued securities. Privately issued securities generally have higher yields than those available on JGBs and other publicly traded debt instruments. All of the privately issued securities we purchase were rated investment grade at the time of purchase. These securities were generally issued with documentation consistent with standard medium-term note programs. In

addition, many of these investments have protective covenants appropriate to the specific issuer, industry and country. These covenants often require the issuer to adhere to specific financial ratios and give priority to repayment of our investment under certain circumstances.

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

Funds available for investment include cash flows from operations, investment income, and funds generated from bond swaps, maturities and redemptions. Aflac Japan purchased debt security investments at aggregate acquisition cost

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of approximately 2,700.1 billion yen in 2012 (approximately \$34.4 billion), 2,012.0 billion yen in 2011 (approximately \$25.5 billion) and 790.4 billion yen in 2010 (approximately \$9.1 billion). During the three-year period ended December 31, 2012, there were no purchases of perpetual securities, and equity security purchases were immaterial.

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

Composition of Purchases by Sector

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

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

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

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

Composition of Purchases by Credit Rating⁽¹⁾

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

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

March 31, 2012.

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

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securities during 2011 was due to purchases of U.S. Treasury strips that were subsequently sold prior to the end of the year. Higher purchases of AA rated securities during 2012 and 2011, compared with 2010 were primarily due to the purchase of JGBs as discussed above. The increase in purchases of BBB rated securities in 2012 was related primarily to the purchase of U.S. dollar-denominated corporate fixed-income publicly traded securities for the Aflac Japan portfolio as discussed above. The purchases of BB or lower rated securities during 2012 and 2011 were related to a limited program that we initiated in 2011 to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. For more information on this program, see the Credit Risk subsection of this MD&A.

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

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

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

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

Composition of Portfolio by Sector

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

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

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

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

Beginning in the third quarter of 2012, we began investing in U.S. dollar-denominated publicly-traded corporate fixed-maturity securities, and entered into foreign currency forwards to economically convert these dollar-denominated investments into yen-denominated investments. This strategy allows us to realize an investment

yield greater than that available on JGBs and improve overall portfolio liquidity and diversification. See Note 3 of the Notes to the Consolidated Financial Statements and the Market Risks of Financial Instruments - Credit Risk subsection of MD&A for more information regarding the sector concentrations of our investments.

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

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

Composition of Portfolio by Credit Rating⁽¹⁾

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

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

March 31, 2012.

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

See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments and hedging strategies.

AFLAC U.S. SEGMENT

Aflac U.S. Pretax Operating Earnings

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

Aflac U.S. Summary of Operating Results

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

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

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

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

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

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

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

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

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

Aflac U.S. Sales

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

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

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

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

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

New annualized premium sales for accident insurance, our leading product category, decreased 1.0%, short-term disability sales increased 13.3%, critical care insurance sales (including cancer insurance) decreased 3.5%, and hospital

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indemnity insurance sales decreased 1.9% in 2012, compared with 2011. While new sales growth has been constrained, Aflac U.S. revenue growth was positive in 2012, primarily reflecting an improvement in persistency with each quarter.

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

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

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

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

U.S. Economy

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

U.S. Regulatory Environment

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

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

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

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

Aflac U.S. Investments

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

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

Composition of Purchases by Sector

	2012		2011		2010
Debt security purchases, at cost:					
Banks/financial institutions	8.5	%	4.5	%	4.2