AFLAC INC
Form 10-Q
November 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-07434
Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

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

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

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

Class	October 29, 2013
Common Stock, $.10 Par Value	466,090,298

Aflac Incorporated and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2013
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Items other than those listed above are omitted because they are not required or are not applicable.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The September 30, 2013, and 2012, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of September 30, 2013, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2013 and 2012, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2012, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in the method of accounting for costs associated with acquiring or renewing insurance contracts in 2012 and a change in the method of evaluating the consolidation of variable interest entities (VIEs) and qualified special purpose entities (QSPEs) in 2010. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia
November 5, 2013

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for share and per-share amounts - Unaudited)	2013	2012	2013	2012
Revenues:				
Premiums, principally supplemental health insurance	$5,028	$5,660	$15,225	$16,505
Net investment income	821	869	2,467	2,597
Realized investment gains (losses):				
Other-than-temporary impairment losses realized	(10)	(97)	(65)	(643)
Sales and redemptions	72	288	277	358
Derivative and other gains (losses)	(40)	95	167	108
Total realized investment gains (losses)	22	286	379	(177)
Other income	15	32	67	64
Total revenues	5,886	6,847	18,138	18,989
Benefits and expenses:				
Benefits and claims	3,485	3,932	10,417	11,341
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	256	281	790	838
Insurance commissions	388	442	1,158	1,309
Insurance expenses	568	595	1,631	1,745
Interest expense	71	67	211	186
Other operating expenses	49	50	143	147
Total acquisition and operating expenses	1,332	1,435	3,933	4,225
Total benefits and expenses	4,817	5,367	14,350	15,566
Earnings before income taxes	1,069	1,480	3,788	3,423
Income taxes	367	463	1,305	1,138
Net earnings	$702	$1,017	$2,483	$2,285
Net earnings per share:				
Basic	$1.51	$2.17	$5.34	$4.90
Diluted	1.50	2.16	5.31	4.87
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	464,324	467,422	465,325	466,702
Diluted	467,391	469,721	468,052	468,951
Cash dividends per share	$.35	$.33	$1.05	$.99

See the accompanying Notes to the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions - Unaudited)	2013	2012	2013	2012
Net earnings	$702	$1,017	$2,483	$2,285
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	5	76	(373)	8
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	255	1,430	(3,553)	1,435
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	(94)	(213)	(220)	284
Unrealized gains (losses) on derivatives during period	2	2	(5)	(6)
Pension liability adjustment during period	0	(33)	8	(30)
Total other comprehensive income (loss) before income taxes	168	1,262	(4,143)	1,691
Income tax expense (benefit) related to items of other comprehensive income (loss)	(211)	347	(967)	569
Other comprehensive income (loss), net of income taxes	379	915	(3,176)	1,122
Total comprehensive income (loss)	$1,081	$1,932	$(693)	$3,407

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	September 30, 2013 (Unaudited)	December 31, 2012
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $51,813 in 2013 and $48,355 in 2012)	$51,949	$51,466
Fixed maturities - consolidated variable interest entities (amortized cost $4,598 in 2013 and $5,058 in 2012)	4,974	5,787
Perpetual securities (amortized cost $2,789 in 2013 and $3,654 in 2012)	2,484	3,728
Perpetual securities - consolidated variable interest entities (amortized cost $504 in 2013 and $559 in 2012)	457	574
Equity securities (cost $18 in 2013 and $20 in 2012)	22	23
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $44,502 in 2013 and $54,554 in 2012)	43,351	54,137
Fixed maturities - consolidated variable interest entities (fair value $254 in 2013 and $287 in 2012)	256	289
Other investments	470	174
Cash and cash equivalents	2,749	2,041
Total investments and cash	106,712	118,219
Receivables	950	976
Accrued investment income	775	842
Deferred policy acquisition costs	9,173	9,658
Property and equipment, at cost less accumulated depreciation	510	564
Other	1,798 (1)	835 (1)
Total assets	$119,918	$131,094

(1) Includes $165 in 2013 and $191 in 2012 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

(continued)

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	September 30, 2013 (Unaudited)		December 31, 2012	
Liabilities and shareholders' equity:				
Liabilities:				
Policy liabilities:				
Future policy benefits	$72,744		$76,463	
Unpaid policy claims	3,853		4,034	
Unearned premiums	11,601		11,904	
Other policyholders' funds	5,739		5,319	
Total policy liabilities	93,937		97,720	
Income taxes	3,255		3,858	
Payables for return of cash collateral on loaned securities	628		6,277	
Notes payable	4,953		4,352	
Other	2,487	(2)	2,909	(2)
Commitments and contingent liabilities (Note 11)				
Total liabilities	105,260		115,116	
Shareholders' equity:				
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2013 and 2012; issued 666,493 shares in 2013 and 665,239 shares in 2012	67		67	
Additional paid-in capital	1,605		1,505	
Retained earnings	19,380		17,387	
Accumulated other comprehensive income (loss):				
Unrealized foreign currency translation gains (losses)	(418	)	333	
Unrealized gains (losses) on investment securities	143		2,570	
Unrealized gains (losses) on derivatives	(8	)	(5	)
Pension liability adjustment	(178	)	(183	)
Treasury stock, at average cost	(5,933	)	(5,696	)
Total shareholders' equity	14,658		15,978	
Total liabilities and shareholders' equity	$119,918		$131,094	

(2) Includes $247 in 2013 and $399 in 2012 of derivatives from consolidated variable interest entities
See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Nine Months Ended September 30,	
(In millions - Unaudited)	2013	2012
Common stock:		
Balance, beginning of period	$67	$66
Balance, end of period	67	66
Additional paid-in capital:		
Balance, beginning of period	1,505	1,408
Exercise of stock options	38	19
Share-based compensation	22	25
Gain (loss) on treasury stock reissued	40	21
Balance, end of period	1,605	1,473
Retained earnings:		
Balance, beginning of period	17,387	15,148
Net earnings	2,483	2,285
Dividends to shareholders	(490)	(464)
Balance, end of period	19,380	16,969
Accumulated other comprehensive income (loss):		
Balance, beginning of period	2,715	1,965
Unrealized foreign currency translation gains (losses) during period, net of income taxes	(751)	27
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments	(2,427)	1,117
Unrealized gains (losses) on derivatives during period, net of income taxes	(3)	(4)
Pension liability adjustment during period, net of income taxes	5	(18)
Balance, end of period	(461)	3,087
Treasury stock:		
Balance, beginning of period	(5,696)	(5,641)
Purchases of treasury stock	(307)	(13)
Cost of shares issued	70	44
Balance, end of period	(5,933)	(5,610)
Total shareholders' equity	$14,658	$15,985

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net earnings	$2,483	$2,285
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	(29)	(203)
Increase in deferred policy acquisition costs	(319)	(481)
Increase in policy liabilities	5,653	9,371
Change in income tax liabilities	422	385
Realized investment (gains) losses	(379)	177
Other, net	(672)	(83)
Net cash provided (used) by operating activities	7,159	11,451
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	9,354	5,376
Fixed maturities matured or called	2,049	1,616
Perpetual securities sold	212	1,389
Perpetual securities matured or called	259	378
Securities held to maturity:		
Fixed maturities matured or called	5,619	1,579
Costs of investments acquired:		
Available-for-sale fixed maturities acquired	(16,937)	(12,815)
Held-to-maturity fixed maturities acquired	(1,180)	(15,629)
Settlement of derivatives	(1,496)	0
Cash received as collateral on loaned securities, net	(5,606)	5,752
Other, net	205	(145)
Net cash provided (used) by investing activities	(7,521)	(12,499)
Cash flows from financing activities:		
Purchases of treasury stock	(307)	(13)
Proceeds from borrowings	700	1,456
Principal payments under debt obligations	0	(340)
Dividends paid to shareholders	(472)	(445)
Change in investment-type contracts, net	1,138	1,095
Treasury stock reissued	59	19
Other, net	15	9
Net cash provided (used) by financing activities	1,133	1,781
Effect of exchange rate changes on cash and cash equivalents	(63)	3
Net change in cash and cash equivalents	708	736
Cash and cash equivalents, beginning of period	2,041	2,249
Cash and cash equivalents, end of period	$2,749	$2,985
Supplemental disclosures of cash flow information:		
Income taxes paid	$673	$762
Interest paid	139	119
Noncash interest	72 (1)	66 (1)
Impairment losses included in realized investment losses	65	643
Noncash financing activities:		

Capitalized lease obligations	0	3
Treasury stock issued for:		
Associate stock bonus	28	24
Shareholder dividend reinvestment	18	19
Share-based compensation grants	5	3

(1) Consists primarily of accreted interest on discounted advance premiums

See the accompanying Notes to the Consolidated Financial Statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 75% and 78% of the Company's total revenues in the nine-month periods ended September 30, 2013, and 2012, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 85% at September 30, 2013, and 87% at December 31, 2012.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of September 30, 2013, and December 31, 2012, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2013, and 2012, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2013, and 2012. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2012.

Significant Accounting Policies

We have updated the disclosure in the accounting policy for income taxes and have added our accounting policy for reinsurance. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2012.

Income Taxes: Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse. We record deferred tax assets for tax positions taken based on our assessment of whether the tax position is more likely than not to be sustained upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized. In the second quarter of 2013, we recorded a valuation allowance of $237 million related to the deferred tax assets associated with our unrealized investment losses recorded in other comprehensive income. In the third quarter of 2013, we released this $237 million valuation allowance because it was more likely than not that the deferred tax assets related to unrealized investment losses will be realized in the future.

As discussed in the Translation of Foreign Currencies section in Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012, Aflac Japan maintains certain dollar-denominated investments. While there are no translation effects to record in other comprehensive income (loss), the deferred tax expense or benefit associated with foreign exchange gains or losses on this portfolio is recognized in other comprehensive income (loss) until the securities mature or are sold. Total income tax expense (benefit) related to items of other comprehensive income (loss) included a tax benefit of $38 million during the three-month period ended September 30, 2013, and a tax benefit of $86 million during the three-month period ended September 30, 2012, for these dollar-denominated investments. Excluding these amounts from total taxes on other comprehensive income (loss) would result in an effective income tax rate on pretax other comprehensive income (loss) of (102.3)% and 34.4% in the three-month periods ended September 30, 2013 and 2012, respectively. In addition, excluding the release of the tax valuation allowance in the three-month period ended September 30, 2013, the effective income tax rate on pretax other comprehensive income (loss) would have been 38.8%. Total income tax expense (benefit) related to items of other comprehensive income (loss) included tax expense of $614 million during the nine-month period ended September 30, 2013, and a tax benefit of $25 million during the nine-month period ended September 30, 2012, for these dollar-denominated investments. Excluding these amounts from total taxes on other comprehensive income (loss) would result in an effective income tax rate on pretax other comprehensive income (loss) of 38.1% and 35.2% in the nine-month periods ended September 30, 2013 and 2012, respectively.

Reinsurance: We enter into reinsurance agreements with other companies in the normal course of business. For each of our reinsurance agreements, we determine if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and deferred acquisition costs (DAC) are reported net of insurance ceded. See Note 6 of the Notes to the Consolidated Financial Statements for additional information.

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

New Accounting Pronouncements
Recently Adopted Accounting Pronouncements

Derivatives and hedging: In July 2013, the FASB issued an update which allows entities to use the Federal Funds Effective Swap Rate, also referred to as the Overnight Index Swap Rate (OIS), as a benchmark interest rate for hedge accounting purposes. Previously the only acceptable benchmark rates for hedge accounting purposes under GAAP were U.S. Treasury rates and the London Interbank Offered Rate (LIBOR) swap rate. This update reflects the evolution of market hedging practices and is intended to provide more flexibility in hedging interest rate risk. We adopted this guidance in the third quarter of 2013 on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the effective date of July 17, 2013. The adoption of the guidance had no impact on our financial position or results of operations.

Reporting of amounts reclassified out of accumulated other comprehensive income: In February 2013, the FASB issued guidance that requires reclassification adjustments for items that are reclassified out of accumulated other comprehensive income to net income to be presented in statements where the components of net income and the components of other comprehensive income are presented or in the footnotes to the financial statements. Additionally, the amendment requires cross-referencing to other disclosures currently required for other reclassification items. We adopted this guidance as of January 1, 2013. The adoption of this guidance impacted our financial statement disclosures, but it did not have an impact on our financial position or results of operations.

Disclosures about offsetting assets and liabilities: In December 2011, the FASB issued guidance to amend the disclosure requirements about offsetting assets and liabilities. The new guidance essentially clarifies the FASB's intent concerning the application of existing offsetting disclosure requirements. Entities are required to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions when those activities are subject to an agreement similar to a master netting arrangement. The scope of this guidance was clarified and revised in January 2013 to apply to derivatives, repurchase agreements, reverse repurchase agreements, securities borrowing and securities lending arrangements. The objective of this disclosure is to move toward consistency between U.S. GAAP and International Financial Reporting Standards (IFRS). We adopted this guidance as of January 1, 2013. The adoption of this guidance impacted our financial statement disclosures, but it did not have an impact on our financial position or results of operations.

Presentation of comprehensive income: In June 2011, the FASB issued guidance to amend the presentation of comprehensive income. The amendment requires that all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted this guidance as of January 1, 2012 and elected the option to report comprehensive income in two separate but consecutive statements. The adoption of this guidance did not have an impact on our financial position or results of operations.

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

Accounting for costs associated with acquiring or renewing insurance contracts: In October 2010, the FASB issued amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts. Under the previous guidance, costs that varied with and were primarily related to the acquisition of a policy were deferrable. Under the amended guidance, only incremental direct costs associated with the successful acquisition of a new or renewal contract may be capitalized, and direct-response advertising costs may be capitalized only if they meet certain criteria. This guidance is effective on a prospective or retrospective basis for interim and annual periods beginning after December 15, 2011. We retrospectively adopted this guidance as of January 1, 2012. The retrospective adoption of this accounting standard resulted in an after-tax cumulative reduction to retained earnings of $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 in our annual report on Form 10-K for the year ended December 31, 2012). The adoption of this accounting standard had an immaterial impact on net income in 2011 and for all preceding years.

Accounting Pronouncements Pending Adoption

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists: In July 2013, the FASB issued guidance to amend the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance essentially states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This accounting standard applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This guidance is effective for annual reporting periods beginning on or after December 15, 2013, and interim periods within those annual periods and requires prospective presentation for all comparative periods presented. The adoption of this guidance will not have a significant impact on our financial statements.

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

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

2. BUSINESS SEGMENT INFORMATION

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Revenues:				
Aflac Japan:				
Earned premiums	$3,735	$4,405	$11,357	$12,769
Net investment income	659	713	1,986	2,134
Other income	8	22	46	38
Total Aflac Japan	4,402	5,140	13,389	14,941
Aflac U.S.:				
Earned premiums	1,293	1,254	3,868	3,736
Net investment income	159	153	473	457
Other income	1	5	4	10
Total Aflac U.S.	1,453	1,412	4,345	4,203
Other business segments	11	10	38	40
Total business segment revenues	5,866	6,562	17,772	19,184
Realized investment gains (losses)	22	286	379	(177)
Corporate	71	65	229	197
Intercompany eliminations	(73)	(66)	(242)	(215)
Total revenues	$5,886	$6,847	$18,138	$18,989

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Pretax earnings:				
Aflac Japan	$846	$994	$2,775	$2,998
Aflac U.S.	269	260	833	789
Total business segment pretax operating earnings	1,115	1,254	3,608	3,787
Interest expense, noninsurance operations	(50)	(45)	(147)	(134)
Corporate and eliminations	(18)	(15)	(52)	(53)
Pretax operating earnings	1,047	1,194	3,409	3,600
Realized investment gains (losses)	22	286	379	(177)
Total earnings before income taxes	$1,069	$1,480	$3,788	$3,423
Income taxes applicable to pretax operating earnings	$360	$363	$1,173	$1,200
Effect of foreign currency translation on operating earnings	(97)	2	(271)	28

Assets were as follows:

(In millions)	September 30, 2013	December 31, 2012
Assets:		
Aflac Japan	$101,471	$113,678
Aflac U.S.	16,135	16,122
Other business segments	153	154
Total business segment assets	117,759	129,954
Corporate	19,821	20,318
Intercompany eliminations	(17,662)	(19,178)
Total assets	$119,918	$131,094

3. INVESTMENTS

Investment Holdings

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

(In millions)	September 30, 2013 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$12,744	$445	$22	$13,167
Mortgage- and asset-backed securities	614	34	0	648
Public utilities	2,816	96	78	2,834
Sovereign and supranational	1,055	82	0	1,137
Banks/financial institutions	3,088	163	322	2,929
Other corporate	4,178	139	247	4,070
Total yen-denominated	24,495	959	669	24,785
Dollar-denominated:				
U.S. government and agencies	93	9	3	99
Municipalities	1,016	56	15	1,057
Mortgage- and asset-backed securities	167	17	0	184
Public utilities	5,018	369	206	5,181
Sovereign and supranational	462	82	1	543
Banks/financial institutions	3,527	329	48	3,808
Other corporate	21,633	911	1,278	21,266
Total dollar-denominated	31,916	1,773	1,551	32,138
Total fixed maturities	56,411	2,732	2,220	56,923
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	2,811	108	403	2,516
Other corporate	274	0	65	209
Dollar-denominated:				
Banks/financial institutions	208	22	14	216
Total perpetual securities	3,293	130	482	2,941
Equity securities	18	5	1	22
Total securities available for sale	$59,722	$2,867	$2,703	$59,886

(In millions)	September 30, 2013 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$24,708	$1,366	$0	$26,074
Municipalities	432	49	0	481
Mortgage- and asset-backed securities	66	3	0	69
Public utilities	4,359	168	184	4,343
Sovereign and supranational	3,219	160	104	3,275
Banks/financial institutions	6,905	143	493	6,555
Other corporate	3,918	213	172	3,959
Total yen-denominated	43,607	2,102	953	44,756
Total securities held to maturity	$43,607	$2,102	$953	$44,756

(In millions)	December 31, 2012 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$12,612	$349	$81	$12,880
Mortgage- and asset-backed securities	746	40	1	785
Public utilities	3,608	116	72	3,652
Sovereign and supranational	1,404	71	0	1,475
Banks/financial institutions	3,455	233	180	3,508
Other corporate	5,656	241	153	5,744
Total yen-denominated	27,481	1,050	487	28,044
Dollar-denominated:				
U.S. government and agencies	93	24	0	117
Municipalities	1,045	156	6	1,195
Mortgage- and asset-backed securities	188	58	0	246
Public utilities	4,204	658	17	4,845
Sovereign and supranational	476	123	2	597
Banks/financial institutions	3,626	506	6	4,126
Other corporate	16,300	1,878	95	18,083
Total dollar-denominated	25,932	3,403	126	29,209
Total fixed maturities	53,413	4,453	613	57,253
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	3,635	193	161	3,667
Other corporate	309	43	0	352
Dollar-denominated:				
Banks/financial institutions	269	23	9	283
Total perpetual securities	4,213	259	170	4,302
Equity securities	20	4	1	23
Total securities available for sale	$57,646	$4,716	$784	$61,578

(In millions)	December 31, 2012 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$32,043	$356	$67	$32,332
Municipalities	492	30	2	520
Mortgage- and asset-backed securities	90	4	0	94
Public utilities	4,924	233	106	5,051
Sovereign and supranational	3,209	192	84	3,317
Banks/financial institutions	9,211	211	431	8,991
Other corporate	4,457	187	108	4,536
Total yen-denominated	54,426	1,213	798	54,841
Total securities held to maturity	$54,426	$1,213	$798	$54,841

The methods of determining the fair values of our investments in fixed-maturity securities, perpetual securities and equity securities, including a change in valuation methodology for determining fair value of privately issued securities as of the first quarter of 2013, are described in Note 5.

During the third and first quarters of 2013, we did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio. During the second quarter of 2013, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of the issuer being downgraded to below investment grade. At the time of transfer, the security had an amortized cost of $297 million and an unrealized loss of $108 million.

During the third quarter of 2012, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of the issuer being downgraded to below investment grade. At the time of transfer, this security had an amortized cost of $206 million after it was written down to its fair value in the third quarter of 2012. During the second quarter of 2012, we reclassified five investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of the issuer being downgraded to below investment grade. At the time of transfer, the securities had an aggregate amortized cost of $842 million and an aggregate unrealized loss of $268 million. During the first quarter of 2012, we reclassified one investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of the issuer being downgraded to below investment grade. At the time of transfer, the security had an amortized cost of $122 million and an unrealized loss of $23 million.

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at September 30, 2013, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$741	$748	$56	$56
Due after one year through five years	2,048	2,141	415	473
Due after five years through 10 years	9,814	9,589	1,458	1,563
Due after 10 years	32,306	32,149	8,555	9,123
Mortgage- and asset-backed securities	684	727	39	47
Total fixed maturities available for sale	$45,593	$45,354	$10,523	$11,262
Held to maturity:				
Due in one year or less	$139	$140	$0	$0
Due after one year through five years	1,142	1,217	0	0
Due after five years through 10 years	2,275	2,359	0	0
Due after 10 years	39,986	40,971	0	0
Mortgage- and asset-backed securities	65	69	0	0
Total fixed maturities held to maturity	$43,607	$44,756	$0	$0

At September 30, 2013, the Parent Company had a portfolio of available-for-sale fixed-maturity securities totaling $295 million at amortized cost and $307 million at fair value, which is not included in the table above.

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

The majority of our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuer's equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates for the securities. Although perpetual securities have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term interest rate of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at September 30, 2013, were as follows:

(In millions)	Aflac Japan Amortized Cost	Fair Value	Aflac U.S. Amortized Cost	Fair Value
Due after one year through five years	$1,107	$988	$5	$5
Due after five years through 10 years	274	209	0	0
Due after 10 years	1,808	1,639	99	100
Total perpetual securities available for sale	$3,189	$2,836	$104	$105

Investment Concentrations

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

Banks and Financial Institutions

One of our largest investment sector concentrations as of September 30, 2013, was banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy.

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

	September 30, 2013 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio		December 31, 2012 Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	
Fixed maturities:						
Amortized cost	$13,520	13	%	$16,292	14	%
Fair value	13,292	12		16,625	14	
Perpetual securities:						
Upper Tier II:						
Amortized cost	$2,102	2	%	$2,825	3	%
Fair value	1,941	2		2,919	3	
Tier I:						
Amortized cost	917	1		1,079	1	
Fair value	791	1		1,031	1	
Total:						
Amortized cost	$16,539	16	%	$20,196	18	%
Fair value	16,024	15		20,575	18	

Realized Investment Gains and Losses

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

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Realized investment gains (losses) on securities:				
Fixed maturities:				
Available for sale:				
Gross gains from sales	$92	$313	$284	$346
Gross losses from sales	(24)	(1)	(30)	(37)
Net gains (losses) from redemptions	4	0	25	2
Other-than-temporary impairment losses	(10)	(70)	(64)	(400)
Held to maturity:				
Net gains (losses) from redemptions	0	0	0	3
Total fixed maturities	62	242	215	(86)
Perpetual securities:				
Available for sale:				
Gross gains from sales	0	12	0	82
Gross losses from sales	0	(36)	(2)	(98)
Net gains (losses) from redemptions	0	0	0	60
Other-than-temporary impairment losses	0	(27)	0	(243)
Total perpetual securities	0	(51)	(2)	(199)
Equity securities:				
Other-than-temporary impairment losses	0	0	(1)	0
Total equity securities	0	0	(1)	0
Derivatives and other:				
Derivative gains (losses)	(41)	95	157	108
Other	1	0	10	0
Total derivatives and other	(40)	95	167	108
Total realized investment gains (losses)	$22	$286	$379	$(177)

Other-than-temporary Impairment

The fair values of our debt and perpetual security investments fluctuate based on changes in interest rates, foreign exchange, and credit spreads in the global financial markets. Fair values can also be heavily influenced by the values of the assets of the issuer and expected ultimate recovery values upon default, bankruptcy or other financial restructuring. Credit spreads are most impacted by the general credit environment and global market liquidity. Interest rates are driven by numerous factors including, but not limited to, supply and demand, governmental monetary actions, expectations of inflation and economic growth. We believe that fluctuations in the fair value of our investment securities related to general changes in the level of credit spreads or interest rates have little bearing on underlying credit quality of the issuer, and whether our investment is ultimately recoverable. Generally, we consider such declines in fair values to be temporary even in situations where an investment remains in an unrealized loss position for a year or more.

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

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

When determining our intention to sell a security prior to recovery of its fair value to amortized cost, we evaluate facts and circumstances such as, but not limited to, future cash flow needs, decisions to reposition our security portfolio, and risk profile of individual investment holdings. We perform ongoing analyses of our liquidity needs, which includes cash flow testing of our policy liabilities, debt maturities, projected dividend payments and other cash flow and liquidity needs. Our cash flow testing includes extensive duration analysis of our investment portfolio and policy liabilities. Based on our analyses, we have concluded that we have sufficient excess cash flows to meet our liquidity needs without selling any of our investments prior to their maturity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Perpetual securities	$0	$27	$0	$243
Corporate bonds	3	70	41	253
Mortgage- and asset-backed securities	0	0	0	3
Sovereign and supranational	7	0	23	144
Equity securities	0	0	1	0
Total other-than-temporary impairment losses realized	$10 (1)	$97 (1)	$65 (1)	$643 (1)

(1) Includes $0 and $70 for the three-month periods and $0 and $365 for the nine-month periods ended September 30, 2013 and 2012, respectively, for credit-related impairments; $0 and $27 for the three-month periods and $1 and $27 for the nine-month periods ended September 30, 2013 and 2012, respectively, for impairments due to severity and duration of decline in fair value; and $10 and $0 for the three-month periods and $64 and $251 for the nine-month periods ended September 30, 2013 and 2012, respectively, from change in intent to sell securities

Unrealized Investment Gains and Losses

Effect on Shareholders' Equity

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

(In millions)	September 30, 2013	December 31, 2012
Unrealized gains (losses) on securities available for sale	$164	$3,932
Unamortized unrealized gains on securities transferred to held to maturity	14	20
Deferred income taxes	(35)	(1,382)
Shareholders' equity, unrealized gains (losses) on investment securities	$143	$2,570

Gross Unrealized Loss Aging

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

	September 30, 2013					
	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
Japan government and agencies:						
Yen-denominated	$1,933	$22	$1,933	$22	$0	$0
Municipalities:						
Dollar-denominated	196	15	163	10	33	5
Public utilities:						
Dollar-denominated	2,314	206	2,297	203	17	3
Yen-denominated	3,367	262	2,123	134	1,244	128
Sovereign and supranational:						
Dollar-denominated	43	1	43	1	0	0
Yen-denominated	935	104	554	25	381	79
Banks/financial institutions:						
Dollar-denominated	816	48	784	44	32	4
Yen-denominated	5,455	815	2,704	171	2,751	644
Other corporate:						
Dollar-denominated	12,903	1,278	12,532	1,207	371	71
Yen-denominated	3,857	419	2,642	242	1,215	177
U.S. government and agencies:						
Dollar-denominated	37	3	37	3	0	0
Total fixed maturities	31,856	3,173	25,812	2,062	6,044	1,111
Perpetual securities:						
Dollar-denominated	71	14	51	9	20	5
Yen-denominated	1,916	468	1,362	248	554	220
Total perpetual securities	1,987	482	1,413	257	574	225
Equity securities	5	1	5	1	0	0
Total	$33,848	$3,656	$27,230	$2,320	$6,618	$1,336

(In millions)	December 31, 2012 Total Fair Value	Unrealized Losses	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
Fixed Maturities:						
Japan government and agencies:						
Yen-denominated	$17,342	$148	$17,342	$148	$0	$0
Municipalities:						
Dollar-denominated	34	6	1	0	33	6
Yen-denominated	56	2	56	2	0	0
Mortgage- and asset- backed securities:						
Yen-denominated	136	1	0	0	136	1
Public utilities:						
Dollar-denominated	736	17	736	17	0	0
Yen-denominated	3,920	178	1,339	31	2,581	147
Sovereign and supranational:						
Dollar-denominated	31	2	0	0	31	2
Yen-denominated	1,244	84	507	13	737	71
Banks/financial institutions:						
Dollar-denominated	276	6	180	3	96	3
Yen-denominated	6,918	611	1,935	28	4,983	583
Other corporate:						
Dollar-denominated	4,534	95	4,404	86	130	9
Yen-denominated	4,013	261	1,635	40	2,378	221
Total fixed maturities	39,240	1,411	28,135	368	11,105	1,043
Perpetual securities:						
Dollar-denominated	136	9	120	0	16	9
Yen-denominated	1,315	161	0	0	1,315	161
Total perpetual securities	1,451	170	120	0	1,331	170
Equity securities	6	1	3	0	3	1
Total	$40,697	$1,582	$28,258	$368	$12,439	$1,214

Analysis of Securities in Unrealized Loss Positions

The unrealized losses on our investments have been primarily related to general market changes in interest rates, foreign exchange rates, and/or the levels of credit spreads rather than specific concerns with the issuer's ability to pay interest and repay principal. In addition, in the first quarter of 2013, we refined our methodology for valuing certain privately issued securities (see Note 5).

For any significant declines in fair value, we perform a more focused review of the related issuers' credit profile. For corporate issuers, we evaluate their assets, business profile including industry dynamics and competitive positioning, financial statements and other available financial data. For non-corporate issuers, we analyze all sources of credit support, including issuer-specific factors. We utilize information available in the public domain and, for certain private placement issuers, from consultations with the issuers directly. We also consider ratings from the Nationally Recognized Statistical Rating Organizations (NRSROs), as well as the specific characteristics of the security we own including seniority in the issuer's capital structure, covenant protections, or other relevant features. From these reviews, we evaluate the issuers' continued ability to service our investment through payment of interest and principal.

The following table provides more information on our unrealized loss positions.

(In millions)	September 30, 2013 Percentage of Total Investments in an Unrealized Loss Position	Percentage of Gross Unrealized Losses	Percentage of Gross Unrealized Losses for Investment Grade Securities	December 31, 2012 Percentage of Total Investments in an Unrealized Loss Position	Percentage of Gross Unrealized Losses	Percentage of Gross Unrealized Losses for Investment Grade Securities
Fixed Maturities:						
Japan government and agencies	6 %	1 %	100 %	43 %	9 %	100 %
Public utilities	17	13	88	11	12	69
Sovereign and supranational	3	3	100	3	6	96
Banks/financial institutions	19	24	67	18	39	76
Other corporate	49	46	93	21	23	72
Total fixed maturities	94 %	87 %		96 %	89 %	
Perpetual securities	6	13	87	4	11	100
Total	100 %	100 %		100 %	100 %	

The decline in the percentage of perpetual securities in an unrealized loss position that are investment grade is due primarily to a refinement in our methodology for valuing privately issued securities, including perpetual securities, that was implemented in the first quarter of 2013 and was not indicative of credit-related changes or downgrades.

Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that the issuers of our investments in the sectors shown in the table above have the ability to service their obligations to us.

Perpetual Securities

The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly-rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer's capital structure and the regulatory jurisdiction of the issuer.

Details of our holdings of perpetual securities were as follows:

Perpetual Securities

(In millions)	Credit Rating	September 30, 2013 Amortized Cost	Fair Value	Unrealized Gain (Loss)	December 31, 2012 Amortized Cost	Fair Value	Unrealized Gain (Loss)
Upper Tier II:							
	A	$161	$179	$18	$460	$488	$28
	BBB	1,686	1,559	(127)	2,077	2,129	52

	BB or lower	255	203	(52)	288	302	14
Total Upper Tier II		2,102	1,941	(161)	2,825	2,919	94
Tier I:							
	BBB	804	675	(129)	966	904	(62)
	BB or lower	113	116	3	113	127	14
Total Tier I		917	791	(126)	1,079	1,031	(48)
Other subordinated - non-banks	BBB	274	209	(65)	309	352	43
Total		$3,293	$2,941	$(352)	$4,213	$4,302	$89

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During the first nine months of 2013, our aggregate holdings in perpetual securities moved from an unrealized gain of $89 million to an unrealized loss of $352 million. This change is primarily due to a refinement in our methodology for valuing privately issued securities, including perpetual securities, that was implemented in the first quarter of 2013 (see Note 5).

Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that the issuers of our investments in these sectors have the ability to service their obligations to us.

Variable Interest Entities (VIEs)

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

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

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

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

VIEs - Consolidated

The following table presents the amortized cost, fair value and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported.

Investments in Consolidated Variable Interest Entities

	September 30, 2013		December 31, 2012	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$4,598	$4,974	$5,058	$5,787
Perpetual securities, available for sale	504	457	559	574
Fixed maturities, held to maturity	256	254	289	287
Other assets	165	165	191	191
Total assets of consolidated VIEs	$5,523	$5,850	$6,097	$6,839
Liabilities:				
Other liabilities	$247	$247	$399	$399
Total liabilities of consolidated VIEs	$247	$247	$399	$399

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we have the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. We also participate in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding debt and perpetual securities and interest rate, foreign currency, and/or credit default swaps

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(CDSs), as appropriate, and utilizing the cash flows from these securities to service our investment. Neither we nor any of our creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, we are not a direct counterparty to the swap contracts and have no control over them. Our loss exposure to these VIEs is limited to our original investment. Our consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of our investment in senior secured bank loans through unit trust structures, the underlying collateral assets and funding of our consolidated VIEs are generally static in nature and the underlying collateral and the reference corporate entities covered by any CDS contracts were all investment grade at the time of issuance.

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

VIEs-Not Consolidated

The table below reflects the amortized cost, fair value and balance sheet caption in which our investment in VIEs not consolidated are reported.

Investments in Variable Interest Entities Not Consolidated

	September 30, 2013		December 31, 2012	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Assets:				
Fixed maturities, available for sale	$6,951	$6,954	$7,738	$8,350
Perpetual securities, available for sale	399	389	736	751
Fixed maturities, held to maturity	3,384	3,419	3,829	3,922
Total investments in VIEs not consolidated	$10,734	$10,762	$12,303	$13,023

The VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We do not have the power to direct the activities that most significantly impact the entity's economic performance, nor do we have (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. These VIE investments comprise securities from 172 separate issuers with an average credit rating of BBB.

Securities Lending

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

(In millions)	September 30, 2013	December 31, 2012
Security loans outstanding, fair value	$613	$6,122
Cash collateral on loaned securities	628	6,277

The balance of our security loans outstanding was significantly lower at September 30, 2013, compared with that at December 31, 2012, due to the conclusion of a six-month securities lending program that began in the third quarter

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of 2012. For this particular securities lending program, we invested the cash collateral in Japanese government bonds (JGBs) with maturities that corresponded with the conclusion of the program.

4. DERIVATIVE INSTRUMENTS

Our freestanding derivative financial instruments consist of: (1) foreign currency swaps, credit default swaps, and interest rate swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary; (2) foreign currency forward contracts used in hedging foreign exchange risk on U.S. dollar-denominated securities in Aflac Japan's portfolio; (3) foreign currency forwards and options used to hedge certain portions of forecasted cash flows denominated in yen; (4) swaps associated with our notes payable, consisting of an interest rate swap for our variable interest rate yen-denominated debt and cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and our subordinated debentures; and (5) options on interest rate swaps (or interest rate swaptions) used to hedge interest rate risk for certain U.S. dollar-denominated available-for-sale securities. We do not use derivative financial instruments for trading purposes, nor do we engage in leveraged derivative transactions. Some of our derivatives are designated as cash flow hedges, fair value hedges or net investment hedges; however, other derivatives do not qualify for hedge accounting. We utilize a net investment hedge to mitigate foreign exchange exposure resulting from our net investment in Aflac Japan. In addition to designating derivatives as hedging instruments, we have designated the majority of our yen-denominated Samurai and Uridashi notes and yen-denominated loans as nonderivative hedging instruments for this net investment hedge.

Derivative Types

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

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

Foreign currency options are executed in order to hedge certain portions of forecasted cash flows that are denominated in yen, i.e. primarily profit repatriation from Aflac Japan. We use a combination of options to protect expected future cash flows by simultaneously purchasing a call option (an option that limits exposure to increasing foreign exchange rates) and selling a put option (an option that limits exposure to decreasing foreign exchange rates). The combination of these two actions results in no net premium paid (i.e. a costless or zero-cost collar). Aflac also enters into foreign currency options that give it the right, but not the obligation, to sell yen and buy U.S. dollars at a specified future date at a contracted price.

Credit default swaps (CDSs) are used to assume credit risk related to an individual security or an index. The only CDS derivatives that we have are components of certain of our investments in VIEs. These CDS contracts entitle the consolidated VIE to receive a periodic fee in exchange for an obligation to compensate the derivative counterparty should the referenced security issuers experience a credit event, as defined in the contract. The consolidated VIE is also exposed to credit risk due to embedded derivatives associated with credit-linked notes.

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

Interest rate swaptions are options on interest rate swaps. Interest rate collars are combinations of two swaption positions and are executed in order to hedge certain dollar-denominated available-for-sale securities that are held in the Aflac Japan segment. We use collars to protect against significant changes in the fair value associated with interest rate changes of our dollar-denominated available-for-sale securities. In order to maximize the efficiency of the collars while minimizing cost, we set the strike price on each collar so that the premium paid for the ‘payer leg’ is offset by the premium received for having sold the ‘receiver leg’.

Credit Risk Assumed through Derivatives

For the interest rate, foreign currency, and credit default swaps associated with our VIE investments for which we are the primary beneficiary, we bear the risk of foreign exchange or interest rate loss due to counterparty default even though we are not a direct counterparty to those contracts. We are a direct counterparty to the interest rate and foreign currency swaps that we have on certain of our senior notes, subordinated debentures, and Samurai notes; foreign currency forwards; foreign currency options; and interest rate swaptions, therefore we are exposed to credit risk in the event of nonperformance by the counterparties in those contracts. The risk of counterparty default for our VIE swaps, foreign currency swaps, certain foreign currency forwards, foreign currency options, and interest rate swaptions is mitigated by collateral posting requirements the counterparty must meet. As of September 30, 2013, there were 11 counterparties to our derivative agreements, with five comprising almost 85% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings.

	September 30, 2013			December 31, 2012		
(In millions)	Notional Amount of Derivatives	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Notional Amount of Derivatives	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Counterparties' credit rating:						
AA	$161	$4	$(4)	$161	$6	$(7)
A	22,640	594	(431)	13,209	339	(927)
Total	$22,801	$598	$(435)	$13,370	$345	$(934)

We engage in derivative transactions directly with unaffiliated third parties under International Swaps and Derivative Association, Inc. (ISDA) agreements and other documentation. Many of the ISDA agreements also include Credit Support Annex (CSA) provisions which generally provide for collateral postings, in certain cases at the first dollar of exposure and in other cases at various rating and threshold levels. We mitigate our risk to certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty, either at the outset of the transaction or on an upfront or contingent basis. We minimize the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value while generally requiring that collateral be posted at the outset of the transaction or that additional collateral be posted upon the occurrence of certain events or circumstances. In addition, a significant portion of the derivative transactions have provisions that require collateral to be posted upon a downgrade of our long-term debt ratings or give the counterparty the right to terminate the transaction upon a downgrade of Aflac’s financial strength rating. The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions, and other factors prevailing at and after the time of the downgrade.

Collateral posted by us to third parties for derivative transactions was $88 million at September 30, 2013, which consisted of $70 million of pledged JGBs and $18 million of cash. There was no collateral posted to third parties for derivative transactions at December 31, 2012. This collateral can generally be repledged or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was $104 million as of September 30, 2013. There were no derivative instruments with credit-risk related contingent features in a net liability position by counterparty as of December 31, 2012. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2013, we estimate that we would be required to post a maximum of $16 million of additional collateral to these derivative counterparties. Collateral obtained by us from third parties for derivative transactions was $104 million at September 30, 2013. There was no collateral obtained from third parties at December 31, 2012. We generally can repledge or resell collateral obtained by us, although we do not typically exercise such rights.

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

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

September 30, 2013

(In millions)	Credit Rating	Less than one year Maximum potential risk	Less than one year Estimated fair value	One to three years Maximum potential risk	One to three years Estimated fair value	Three to five years Maximum potential risk	Three to five years Estimated fair value	Five to ten years Maximum potential risk	Five to ten years Estimated fair value	Total Maximum potential risk	Total Estimated fair value
Index exposure:											
Corporate bonds:											
	A	$0	$ 0	$(120)	$ 2	$0	$ 0	$0	$ 0	$(120)	$ 2
	BB or lower	0	0	0	0	0	0	(102)	(9)	(102)	(9)
Total		$0	$ 0	$(120)	$ 2	$0	$ 0	$(102)	$ (9)	$(222)	$ (7)

December 31, 2012

(In millions)	Credit Rating	Less than one year Maximum potential risk	Less than one year Estimated fair value	One to three years Maximum potential risk	One to three years Estimated fair value	Three to five years Maximum potential risk	Three to five years Estimated fair value	Five to ten years Maximum potential risk	Five to ten years Estimated fair value	Total Maximum potential risk	Total Estimated fair value
Index exposure:											
Corporate bonds:											
	A	$0	$ 0	$(133)	$ 2	$0	$ 0	$0	$ 0	$(133)	$ 2
	BB or lower	0	0	0	0	(106)	(47)	(116)	(20)	(222)	(67)
Total		$0	$ 0	$(133)	$ 2	$(106)	$ (47)	$(116)	$ (20)	$(355)	$ (65)

Accounting for Derivative Financial Instruments

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

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

Hedge Documentation and Effectiveness Testing

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

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

For assessing hedge effectiveness of fair value hedges, qualitative methods may include the comparison of critical terms of the derivative to the hedged item, and quantitative methods include regression or other statistical analysis of changes in cash flows associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the dollar offset method. For derivative instruments that are designated and qualify as fair value hedges, changes in the estimated fair value of the derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in current earnings within derivative and other gains (losses).

For the hedge of our net investment in Aflac Japan, we have designated Parent Company yen-denominated liabilities as non-derivative hedging instruments and have designated certain foreign currency forwards, options, and swaps as derivative hedging instruments. For assessing hedge effectiveness of net investment hedges, if the total of the designated Parent Company non-derivative and derivatives notional is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective. If the hedge is effective, the related exchange effect on the yen-denominated liabilities is reported in the unrealized foreign currency component of other comprehensive income. For derivatives designated as net investment hedges, Aflac follows the forward-rate method. According to that method, all changes in fair value, including changes related to the forward-rate component of foreign currency swap and forward contracts and the time value of foreign currency options, are reported in the unrealized foreign currency component of other comprehensive income.

Discontinuance of Hedge Accounting

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

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

Derivative Balance Sheet Classification

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

	September 30, 2013			
(In millions)	Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Interest rate swaps	$56	$0	$0	$0
Foreign currency swaps	75	9	9	0
Total cash flow hedges	131	9	9	0
Fair value hedges:				
Foreign currency forwards	11,266	125	129	(4)
Interest rate swaptions	4,500	(70)	38	(108)
Total fair value hedges	15,766	55	167	(112)
Net investment hedge:				
Foreign currency swaps	1,950	201	264	(63)
Foreign currency forwards	384	(9)	0	(9)
Foreign currency options	102	(2)	2	(4)
Total net investment hedge	2,436	190	266	(76)
Non-qualifying strategies:				
Interest rate swaps	222	0	1	(1)
Foreign currency swaps	4,024	(84)	153	(237)
Credit default swaps	222	(7)	2	(9)
Total non-qualifying strategies	4,468	(91)	156	(247)
Total derivatives	$22,801	$163	$598	$(435)
Balance Sheet Location				
Other assets	$15,334	$598	$598	$0
Other liabilities	7,467	(435)	0	(435)
Total derivatives	$22,801	$163	$598	$(435)

	December 31, 2012			
(In millions)	Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Interest rate swaps	$64	$0	$0	$0
Foreign currency swaps	75	14	14	0
Total cash flow hedges	139	14	14	0
Fair value hedges:				
Foreign currency forwards	6,944	(535)	0	(535)
Total fair value hedges	6,944	(535)	0	(535)
Non-qualifying strategies:				
Interest rate swaps	355	29	32	(3)
Foreign currency swaps	5,577	(32)	297	(329)
Credit default swaps	355	(65)	2	(67)
Total non-qualifying strategies	6,287	(68)	331	(399)
Total derivatives	$13,370	$(589)	$345	$(934)
Balance Sheet Location				
Other assets	$2,585	$345	$345	$0
Other liabilities	10,785	(934)	0	(934)
Total derivatives	$13,370	$(589)	$345	$(934)

Cash Flow Hedges

Certain of our consolidated VIEs have foreign currency swaps that qualify for hedge accounting treatment. For those that have qualified, we have designated the derivative as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset ("cash flow" hedge). We expect to continue this hedging activity for a weighted-average period of approximately 12 years. The remaining derivatives in our consolidated VIEs that have not qualified for hedge accounting have been designated as held for other investment purposes ("non-qualifying strategies").

We have an interest rate swap agreement related to 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011 (see Note 7). By entering into this contract, we swapped the variable interest rate to a fixed interest rate of 1.475%. We have designated this interest rate swap as a hedge of the variability in our interest cash flows associated with the variable interest rate Samurai notes. The notional amount and terms of the swap match the principal amount and terms of the variable interest rate Samurai notes, and the swap had no value at inception. Changes in the fair value of the swap contract are recorded in other comprehensive income (loss) as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that ineffective portion would be reported in net earnings.

Fair Value Hedges

We designate and account for foreign currency forwards as fair value hedges when they meet the requirements for hedge accounting. These foreign currency forwards hedge the foreign currency exposure of certain dollar-denominated fixed maturity securities within the investment portfolio of our Aflac Japan segment. We recognize gains and losses on these derivatives and the related hedged items in current earnings within derivative and other gains (losses). The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the assessment of hedge effectiveness.

We designate and account for interest rate swaptions as fair value hedges when they meet the requirements for hedge accounting. These interest rate swaptions hedge the interest rate exposure of certain dollar-denominated fixed maturity securities within the investment portfolio of our Aflac Japan segment. We recognize gains and losses on these derivatives and the related hedged items in current earnings within derivative and other gains (losses). The change in the fair value of the interest rate swaptions related to time to expiry is excluded from the assessment of hedge effectiveness.

The following table presents the gains and losses on derivatives and the related hedged items in fair value hedges.
Fair Value Hedging Relationships

(In millions)		Hedging Derivatives			Hedged Items	
Hedging Derivatives	Hedged Items	Total Gains (Losses)	Gains (Losses) Excluded from Effectiveness Testing	Gains (Losses) Included in Effectiveness Testing	Gains (Losses)	Ineffectiveness Recognized for Fair Value Hedge
Three Months Ended September 30, 2013:						
Foreign currency forwards	Fixed-maturity securities	$102	$(6)	$108	$(104)	$4
Interest rate swaptions	Fixed-maturity securities	(41)	(41)	0	0	0
Nine Months Ended September 30, 2013:						
Foreign currency forwards	Fixed-maturity securities	$(891)	$(17)	$(874)	$870	$(4)
Interest rate swaptions	Fixed-maturity securities	(41)	(41)	0	0	0
Three and Nine Months Ended September 30, 2012:						
Foreign currency forwards	Fixed-maturity securities	$17	$(3)	$20	$(20)	$0

Net Investment Hedge

Our primary exposure to be hedged is our net investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains certain investments in dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars. The foreign exchange gains and losses related to these investments are taxable in Japan and the U.S. when the securities mature or are sold. Until maturity or sale, deferred tax expense or benefit associated with the foreign exchange gains or losses are recognized in other comprehensive income. As of October 1, 2013, these investments were transferred into the Aflac Japan investment portfolio comprising one foreign operation. These investments will begin to have translation effects recorded on a prospective basis. There was no translation impact for the nine-month period ended September 30, 2013 for these investments.

Secondly, we have designated a majority of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans - see Note 7) as nonderivative hedges and designated foreign currency swaps, forwards, and options, as described below, as derivative hedges of the foreign currency exposure of our investment in Aflac Japan.
The designated foreign currency swaps consist of cross-currency interest rate swap agreements related to our $700 million senior notes due June 2023, $400 million senior notes due February 2017, $350 million senior notes due February 2022, and $500 million subordinated debentures due September 2052. For additional information regarding these swaps, see the accompanying Note 7 and also Note 8 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

The designated foreign currency forwards and options are derivatives that are hedging foreign exchange risk for certain expected profit repatriation in yen from Aflac Japan. We had foreign exchange forwards and options as part of a hedging strategy on 65 billion yen of the 2013 repatriation received in July 2013, and we have entered into foreign exchange forwards and options as part of a hedging strategy on 47.5 billion yen of the profit repatriation expected to be received in July 2014.

Our net investment hedge was effective during the three- and nine-month periods ended September 30, 2013 and 2012, respectively.

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

The following table summarizes the impact to realized investment gains (losses) and other comprehensive income (loss) from all derivatives and hedging instruments.

(In millions)	Three Months Ended September 30, 2013 Realized Investment Gains (Losses)	2013 Other Comprehensive Income (Loss)(1)	2012 Realized Investment Gains (Losses)	2012 Other Comprehensive Income (Loss)(1)	Nine Months Ended September 30, 2013 Realized Investment Gains (Losses)	2013 Other Comprehensive Income (Loss)(1)	2012 Realized Investment Gains (Losses)	2012 Other Comprehensive Income (Loss)(1)
Qualifying hedges:								
Cash flow hedges:								
Foreign currency swaps	$1	$2	$0	$2	$(1)	$(5)	$0	$(6)
Total cash flow hedges	1	2	0	2	(1)	(5)	0	(6)
Fair value hedges:								
Foreign currency forwards(2)	(2)	0	(3)	0	(21)	0	(3)	0
Interest rate swaptions	(41)	0	0	0	(41)	0	0	0
Total fair value hedges	(43)	0	(3)	0	(62)	0	(3)	0
Net investment hedge:								
Non-derivative hedging instruments	0	(6)	0	(21)	0	100	0	(4)
Foreign currency swaps	0	(22)	0	0	0	(104)	0	0
Foreign currency forwards	0	2	0	0	0	(2)	0	0
Foreign currency options	0	(4)	0	0	0	(1)	0	0
Total net investment hedge	0	(30)	0	(21)	0	(7)	0	(4)
Non-qualifying strategies:								
Interest rate swaps	(1)	0	7	0	(9)	0	4	0
	34	0	66	0	229	0	59	0

Foreign currency swaps								
Foreign currency options	0	0	0	0	11	0	0	0
Credit default swaps	4	0	25	0	25	0	48	0
Interest rate swaptions	(29)	0	0	0	(29)	0	0	0
Other	(7)	0	0	0	(7)	0	0	0
Total non-qualifying strategies	1	0	98	0	220	0	111	0
Total	$(41)	$(28)	$95	$(19)	$157	$(12)	$108	$(10)

(1) Cash flow hedge items are recorded as unrealized gains (losses) on derivatives and net investment hedge items are recorded in the unrealized
foreign currency translation gains (losses) line in the consolidated statement of comprehensive income (loss).
(2) Impact shown net of effect of hedged items (see Fair Value Hedges section of this Note 4 for further detail)

There was no gain or loss reclassified from accumulated other comprehensive income (loss) into earnings related to our designated cash flow hedges and net investment hedge for the three- and nine-month periods ended September 30,

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2013 and 2012. As of September 30, 2013, deferred gains and losses on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months are immaterial.

Offsetting of Financial Instruments and Derivatives

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements with certain of the master netting arrangements provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity securities (see Note 3). When we have entered into securities lending agreements with the same counterparty, the agreements generally provide for net settlement in the event of default by the counterparty. This right of set-off would allow us to keep and apply collateral received if the counterparty failed to return the securities borrowed from us as contractually agreed. For additional information on the Company's accounting policy for securities lending, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

The tables below summarize our derivatives and securities lending transactions, and as reflected in the tables, in accordance with GAAP, our policy is to not offset these financial instruments in the Consolidated Balance Sheets.

Offsetting of Financial Assets and Derivative Assets
September 30, 2013

(in millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet Carrying Value of Financial Instruments	Collateral Received	Net Amount
Derivative assets:						
Interest rate swaps	$1	$0	$1	$0	$0	$1
Foreign currency swaps	426	0	426	0	(104)	322
Foreign currency forwards	129	0	129	0	0	129
Foreign currency options	2	0	2	0	0	2
Credit default swaps	2	0	2	0	0	2
Interest rate swaptions	38	0	38	0	0	38
Total derivative assets, subject to a master netting arrangement or offsetting arrangement	598	0	598	0	(104)[1]	494
Securities lending and similar arrangements	613	0	613	0	(613)	0
Total	$1,211	$0	$1,211	$0	$(717)	$494

[1] Consists entirely of cash.

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December 31, 2012

(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet: Carrying Value of Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Collateral Received	Net Amount
Derivative assets:						
Interest rate swaps	$32	$0	$32	$0	$0	$32
Foreign currency swaps	311	0	311	0	0	311
Credit default swaps	2	0	2	0	0	2
Total derivative assets, subject to a master netting arrangement or offsetting arrangement	345	0	345	0	0	345
Securities lending and similar arrangements	6,122	0	6,122	0	(6,122)	0
Total	$6,467	$0	$6,467	$0	$(6,122)	$345

Offsetting of Financial Liabilities and Derivative Liabilities
September 30, 2013

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet: Carrying Value of Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Collateral Pledged	Net Amount
Derivative liabilities:						
Interest rate swaps	$(1)	$0	$(1)	$0	$0	$(1)
Foreign currency swaps	(300)	0	(300)	0	7	(293)
Foreign currency forwards	(13)	0	(13)	0	9	(4)
Foreign currency options	(4)	0	(4)	0	2	(2)
Credit default swaps	(9)	0	(9)	0	0	(9)
Interest rate swaptions	(108)	0	(108)	0	70	(38)
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(435)	0	(435)	0	88 [1]	(347)
Securities lending and similar arrangements	(628)	0	(628)	613	0	(15)
Total	$(1,063)	$0	$(1,063)	$613	$88	$(362)

[1] Consists of $70 of pledged JGBs and $18 of cash.

December 31, 2012

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet: Carrying Value of Financial Instruments	Gross Amounts Not Offset in Balance Sheet: Collateral Pledged	Net Amount
Derivative liabilities:						
Interest rate swaps	$(3)	$0	$(3)	$0	$0	$(3)
Foreign currency swaps	(329)	0	(329)	0	0	(329)
Foreign currency forwards	(535)	0	(535)	0	0	(535)
Credit default swaps	(67)	0	(67)	0	0	(67)
Total derivative liabilities, subject to a master netting arrangement or offsetting arrangement	(934)	0	(934)	0	0	(934)
Securities lending and similar arrangements	(6,277)	0	(6,277)	6,122	0	(155)
Total	$(7,211)	$0	$(7,211)	$6,122	$0	$(1,089)

For additional information on our financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

(In millions)	September 30, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturities:				
Government and agencies	$12,609	$657	$0	$13,266
Municipalities	0	1,057	0	1,057
Mortgage- and asset-backed securities	0	429	403	832
Public utilities	0	8,015	0	8,015
Sovereign and supranational	0	1,680	0	1,680
Banks/financial institutions	0	6,713	24	6,737
Other corporate	0	25,336	0	25,336
Total fixed maturities	12,609	43,887	427	56,923
Perpetual securities:				
Banks/financial institutions	0	2,681	51	2,732
Other corporate	0	209	0	209
Total perpetual securities	0	2,890	51	2,941
Equity securities	14	5	3	22
Other assets:				
Interest rate swaps	0	0	1	1
Foreign currency swaps	0	264	162	426
Foreign currency forwards	0	129	0	129
Foreign currency options	0	2	0	2
Credit default swaps	0	0	2	2
Interest rate swaptions	0	38	0	38
Total other assets	0	433	165	598
Cash and cash equivalents	2,749	0	0	2,749
Total assets	$15,372	$47,215	$646	$63,233
Liabilities:				
Interest rate swaps	$0	$0	$1	$1
Foreign currency swaps	0	63	237	300
Foreign currency forwards	0	13	0	13
Foreign currency options	0	4	0	4
Credit default swaps	0	0	9	9
Interest rate swaptions	0	108	0	108
Total liabilities	$0	$188	$247	$435

(In millions)	December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Securities available for sale, carried at fair value:				
Fixed maturities:				
Government and agencies	$12,265	$732	$0	$12,997
Municipalities	0	1,195	0	1,195
Mortgage- and asset-backed securities	0	693	338	1,031
Public utilities	0	8,077	420	8,497
Sovereign and supranational	0	1,654	418	2,072
Banks/financial institutions	0	6,610	1,024	7,634
Other corporate	0	22,841	986	23,827
Total fixed maturities	12,265	41,802	3,186	57,253
Perpetual securities:				
Banks/financial institutions	0	3,735	215	3,950
Other corporate	0	352	0	352
Total perpetual securities	0	4,087	215	4,302
Equity securities	13	6	4	23
Other assets:				
Interest rate swaps	0	0	32	32
Foreign currency swaps	0	154	157	311
Credit default swaps	0	0	2	2
Total other assets	0	154	191	345
Cash and cash equivalents	2,041	0	0	2,041
Total assets	$14,319	$46,049	$3,596	$63,964
Liabilities:				
Interest rate swaps	$0	$0	$3	$3
Foreign currency swaps	0	0	329	329
Foreign currency forwards	0	535	0	535
Credit default swaps	0	0	67	67
Total liabilities	$0	$535	$399	$934

The following tables present the carrying amount and fair value categorized by fair value hierarchy level for the Company's financial instruments that are not carried at fair value.

	September 30, 2013				
(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	$24,708	$26,074	$0	$0	$26,074
Municipalities	432	0	481	0	481
Mortgage and asset-backed securities	66	0	23	46	69
Public utilities	4,359	0	4,343	0	4,343
Sovereign and supranational	3,219	0	3,275	0	3,275
Banks/financial institutions	6,905	0	6,555	0	6,555
Other corporate	3,918	0	3,959	0	3,959
Total assets	$43,607	$26,074	$18,636	$46	$44,756
Liabilities:					
Other policyholders’ funds	$5,739	$0	$0	$5,591	$5,591
Notes payable (excluding capital leases)	4,946	0	0	5,341	5,341
Total liabilities	$10,685	$0	$0	$10,932	$10,932

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(In millions)	December 31, 2012 Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Securities held to maturity, carried at amortized cost:					
Fixed maturities:					
Government and agencies	$32,043	$32,332	$0	$0	$32,332
Municipalities	492	0	520	0	520
Mortgage and asset-backed securities	90	0	30	64	94
Public utilities	4,924	0	5,051	0	5,051
Sovereign and supranational	3,209	0	3,317	0	3,317
Banks/financial institutions	9,211	0	8,991	0	8,991
Other corporate	4,457	0	4,536	0	4,536
Total assets	$54,426	$32,332	$22,445	$64	$54,841
Liabilities:					
Other policyholders’ funds	$5,319	$0	$0	$5,151	$5,151
Notes payable (excluding capital leases)	4,343	0	0	4,992	4,992
Obligation to Japanese policyholder protection corporation	23	0	0	23	23
Total liabilities	$9,685	$0	$0	$10,166	$10,166

Fair Value of Financial Instruments

U.S. GAAP requires disclosure of the fair value of certain financial instruments including those that are not carried at fair value. The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Liabilities for future policy benefits and unpaid policy claims are not financial instruments as defined by GAAP.

Fixed maturities, perpetual securities, and equity securities

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

Prior to March 31, 2013, we had used a discounted cash flow (DCF) pricing model to value certain of our privately issued securities. Our DCF pricing model incorporated an option adjusted spread and utilized various market inputs we obtained from both active and inactive markets. The estimated fair values developed by the DCF pricing model were most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads were derived from a widely used global bond index to create a credit matrix which took into account the current credit spread, ratings and remaining time to maturity, and subordination levels for securities that were included in the bond index. The index provided a broad-based measure of the global fixed-income bond market. Beginning March 31, 2013, we engaged a third party pricing vendor to develop valuation models to determine fair values of these securities to reflect the impact of the persistent economic environment and the changing regulatory framework. These models are also DCF models, but also use information from related markets, specifically the CDS market to estimate expected cash flows. These models take into consideration any unique characteristics of the securities and make various adjustments to arrive at an appropriate issuer-specific loss adjusted credit curve. This credit curve is then used with the relevant recovery rates to estimate expected cash flows and modeling of additional features, including illiquidity adjustments, if necessary, to price the bond by discounting those loss adjusted cash flows. In cases where a credit curve cannot be developed from the specific security features, the valuation methodology takes into consideration other market observable inputs, including: 1) the most appropriate comparable bond(s) of the issuer; 2) issuer-specific CDS spreads; 3) bonds or CDS spreads of comparable issuers with similar characteristics such as rating, geography, or sector; or 4) bond indices that are comparative in rating, industry, maturity and region.

The pricing data and market quotes we obtain from outside sources, including third party pricing services, are reviewed internally for reasonableness. If a fair value appears unreasonable, we will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, we may compare the inputs to relevant market indices and other performance measurements. The output of this analysis is presented to the Company's Valuations and Classifications Subcommittee, or VCS. Based on the analysis provided to the VCS, the valuation is confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. With the implementation of the pricing change associated with private placements previously noted, we have performed verification of the inputs and calculations in the models to confirm that the valuations represent reasonable estimates of fair value.

The fixed maturities classified as Level 3 consist of securities for which there are limited or no observable valuation inputs. For Level 3 securities that are investment grade, we estimate the fair value of these securities by obtaining non-binding broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. We consider these inputs to be unobservable. For Level 3 investments that are below-investment-grade securities, we consider a variety of significant valuation inputs in the valuation process, including forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, and certain probability assumptions. In obtaining these valuation inputs, we have determined that certain pricing assumptions and data used by our pricing sources are difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities.

Historically, we have not adjusted the quotes or prices we obtain from the pricing services and brokers we use.

The following tables present the pricing sources for the fair values of our fixed maturities, perpetual securities, and equity securities.

(In millions)	September 30, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$12,609	$657	$0	$13,266
Total government and agencies	12,609	657	0	13,266
Municipalities:				
Third party pricing vendor	0	1,057	0	1,057
Total municipalities	0	1,057	0	1,057
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	429	0	429
Broker/other	0	0	403	403
Total mortgage- and asset-backed securities	0	429	403	832
Public utilities:				
Third party pricing vendor	0	7,845	0	7,845
Broker/other	0	170	0	170
Total public utilities	0	8,015	0	8,015
Sovereign and supranational:				
Third party pricing vendor	0	1,674	0	1,674
Broker/other	0	6	0	6
Total sovereign and supranational	0	1,680	0	1,680
Banks/financial institutions:				
Third party pricing vendor	0	6,713	0	6,713
Broker/other	0	0	24	24
Total banks/financial institutions	0	6,713	24	6,737
Other corporate:				
Third party pricing vendor	0	25,307	0	25,307
Broker/other	0	29	0	29
Total other corporate	0	25,336	0	25,336
Total fixed maturities	12,609	43,887	427	56,923
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	2,681	51	2,732
Total banks/financial institutions	0	2,681	51	2,732
Other corporate:				
Third party pricing vendor	0	209	0	209
Total other corporate	0	209	0	209
Total perpetual securities	0	2,890	51	2,941
Equity securities:				
Third party pricing vendor	14	5	0	19
Broker/other	0	0	3	3

Total equity securities	14	5	3	22
Total securities available for sale	$12,623	$46,782	$481	$59,886

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(In millions)	September 30, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$26,074	$0	$0	$26,074
Total government and agencies	26,074	0	0	26,074
Municipalities:				
Third party pricing vendor	0	481	0	481
Total municipalities	0	481	0	481
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	23	0	23
Broker/other	0	0	46	46
Total mortgage- and asset-backed securities	0	23	46	69
Public utilities:				
Third party pricing vendor	0	4,232	0	4,232
Broker/other	0	111	0	111
Total public utilities	0	4,343	0	4,343
Sovereign and supranational:				
Third party pricing vendor	0	3,275	0	3,275
Total sovereign and supranational	0	3,275	0	3,275
Banks/financial institutions:				
Third party pricing vendor	0	6,555	0	6,555
Total banks/financial institutions	0	6,555	0	6,555
Other corporate:				
Third party pricing vendor	0	3,959	0	3,959
Total other corporate	0	3,959	0	3,959
Total securities held to maturity	$26,074	$18,636	$46	$44,756

(In millions)	December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$12,265	$685	$0	$12,950
DCF pricing model	0	47	0	47
Total government and agencies	12,265	732	0	12,997
Municipalities:				
Third party pricing vendor	0	1,177	0	1,177
DCF pricing model	0	18	0	18
Total municipalities	0	1,195	0	1,195
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	682	0	682
DCF pricing model	0	11	0	11
Broker/other	0	0	338	338
Total mortgage- and asset-backed securities	0	693	338	1,031
Public utilities:				
Third party pricing vendor	0	5,144	0	5,144
DCF pricing model	0	2,908	420	3,328
Broker/other	0	25	0	25
Total public utilities	0	8,077	420	8,497
Sovereign and supranational:				
Third party pricing vendor	0	540	0	540
DCF pricing model	0	619	418	1,037
Broker/other	0	495	0	495
Total sovereign and supranational	0	1,654	418	2,072
Banks/financial institutions:				
Third party pricing vendor	0	4,257	0	4,257
DCF pricing model	0	2,136	444	2,580
Broker/other	0	217	580	797
Total banks/financial institutions	0	6,610	1,024	7,634
Other corporate:				
Third party pricing vendor	0	18,093	0	18,093
DCF pricing model	0	4,747	575	5,322
Broker/other	0	1	411	412
Total other corporate	0	22,841	986	23,827
Total fixed maturities	12,265	41,802	3,186	57,253
Perpetual securities:				
Banks/financial institutions:				
Third party pricing vendor	0	283	0	283
DCF pricing model	0	3,452	215	3,667

Total banks/financial institutions	0	3,735	215	3,950

(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Other corporate:				
DCF pricing model	0	352	0	352
Total other corporate	0	352	0	352
Total perpetual securities	0	4,087	215	4,302
Equity securities:				
Third party pricing vendor	13	0	0	13
DCF pricing model	0	6	0	6
Broker/other	0	0	4	4
Total equity securities	13	6	4	23
Total securities available for sale	$12,278	$45,895	$3,405	$61,578

	December 31, 2012			
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Government and agencies:				
Third party pricing vendor	$32,332	$0	$0	$32,332
Total government and agencies	32,332	0	0	32,332
Municipalities:				
Third party pricing vendor	0	464	0	464
DCF pricing model	0	56	0	56
Total municipalities	0	520	0	520
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	30	0	30
Broker/other	0	0	64	64
Total mortgage- and asset-backed securities	0	30	64	94
Public utilities:				
Third party pricing vendor	0	58	0	58
DCF pricing model	0	4,993	0	4,993
Total public utilities	0	5,051	0	5,051
Sovereign and supranational:				
Third party pricing vendor	0	370	0	370
DCF pricing model	0	2,947	0	2,947
Total sovereign and supranational	0	3,317	0	3,317
Banks/financial institutions:				
Third party pricing vendor	0	254	0	254
DCF pricing model	0	8,737	0	8,737

Total banks/financial institutions	0	8,991	0	8,991
Other corporate:				
Third party pricing vendor	0	122	0	122
DCF pricing model	0	4,414	0	4,414
Total other corporate	0	4,536	0	4,536
Total securities held to maturity	$32,332	$22,445	$64	$54,841

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The following is a discussion of the determination of fair value of our remaining financial instruments.

Derivatives

We use derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified in the same fair value hierarchy level as the associated asset. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility.

The fair values of the foreign currency forwards and interest rate swaptions associated with certain fixed-maturity securities, the foreign currency options, the foreign currency swaps associated with our senior notes and subordinated debentures, and the interest rate swap associated with our yen-denominated notes are based on the amounts we would expect to receive or pay. The determination of the fair value of these derivatives is based on observable market inputs, therefore they are classified as Level 2.

For derivatives associated with VIEs where we are the primary beneficiary, we are not the direct counterparty to the swap contracts. As a result, the fair value measurements incorporate the credit risk of the collateral associated with the VIE. We receive valuations from a third party pricing vendor for these derivatives. Based on an analysis of these derivatives and a review of the methodology employed by the pricing vendor, we determined that due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data. As a result, the derivatives associated with our consolidated VIEs are classified as Level 3 of the fair value hierarchy.

Other policyholders' funds

The largest component of the other policyholders' funds liability is our annuity line of business in Aflac Japan. Our annuities have fixed benefits and premiums, with short payouts that are almost all annuity-certain. For this product, we estimated the fair value to be equal to the cash surrender value. This is analogous to the value paid to policyholders on the valuation date if they were to surrender their policy. We periodically check the cash value against discounted cash flow projections for reasonableness. We consider our inputs for this valuation to be unobservable and have accordingly classified this valuation as Level 3.

Notes payable

The fair values of our publicly issued notes payable classified as Level 3 were obtained from a limited number of independent brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. We consider these inputs to be unobservable. The fair values of our yen-denominated loans approximate their carrying values.

Obligation to Japanese policyholder protection corporation

The fair value of the obligation to the Japanese policyholder protection corporation classified as Level 3 is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years. We consider our inputs for this valuation to be unobservable. As of September 30, 2013, our estimated obligation to the Japanese policyholder protection corporation was immaterial.

Level 3 Rollforward and Transfers between Hierarchy Levels

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

Three Months Ended
September 30, 2013

	Fixed Maturities					Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$399	$ 0	$ 0	$ 25	$ 0	$ 49	$ 3	$21	$ (126)	$(44)	$327
Realized investment gains (losses) included in earnings	0	0	0	0	0	0	0	(1)	49	4	52
Unrealized gains (losses) included in other comprehensive income (loss)	7	0	0	(1)	0	2	0	0	2	0	10
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	(20)	0	33	13
Settlements	(3)	0	0	0	0	0	0	0	0	0	(3)
Transfers into Level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0	0	0	0	0
Balance, end of period	$403	$ 0	$ 0	$ 24	$ 0	$ 51	$ 3	$0	$ (75)	$(7)	$399
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$(1)	$ 49	$4	$52

[1] Derivative assets and liabilities are presented net

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Three Months Ended
September 30, 2012

	Fixed Maturities					Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$379	$418	$ 436	$ 1,114	$ 1,031	$ 307	$ 4	$27	$ (113)	$(107)	$3,496
Realized investment gains (losses) included in earnings	0	0	0	0	0	(27)	0	7	76	25	81
Unrealized gains (losses) included in other comprehensive income (loss)	11	31	24	103	42	90	0	0	2	0	303
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0	0	0	0
Settlements	(5)	0	0	0	0	0	0	0	(2)	0	(7)
Transfers into Level 3	0	0	0	206 [2]	0	0	0	0	0	0	206
Transfers out of Level 3	0	0	0	0	0	0	0	0	0	0	0
Balance, end of period	$385	$449	$ 460	$ 1,423	$ 1,073	$ 370	$ 4	$34	$ (37)	$(82)	$4,079
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$0	$ 0	$ 0	$ 0	$ (27)	$ 0	$7	$ 76	$25	$81

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price

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Nine Months Ended
September 30, 2013

	Fixed Maturities					Perpetual Securities	Equity Securities	Derivatives [1]			
(In millions)	Mortgage- and Asset-Backed Securities	Public Utilities	Sovereign and Supranational	Banks/ Financial Institutions	Other Corporate	Banks/ Financial Institutions		Interest Rate Swaps	Foreign Currency Swaps	Credit Default Swaps	Total
Balance, beginning of period	$338	$420	$418	$1,024	$986	$215	$4	$29	$(172)	$(65)	$3,197
Realized investment gains (losses) included in earnings	0	0	0	0	0	0	0	(9)	102	25	118
Unrealized gains (losses) included in other comprehensive income (loss)	(42)	(20)	0	(3)	0	2	(1)	0	(5)	0	(69)
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	(400)	0	0	0	0	0	(20)	0	33	(387)
Settlements	(9)	0	0	0	0	0	0	0	0	0	(9)
Transfers into Level 3[2]	125	0	0	0	0	49	0	0	0	0	174
Transfers out of Level 3[3]	(9)	0	(418)	(997)	(986)	(215)	0	0	0	0	(2,625)
Balance, end of period	$403	$0	$0	$24	$0	$51	$3	$0	$(75)	$(7)	$399
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$0	$0	$0	$0	$0	$0	$0	$(9)	$102	$25	$118

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price
[3] A result of changing our pricing methodology to a valuation method that uses observable market data as significant inputs to estimate fair value

Nine Months Ended
September 30, 2012

(In millions)	Fixed Maturities: Mortgage- and Asset-Backed Securities	Fixed Maturities: Public Utilities	Fixed Maturities: Sovereign and Supranational	Fixed Maturities: Banks/Financial Institutions	Fixed Maturities: Other Corporate	Perpetual Securities: Banks/Financial Institutions	Equity Securities	Derivatives [1]: Interest Rate Swaps	Derivatives [1]: Foreign Currency Swaps	Derivatives [1]: Credit Default Swaps	Total
Balance, beginning of period	$394	$422	$434	$1,074	$1,105	$526	$4	$30	$(56)	$(130)	$3,803
Realized investment gains (losses) included in earnings	(3)	0	0	0	2	22	0	4	58	48	131
Unrealized gains (losses) included in other comprehensive income (loss)	10	27	26	143	0	78	0	0	(6)	0	278
Purchases, issuances, sales and settlements:											
Purchases	0	0	0	0	0	0	0	0	0	0	0
Issuances	0	0	0	0	0	0	0	0	0	0	0
Sales	0	0	0	0	(34)	(256)	0	0	0	0	(290)
Settlements	(16)	0	0	0	0	0	0	0	(33)	0	(49)
Transfers into Level 3	0	0	0	206 [2]	0	0	0	0	0	0	206
Transfers out of Level 3	0	0	0	0	0	0	0	0	0	0	0
Balance, end of period	$385	$449	$460	$1,423	$1,073	$370	$4	$34	$(37)	$(82)	$4,079
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in realized investment gains (losses)	$(3)	$0	$0	$0	$0	$(27)	$0	$4	$58	$48	$80

[1] Derivative assets and liabilities are presented net
[2] Due to a lack of visibility to observe significant inputs to price

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Transfers into and/or out of Level 3 are attributable to a change in the observability of inputs. The most significant transfer out of Level 3 into Level 2 during the nine-month period ended September 30, 2013 related to our callable reverse dual-currency bonds (RDCs). RDCs are securities that have principal denominated in yen while paying U.S. dollar (USD) coupons. The market standard approach is to use implied volatility to value options or instruments with optionality because historical volatility may not represent current market participants' expectations about future volatility. Under our previous valuation approach, we used historical foreign exchange volatility as an input for valuing these investments. Given the importance of this input to the overall valuation of these RDCs and the determination of this input to be unobservable, we made the decision at December 31, 2011 to move these holdings to Level 3 of the fair value hierarchy. During the first quarter of 2013, we implemented a new valuation methodology for these securities that relies on comparable bonds in the market, the observable forward foreign exchange curve and other market inputs. Given that the significant inputs to the valuation of these items are now based on observable data, in the first quarter of 2013, we transferred these bonds from Level 3 to Level 2 of the fair value hierarchy.

In addition to the callable RDCs, we transferred certain other corporate securities from Level 3 to Level 2 in the first quarter of 2013. Prices for these securities were previously obtained from brokers and/or arrangers with minimal transparency around how the valuation was determined. Similar to the RDCs, these securities are now valued using the same methodology described above for our other privately issued securities.

There were no transfers between Level 1 and 2 for the three- and nine-month periods ended September 30, 2013 and 2012.

Fair Value Sensitivity

Level 3 Significant Unobservable Input Sensitivity

The following tables summarize the significant unobservable inputs used in the valuation of our Level 3 available-for-sale investments and derivatives. Included in the tables are the inputs or range of possible inputs that have an effect on the overall valuation of the financial instruments.
September 30, 2013

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturities:					
Mortgage- and asset-backed securities	$403	Consensus pricing	Offered quotes	N/A	(e)
Banks/financial institutions	24	Consensus pricing	Offered quotes	N/A	(e)
Perpetual securities:					
Banks/financial institutions	51	Consensus pricing	Offered quotes	N/A	(e)
Equity securities	3	Net asset value	Offered quotes	$1-$835 ($8)	
Other assets:					
Interest rate swaps	1	Discounted cash flow	Base correlation	55% - 69% (62%)	(a)
			CDS spreads	82 - 138 (115) bps	
			Recovery rate	37.00%	
Foreign currency swaps	49	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			CDS spreads	35 - 150 bps	
			Foreign exchange rates	21.35%	(d)
	33	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			CDS spreads	20 - 128 bps	
	80	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			Foreign exchange rates	21.35%	(d)
Credit default swaps	2	Discounted cash flow	Base correlation	55% - 69% (62%)	(a)
			CDS spreads	82 - 138 (115) bps	
			Recovery rate	37.00%	

Total assets	$646

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate
(e) N/A represents securities where we receive unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.

September 30, 2013

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Interest rate swaps	$1	Discounted cash flow	Base correlation	55% - 69% (62%)	(a)
			CDS spreads	82 - 138 (115) bps	
			Recovery rate	37.00%	
Foreign currency swaps	85	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			CDS spreads	35 - 150 bps	
			Foreign exchange rates	21.35%	(d)
	21	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			CDS spreads	19 - 273 bps	
	131	Discounted cash flow	Interest rates (USD)	2.77% - 3.68%	(b)
			Interest rates (JPY)	.86% - 1.97%	(c)
			Foreign exchange rates	21.35%	(d)
Credit default swaps	9	Discounted cash flow	Base correlations	55% - 69% (62%)	(a)
			CDS spreads	82 - 138 (115) bps	
			Recovery rate	37.00%	
Total liabilities	$247				

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate

December 31, 2012

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Assets:					
Securities available for sale, carried at fair value:					
Fixed maturities:					
Mortgage- and asset-backed securities	$338	Consensus pricing	Offered quotes	N/A	(e)
Public utilities	420	Discounted cash flow	Historical volatility	7.36%	
Sovereign and supranational	418	Discounted cash flow	Historical volatility	7.36%	
Banks/financial institutions	444	Discounted cash flow	Historical volatility	7.36%	
	580	Consensus pricing	Offered quotes	N/A	(e)
Other corporate	575	Discounted cash flow	Historical volatility	7.36%	
	411	Consensus pricing	Offered quotes	N/A	(e)
Perpetual securities:					
Banks/financial institutions	215	Discounted cash flow	Historical volatility	7.36%	
Equity securities	4	Net asset value	Offered quotes	$2-$943 ($8)	
Other assets:					
Interest rate swaps	32	Discounted cash flow	Base correlation	49% - 50%	(a)
			CDS spreads	91 - 152 bps	
			Recovery rate	37.00%	
Foreign currency swaps	51	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			CDS spreads	12 - 117 bps	
			Foreign exchange rates	20.65%	(d)
	4	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			CDS spreads	12 - 126 bps	
	102	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			Foreign exchange rates	20.65%	(d)
Credit default swaps	2		Base correlation	49% - 50%	(a)

		Discounted cash flow		
			CDS spreads	91 - 152 bps
			Recovery rate	37.00%
Total assets	$3,596			

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate
(e) N/A represents securities where we receive unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.

December 31, 2012

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Liabilities:					
Interest rate swaps	$3	Discounted cash flow	Base correlation	49% - 50%	(a)
			CDS spreads	91 - 152 bps	
			Recovery rate	37.00%	
Foreign currency swaps	118	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			CDS spreads	22 - 141 bps	
			Foreign exchange rates	20.65%	(d)
	60	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			CDS spreads	25 - 186 bps	
	151	Discounted cash flow	Interest rates (USD)	1.84% - 2.84%	(b)
			Interest rates (JPY)	.84% - 2.05%	(c)
			Foreign exchange rates	20.65%	(d)
Credit default swaps	67	Discounted cash flow	Base correlations	49% - 50%	(a)
			CDS spreads	91 - 152 bps	
			Recovery rate	37.00%	
Total liabilities	$399				

(a) Weighted-average range of base correlations for our bespoke tranches for attachment and detachment points corresponding to market indices
(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of our swaps
(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of our swaps
(d) Based on 10 year volatility of JPY/USD exchange rate

The following is a discussion of the significant unobservable inputs or valuation technique used in determining the fair value of securities and derivatives classified as Level 3.

Annualized Historical Foreign Exchange Volatility

We own a portfolio of callable reverse dual-currency bonds (RDCs). RDCs are securities that have principal denominated in yen while paying U.S. dollar (USD) coupons. The market standard approach is to use implied volatility to value options or instruments with optionality because historical volatility may not represent current market participants' expectations about future volatility. Our use of historical foreign exchange volatility as an input for valuing these investments could result in a significant increase or decrease in fair value measurement, given the importance of this input to the overall valuation. Prior to the first quarter of 2013, historical volatility was an unobservable input in the determination of fair value of public utilities, sovereign and supranational, certain banks/financial institutions, and certain other corporate investments. As of the first quarter of 2013, we are no longer using this input in the valuation of these securities due to a change in valuation methodology as discussed previously.

Net Asset Value

We hold certain unlisted equity securities whose fair value is derived based on the financial statements published by the investee. These securities do not trade on an active market and the valuations derived are dependent on the availability of timely financial reporting of the investee. Net asset value is an unobservable input in the determination of fair value of equity securities.

Offered Quotes

In circumstances where our valuation model price is overridden because it implies a value that is not consistent with current market conditions, we will solicit bids from a limited number of brokers. We also receive unadjusted prices from brokers for our mortgage and asset-backed securities. These quotes are non-binding but are reflective of valuation best estimates at that particular point in time. Offered quotes are an unobservable input in the determination of fair value of mortgage- and asset-backed securities, certain banks/financial institutions, certain other corporate, and equity securities investments.

Interest Rates, CDS Spreads, Foreign Exchange Rates

The significant drivers of the valuation of the interest and foreign exchange swaps are interest rates, foreign exchange rates and CDS spreads. Our swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. Since most of our yen-denominated cross currency swaps are in a net liability position, an increase in interest rates will decrease the liabilities and increase the value of the swap.
Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal receivables at the termination of the swap. An increase in yen interest rates will decrease the value of the final settlement foreign exchange receivables and decrease the value of the swap, and an increase in USD interest rates increase the swap value.
A similar sensitivity pattern is observed for the foreign exchange rates. When the spot U.S. dollar/Japanese yen (USD/JPY) foreign exchange rate decreases and the swap is receiving a final exchange payment in JPY, the swap value will increase due to the appreciation of the JPY. Most of our swaps are designed to receive payments in JPY at the termination and will thus be impacted by the USD/JPY foreign exchange rate in this way. In cases where there is no final foreign exchange receivable in JPY and we are paying JPY as interest payments and receiving USD, a decrease in the foreign exchange rate will lead to a decrease in the swap value.

The extinguisher feature in most of our swaps results in a cessation of cash flows and no further payments between the parties to the swap in the event of a default on the referenced or underlying collateral. To price this feature, we apply the survival probability of the referenced entity to the projected cash flows. The survival probability uses the CDS spreads and recovery rates to adjust the present value of the cash flows. For extinguisher swaps with positive values, an increase in CDS spreads decreases the likelihood of receiving the final exchange payments and reduces the value of the swap.

Due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data.

Interest rates, CDS spreads, and foreign exchange rates are unobservable inputs in the determination of fair value of foreign currency swaps.

Base Correlations, CDS Spreads, Recovery Rates

Our CDOs are tranches on baskets of single-name credit default swaps. The risks in these types of synthetic CDOs come from the single-name CDS risk and the correlations between the single names. The valuation of synthetic CDOs is dependent on the calibration of market prices for interest rates, single name CDS default probabilities and base correlation using financial modeling tools. Since there is limited or no observable data available for these tranches, these base correlations must be obtained from commonly traded market tranches such as the CDX and iTraxx indices. From the historical prices of these indices, base correlations can be obtained to develop a pricing curve of CDOs with different seniorities. Since the reference entities of the market indices do not match those in our portfolio underlying the synthetic CDO to be valued, several processing steps are taken to map the securities in our portfolio to the indices. With the base correlation determined and the appropriate spreads selected, a valuation is calculated. An increase in the CDS spreads in the underlying portfolio leads to a decrease in the value due to higher probability of defaults and losses. The impact on the valuation due to base correlation depends on a number of factors, including the riskiness between market tranches and the modeled tranche based on our portfolio and the equivalence between detachment points in these tranches. Generally speaking, an increase in base correlation will decrease the value of the senior tranches while increasing the value of junior tranches. This may result in a positive or negative value change.
The CDO tranches in our portfolio are junior tranches and, due to the low level of credit support for these tranches, exhibit equity-like behavior. As a result, an increase in recovery rates tends to cause their values to decrease.
Our interest rate swaps are linked to the underlying synthetic CDOs. The valuation of these swaps is performed using a similar approach to that of the synthetic CDOs themselves; that is, the base correlation model is used to ensure consistency between the synthetic CDOs and the swaps.

Base correlations, CDS spreads, and recovery rates are unobservable inputs in the determination of fair value of credit default swaps and interest rate swaps.

For additional information on our investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

6. REINSURANCE

Effective as of September 30, 2013, we entered into a coinsurance reinsurance transaction whereby we ceded 33.3% of the hospital benefit of one of Aflac Japan’s closed medical in-force blocks of business. We recorded the gain related to the transaction as a deferred profit liability on business sold through reinsurance on our consolidated balance sheets. The deferred profit liability of $652 million, included in future policy benefits in the consolidated balance sheet, will be amortized into income over the expected lives of the policies. The corresponding reinsurance recoverable is included in other assets in the consolidated balance sheet. As of September 30, 2013, no ceded premiums or claims have been incurred or paid under the transaction. Reinsurance does not relieve us from our obligations to policyholders. In the event that the reinsurer is unable to meet their obligations, we remain liable for the reinsured claims.

7. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	September 30, 2013		December 31, 2012	
3.45% senior notes due August 2015	$300		$300	
2.65% senior notes due February 2017	656	(1)	657	(1)
8.50% senior notes due May 2019	850		850	
4.00% senior notes due February 2022	349	(2)	349	(2)
3.625% senior notes due June 2023	700		0	
6.90% senior notes due December 2039	396	(2)	396	(2)
6.45% senior notes due August 2040	448	(2)	448	(2)
5.50% subordinated debentures due September 2052	500		500	
Yen-denominated Uridashi notes:				
2.26% notes due September 2016 (principal amount 8 billion yen)	82		92	
Yen-denominated Samurai notes:				
1.47% notes due July 2014 (principal amount 28.7 billion yen)	294		331	
1.84% notes due July 2016 (principal amount 15.8 billion yen)	162		182	
Variable interest rate notes due July 2014 (1.31% in 2013 and 1.34% in 2012, principal amount 5.5 billion yen)	56		64	
Yen-denominated loans:				
3.60% loan due July 2015 (principal amount 10 billion yen)	102		116	
3.00% loan due August 2015 (principal amount 5 billion yen)	51		58	
Capitalized lease obligations payable through 2022	7		9	
Total notes payable	$4,953		$4,352	

(1) Principal amount plus an issuance premium that is being amortized over the life of the notes
(2) Principal amount net of an issuance discount that is being amortized over the life of the notes

In June 2013, the Parent Company issued $700 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 3.625% per annum, payable semi-annually, and have a ten-year maturity. These notes are redeemable at our option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semi-annual basis at the treasury rate plus 20 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date. We entered into cross-currency interest rate swaps to reduce interest expense by converting the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations. By entering into these swaps, we economically converted our $700 million liability into a 69.8 billion yen liability and reduced the interest rate on this debt from 3.625% in dollars to 1.50% in yen.

In March 2013, we terminated our senior unsecured revolving credit facility that was due to expire in June 2013, and the Parent Company and Aflac entered into a 5-year senior unsecured revolving credit facility agreement with a syndicate of financial institutions that provides for borrowings in the amount of 50 billion yen. This credit agreement provides for borrowings in Japanese yen or the equivalent of Japanese yen in U.S. dollars on a revolving basis. Borrowings will bear interest at LIBOR plus the applicable margin of 1.125%. In addition, the Parent Company and Aflac are required to pay a facility fee of .125% on the commitments. As of September 30, 2013, we did not have any borrowings outstanding under our 50 billion yen revolving credit agreement. Borrowings under the credit agreement may be used for general corporate purposes, including a capital contingency plan for our Japanese operations. Borrowings under the financing agreement mature at the termination date of the credit agreement. The agreement requires compliance with certain financial covenants on a quarterly basis. This credit agreement will expire on the earlier of (a) March 29, 2018, or (b) the date of termination of the commitments upon an event of default as defined in the agreement.

We were in compliance with all of the covenants of our notes payable and line of credit at September 30, 2013. No events of default or defaults occurred during the nine-month period ended September 30, 2013.

For additional information, see Notes 4 and 8 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2012.

8. SHAREHOLDERS' EQUITY

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

(In thousands of shares)	2013	2012
Common stock - issued:		
Balance, beginning of period	665,239	663,639
Exercise of stock options and issuance of restricted shares	1,254	1,157
Balance, end of period	666,493	664,796
Treasury stock:		
Balance, beginning of period	197,453	197,329
Purchases of treasury stock:		
Open market	5,571	0
Other	163	270
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	(1,080)	(1,306)
Exercise of stock options	(1,161)	(94)
Other	(163)	(127)
Balance, end of period	200,783	196,072
Shares outstanding, end of period	465,710	468,724

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Anti-dilutive share-based awards	1,716	6,289	2,858	6,710

Share Repurchase Program

During the first nine months of 2013, we repurchased 5.6 million shares of our common stock in the open market for $298 million as part of our share repurchase program. We did not repurchase any shares of our common stock in the open market in the first nine months of 2012. As of September 30, 2013, a remaining balance of 16.9 million shares of our common stock was available for purchase under a share repurchase authorization by our board of directors in 2008.

Reclassifications from Accumulated Other Comprehensive Income

The tables below are reconciliations of accumulated other comprehensive income by component for the following periods.

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Changes in Accumulated Other Comprehensive Income
Three Months Ended
September 30, 2013

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$(453)	$(198)	$(11)	$(178)	$(840)
Other comprehensive income before reclassification	14	402	3	(2)	417
Amounts reclassified from accumulated other comprehensive income	21	(61)	0	2	(38)
Net current-period other comprehensive income	35	341	3	0	379
Balance, end of period	$(418)	$143	$(8)	$(178)	$(461)

All amounts in the table above are net of tax. Amounts in parentheses indicate debits.

Nine Months Ended
September 30, 2013

(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
Balance, beginning of period	$333	$2,570	$(5)	$(183)	$2,715
Other comprehensive income before reclassification	(756)	(2,284)	(3)	(3)	(3,046)
Amounts reclassified from accumulated other comprehensive income	5	(143)	0	8	(130)
Net current-period other comprehensive income	(751)	(2,427)	(3)	5	(3,176)
Balance, end of period	$(418)	$143	$(8)	$(178)	$(461)

All amounts in the table above are net of tax. Amounts in parentheses indicate debits.

The tables below summarize the amounts reclassified from each component of accumulated other comprehensive income based on source for the following periods.

Reclassifications Out of Accumulated Other Comprehensive Income

(In millions) Details about Accumulated Other Comprehensive Income Components	Three Months Ended September 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income[1]	Affected Line Item in the Statements of Earnings
Unrealized foreign currency translation gains (losses)	$(32)	Sales and redemptions
	11	Tax (expense) or benefit[2]
	$(21)	Net of tax
Unrealized gains (losses) on available-for-sale securities	$104	Sales and redemptions
	(10)	Other-than-temporary impairment losses realized
	94	Total before tax
	(33)	Tax (expense) or benefit[2]
	$61	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	$(4)	Acquisition and operating expenses[3]
	2	Tax (expense) or benefit[2]
	$(2)	Net of tax
Total reclassifications for the period	$38	Net of tax

[1]Amounts in parentheses indicate debits.
[2] Based on 35% tax rate
[3] These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see
Note 10 for additional details).

(In millions) Details about Accumulated Other Comprehensive Income Components	Nine Months Ended September 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income[1]	Affected Line Item in the Statements of Earnings
Unrealized foreign currency translation gains (losses)	$(8)	Sales and redemptions
	3	Tax (expense) or benefit[2]
	$(5)	Net of tax
Unrealized gains (losses) on available-for-sale securities	$285	Sales and redemptions
	(65)	Other-than-temporary impairment losses realized
	220	Total before tax
	(77)	Tax (expense) or benefit[2]
	$143	Net of tax
Amortization of defined benefit pension items:		

Actuarial gains (losses)	$(13)	Acquisition and operating expenses[3]
	5	Tax (expense) or benefit[2]
	$(8)	Net of tax
Total reclassifications for the period	$130	Net of tax

[1]Amounts in parentheses indicate debits.
[2] Based on 35% tax rate
[3] These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 10 for additional details).

9. SHARE-BASED COMPENSATION

As of September 30, 2013, the Company has outstanding share-based awards under two long-term incentive compensation plans.

The first plan, which expired in February 2007, is a stock option plan which allowed grants for incentive stock options (ISOs) to employees and non-qualifying stock options (NQSOs) to employees and non-employee directors. The options have a term of 10 years. The exercise price of options granted under this plan is equal to the fair market value of a share of the Company's common stock at the date of grant. Options granted before the plan's expiration date remain outstanding in accordance with their terms.

The second long-term incentive compensation plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, restricted stock, and stock appreciation rights. The ISOs and NQSOs have a term of 10 years, and the share-based awards generally vest based upon time-based conditions or time- and performance-based conditions. Time-based vesting generally occurs after three years. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. As of September 30, 2013, approximately 12 million shares were available for future grants under this plan, and the only performance-based awards issued and outstanding were restricted stock awards.

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

The following table provides information on stock options outstanding and exercisable at September 30, 2013.

	Stock Option Shares (in thousands)	Weighted-Average Remaining Term (in years)	Aggregate Intrinsic Value (in millions)	Weighted-Average Exercise Price Per Share
Outstanding	11,261	4.7	$175	$46.45
Exercisable	9,261	3.9	154	45.40

We received cash from the exercise of stock options in the amount of $69 million during the first nine months of 2013, compared with $14 million in the first nine months of 2012. The tax benefit realized as a result of stock option exercises and restricted stock releases was $19 million in the first nine months of 2013, compared with $17 million in the first nine months of 2012.

As of September 30, 2013, total compensation cost not yet recognized in our financial statements related to restricted stock awards was $48 million, of which $25 million (859 thousand shares) was related to restricted stock awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately 1.7 years. There are no other contractual terms covering restricted stock awards once vested.

For additional information on our long-term share-based compensation plans and the types of share-based awards, see Note 11 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2012.

10. BENEFIT PLANS

We have funded defined benefit plans in Japan and the United States, which cover substantially all of our full-time employees. Additionally, we maintain non-qualified, unfunded supplemental retirement plans that provide defined pension benefits in excess of limits imposed by federal tax law for certain Japanese, U.S. and former employees.

We provide certain health care benefits for eligible U.S. retired employees, their beneficiaries and covered dependents ("other postretirement benefits"). The health care plan is contributory and unfunded. Substantially all of our U.S. employees may become eligible to receive other postretirement benefits if they retire at age 55 or older with at least 15 years of service or if they retire when their age plus service, in years, equals or exceeds 80 (rule of 80). At retirement, an employee is given an opportunity to elect continuation of coverage under our medical plan until age 65. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

On October 1, 2013, a change was made to postretirement medical benefits to limit the eligibility for the benefits beginning January 1, 2014 to include the following: (1) active employees who have met the rule of 80; (2) active employees who are age 55 or older and have met the 15 years of service requirement; (3) active employees who will meet the rule of 80 in the next five years; (4) active employees who are age 55 or older and who will meet the 15 years of service requirement within the next five years; and (5) current retirees. Effective October 1, 2013, this change will be accounted for as a negative plan amendment and will result in a reduction to the postretirement benefit obligation of approximately $51 million, with an offset to accumulated other comprehensive income (AOCI). This reduction will be amortized as a reduction to net periodic benefit cost over three years beginning in the fourth quarter of 2013. The postretirement plan obligation will be remeasured using a discount rate of 4.75% as of October 1, 2013.

Pension and other postretirement benefit expenses, included in acquisition and operating expenses in the consolidated statement of earnings, included the following components:

	Three Months Ended September 30,					
	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
(In millions)	2013	2012	2013	2012	2013	2012
Components of net periodic benefit cost:						
Service cost	$4	$5	$5	$5	$2	$1
Interest cost	2	3	7			