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AFLAC INC  
Form 10-Q  
May 02, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

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(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. ☒ Yes ☐ No

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

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

☐ Yes ☒ No

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

Class

April 24, 2014

Common Stock, \$.10 Par Value

454,144,039

Aflac Incorporated and Subsidiaries  
 Quarterly Report on Form 10-Q  
 For the Quarter Ended March 31, 2014  
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The March 31, 2014, and 2013, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of March 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the three-month periods ended March 31, 2014 and 2013. 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, 2013, 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 27, 2014, 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. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia  
May 2, 2014

Aflac Incorporated and Subsidiaries  
Consolidated Statements of Earnings

| (In millions, except for share and per-share amounts - Unaudited)                                  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2014                            | 2013    |
| Revenues:  |                                 |         |
| Net premiums, principally supplemental health insurance  | \$4,854                         | \$5,184 |
| Net investment income  | 827                             | 833     |
| Realized investment gains (losses):  |                                 |         |
| Other-than-temporary impairment losses realized  | (3 )                            | (55 )   |
| Sales and redemptions  | 41                              | 119     |
| Derivative and other gains (losses)  | (84 )                           | 92      |
| Total realized investment gains (losses)   | (46 )                           | 156     |
| Other income   | 5                               | 35      |
| Total revenues   | 5,640                           | 6,208   |
| Benefits and expenses:   |                                 |         |
| Benefits and claims, net   | 3,220                           | 3,521   |
| Acquisition and operating expenses:  |                                 |         |
| Amortization of deferred policy acquisition costs  | 294                             | 283     |
| Insurance commissions  | 366                             | 392     |
| Insurance expenses   | 534                             | 534     |
| Interest expense   | 80                              | 71      |
| Other operating expenses   | 42                              | 46      |
| Total acquisition and operating expenses   | 1,316                           | 1,326   |
| Total benefits and expenses  | 4,536                           | 4,847   |
| Earnings before income taxes   | 1,104                           | 1,361   |
| Income taxes   | 372                             | 469     |
| Net earnings   | \$732                           | \$892   |
| Net earnings per share:  |                                 |         |
| Basic  | \$1.61                          | \$1.91  |
| Diluted  | 1.60                            | 1.90    |
| Weighted-average outstanding common shares used in<br>computing earnings per share (In thousands): |                                 |         |
| Basic  | 454,731                         | 466,462 |
| Diluted  | 457,699                         | 469,124 |
| Cash dividends per share   | \$.37                           | \$.35   |
| See the accompanying Notes to the Consolidated Financial Statements.                               |                                 |         |

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

| (In millions - Unaudited)   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2014                            | 2013     |
| Net earnings  | \$732                           | \$892    |
| Other comprehensive income (loss) before income taxes:  |                                 |          |
| Unrealized foreign currency translation gains (losses) during period                                      | (57 )                           | (188 )   |
| Unrealized gains (losses) on investment securities:   |                                 |          |
| Unrealized holding gains (losses) on investment securities during period                                  | 1,399                           | (874 )   |
| Reclassification adjustment for realized (gains) losses on investment securities included in net earnings | (2 )                            | (58 )    |
| Unrealized gains (losses) on derivatives during period  | (1 )                            | (7 )     |
| Pension liability adjustment during period  | (1 )                            | 5        |
| Total other comprehensive income (loss) before income taxes   | 1,338                           | (1,122 ) |
| Income tax expense (benefit) related to items of other comprehensive income (loss)                        | 468                             | (58 )    |
| Other comprehensive income (loss), net of income taxes  | 870                             | (1,064 ) |
| Total comprehensive income (loss)   | \$1,602                         | \$(172 ) |
| See the accompanying Notes to the Consolidated Financial Statements.                                      |                                 |          |

Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets

| (In millions)   | March 31,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|---|----------------------------------|----------------------|
| Assets:   |                                  |                      |
| Investments and cash:   |                                  |                      |
| Securities available for sale, at fair value:   |                                  |                      |
| Fixed maturities (amortized cost \$57,429 in 2014 and \$52,402 in 2013)   | \$59,619                         | \$53,227             |
| Fixed maturities - consolidated variable interest entities (amortized cost \$3,896 in 2014 and \$4,109 in 2013) | 4,662                            | 4,843                |
| Perpetual securities (amortized cost \$2,582 in 2014 and \$2,524 in 2013)                                       | 2,538                            | 2,479                |
| Perpetual securities - consolidated variable interest entities (amortized cost \$475 in 2014 and \$463 in 2013) | 478                              | 468                  |
| Equity securities (cost \$17 in 2014 and 2013)  | 21                               | 21                   |
| Securities held to maturity, at amortized cost:   |                                  |                      |
| Fixed maturities (fair value \$42,576 in 2014 and \$45,610 in 2013)   | 40,615                           | 44,178               |
| Fixed maturities - consolidated variable interest entities (fair value \$240 in 2014 and \$236 in 2013)         | 243                              | 237                  |
| Other investments   | 323                              | 463                  |
| Cash and cash equivalents   | 1,994                            | 2,543                |
| Total investments and cash  | 110,493                          | 108,459              |
| Receivables   | 732                              | 1,165                |
| Accrued investment income   | 774                              | 798                  |
| Deferred policy acquisition costs   | 8,965                            | 8,798                |
| Property and equipment, at cost less accumulated depreciation   | 481                              | 481                  |
| Other   | 1,847 <sup>(1)</sup>             | 1,606 <sup>(1)</sup> |
| Total assets  | \$123,292                        | \$121,307            |

<sup>(1)</sup> Includes \$107 in 2014 and \$106 in 2013 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)   | March 31,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|---|----------------------------------|----------------------|
| Liabilities and shareholders' equity:   |                                  |                      |
| Liabilities:  |                                  |                      |
| Policy liabilities:   |                                  |                      |
| Future policy benefits  | \$71,689                         | \$69,136             |
| Unpaid policy claims  | 3,875                            | 3,763                |
| Unearned premiums   | 10,779                           | 10,642               |
| Other policyholders' funds  | 6,547                            | 5,861                |
| Total policy liabilities  | 92,890                           | 89,402               |
| Income taxes  | 4,258                            | 3,718                |
| Payables for return of cash collateral on loaned securities   | 3,313                            | 5,820                |
| Notes payable   | 4,913                            | 4,897                |
| Other   | 2,242 <sup>(2)</sup>             | 2,850 <sup>(2)</sup> |
| Commitments and contingent liabilities (Note 11)  |                                  |                      |
| Total liabilities   | 107,616                          | 106,687              |
| Shareholders' equity:   |                                  |                      |
| Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2014 and 2013; issued 667,620 shares in 2014 and 667,046 shares in 2013 | 67                               | 67                   |
| Additional paid-in capital  | 1,667                            | 1,644                |
| Retained earnings   | 20,447                           | 19,885               |
| Accumulated other comprehensive income (loss):  |                                  |                      |
| Unrealized foreign currency translation gains (losses)  | (1,542 )                         | (1,505 )             |
| Unrealized gains (losses) on investment securities  | 1,944                            | 1,035                |
| Unrealized gains (losses) on derivatives  | (13 )                            | (12 )                |
| Pension liability adjustment  | (82 )                            | (81 )                |
| Treasury stock, at average cost   | (6,812 )                         | (6,413 )             |
| Total shareholders' equity  | 15,676                           | 14,620               |
| Total liabilities and shareholders' equity  | \$123,292                        | \$121,307            |

<sup>(2)</sup> Includes \$194 in 2014 and \$207 in 2013 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

| (In millions - Unaudited)  | Three Months Ended |          |
|--|--------------------|----------|
|  | March 31,<br>2014  | 2013     |
| Common stock:  |                    |          |
| Balance, beginning of period   | \$67               | \$67     |
| Balance, end of period   | 67                 | 67       |
| Additional paid-in capital:  |                    |          |
| Balance, beginning of period   | 1,644              | 1,505    |
| Exercise of stock options  | 6                  | 10       |
| Share-based compensation   | 5                  | 3        |
| Gain (loss) on treasury stock reissued   | 12                 | 14       |
| Balance, end of period   | 1,667              | 1,532    |
| Retained earnings:   |                    |          |
| Balance, beginning of period   | 19,885             | 17,387   |
| Net earnings   | 732                | 892      |
| Dividends to shareholders  | (170 )             | (165 )   |
| Balance, end of period   | 20,447             | 18,114   |
| Accumulated other comprehensive income (loss):   |                    |          |
| Balance, beginning of period   | (563 )             | 2,715    |
| Unrealized foreign currency translation gains (losses) during period, net of income taxes                              | (37 )              | (474 )   |
| Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments | 909                | (589 )   |
| Unrealized gains (losses) on derivatives during period, net of income taxes  | (1 )               | (4 )     |
| Pension liability adjustment during period, net of income taxes  | (1 )               | 3        |
| Balance, end of period   | 307                | 1,651    |
| Treasury stock:  |                    |          |
| Balance, beginning of period   | (6,413 )           | (5,696 ) |
| Purchases of treasury stock  | (421 )             | (156 )   |
| Cost of shares issued  | 22                 | 23       |
| Balance, end of period   | (6,812 )           | (5,829 ) |
| Total shareholders' equity   | \$15,676           | \$15,535 |
| See the accompanying Notes to the Consolidated Financial Statements.   |                    |          |

Aflac Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
| (In millions - Unaudited)   | 2014                         | 2013     |
| Cash flows from operating activities:   |                              |          |
| Net earnings  | \$ 732                       | \$ 892   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                              |          |
| Change in receivables and advance premiums  | 171                          | 203      |
| Increase in deferred policy acquisition costs                                       | (26 )                        | (100 )   |
| Increase in policy liabilities  | 978                          | 2,400    |
| Change in income tax liabilities  | (320 )                       | 193      |
| Realized investment (gains) losses  | 46                           | (156 )   |
| Other, net  | 34                           | 400      |
| Net cash provided (used) by operating activities                                    | 1,615                        | 3,832    |
| Cash flows from investing activities:   |                              |          |
| Proceeds from investments sold or matured:  |                              |          |
| Securities available for sale:  |                              |          |
| Fixed maturities sold   | 677                          | 541      |
| Fixed maturities matured or called  | 222                          | 1,342    |
| Perpetual securities matured or called  | 0                            | 271      |
| Securities held to maturity:  |                              |          |
| Fixed maturities matured or called  | 4,450                        | 5,011    |
| Costs of investments acquired:  |                              |          |
| Available-for-sale fixed maturities acquired  | (4,597 )                     | (3,160 ) |
| Held-to-maturity fixed maturities acquired  | 0                            | (160 )   |
| Settlement of derivatives, net  | (320 )                       | (851 )   |
| Cash received as collateral, net  | (2,677 )                     | (6,070 ) |
| Other, net  | 122                          | (9 )     |
| Net cash provided (used) by investing activities                                    | (2,123 )                     | (3,085 ) |
| Cash flows from financing activities:   |                              |          |
| Purchases of treasury stock   | (421 )                       | (156 )   |
| Proceeds from borrowings  | 0                            | 0        |
| Principal payments under debt obligations   | 0                            | 0        |
| Dividends paid to shareholders  | (163 )                       | (159 )   |
| Change in investment-type contracts, net  | 536                          | 134      |
| Treasury stock reissued   | 16                           | 19       |
| Other, net  | 0                            | 6        |
| Net cash provided (used) by financing activities                                    | (32 )                        | (156 )   |
| Effect of exchange rate changes on cash and cash equivalents                        | (9 )                         | (36 )    |
| Net change in cash and cash equivalents   | (549 )                       | 555      |
| Cash and cash equivalents, beginning of period                                      | 2,543                        | 2,041    |
| Cash and cash equivalents, end of period  | \$ 1,994                     | \$ 2,596 |
| Supplemental disclosures of cash flow information:                                  |                              |          |
| Income taxes paid   | \$ 699                       | \$ 295   |
| Interest paid   | 51                           | 43       |
| Noncash interest  | 30 (1)                       | 28 (1)   |
| Impairment losses included in realized investment losses                            | 3                            | 55       |
| Noncash financing activities:   |                              |          |
| Capitalized lease obligations   | 0                            | (1 )     |

Treasury stock issued for:

|                                   |   |   |
|-----------------------------------|---|---|
| Associate stock bonus             | 7 | 8 |
| Shareholder dividend reinvestment | 7 | 6 |
| Share-based compensation grants   | 4 | 4 |

<sup>(1)</sup> 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). American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. 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% of the Company's total revenues in the three-month periods ended March 31, 2014 and 2013. The percentage of the Company's total assets attributable to Aflac Japan was 85% at March 31, 2014 and December 31, 2013.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of March 31, 2014 and December 31, 2013, and the consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the three-month periods ended March 31, 2014 and 2013. 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, 2013.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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. We adopted this guidance as of January 1, 2014. The adoption of this guidance did not have a significant impact on our financial statements.

Fees paid to the federal government by health insurers: In July 2011, the FASB issued guidance on the accounting for fees owed by health insurers as mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. A health insurer's portion of the annual fee is payable by September 30 of the applicable calendar year once the entity provides health insurance for any U.S. health risk in that year. The annual fee for the health insurance industry will be allocated to individual health insurers based on the ratio of the amount of an entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. The accounting guidance specifies that the liability for the fee should be estimated and recorded in full in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013. We adopted this guidance as of January 1, 2014. The adoption of this guidance did not have a significant impact on our financial position or results of operations.

#### Accounting Pronouncements Pending Adoption

Receivables -Troubled debt restructurings by creditors: In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance will not have a significant impact on our financial position or results of operations.

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

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013.

## 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), nonrecurring items and other non-operating income (loss). We then exclude income taxes related

to operations to arrive at pretax operating earnings. Information regarding operations by segment follows:

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|                                    | Three Months Ended<br>March 31, |         |
|------------------------------------|---------------------------------|---------|
| (In millions)                      | 2014                            | 2013    |
| Revenues:                          |                                 |         |
| Aflac Japan:                       |                                 |         |
| Net earned premiums                | \$3,560                         | \$3,905 |
| Net investment income              | 663                             | 674     |
| Other income                       | 8                               | 26      |
| Total Aflac Japan                  | 4,231                           | 4,605   |
| Aflac U.S.:                        |                                 |         |
| Earned premiums                    | 1,294                           | 1,280   |
| Net investment income              | 161                             | 157     |
| Other income                       | 0                               | 1       |
| Total Aflac U.S.                   | 1,455                           | 1,438   |
| Other business segments            | 12                              | 12      |
| Total business segment revenues    | 5,698                           | 6,055   |
| Realized investment gains (losses) | (56 ) <sup>(1)</sup>            | 156     |
| Corporate                          | 78                              | 92      |
| Intercompany eliminations          | (71 )                           | (95 )   |
| Other non-operating income (loss)  | (9 )                            | 0       |
| Total revenues                     | \$5,640                         | \$6,208 |

<sup>(1)</sup> Excluding a gain of \$10 for the three-month period ended March 31, 2014 related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

|  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
| (In millions)  | 2014                            | 2013    |
| Pretax earnings:   |                                 |         |
| Aflac Japan  | \$933                           | \$989   |
| Aflac U.S.   | 303                             | 281     |
| Total business segment pretax operating earnings             | 1,236                           | 1,270   |
| Interest expense, noninsurance operations                    | (50 )                           | (48 )   |
| Corporate and eliminations                                   | (17 )                           | (17 )   |
| Pretax operating earnings                                    | 1,169                           | 1,205   |
| Realized investment gains (losses)                           | (56 ) <sup>(1)</sup>            | 156     |
| Other non-operating income (loss)                            | (9 )                            | 0       |
| Total earnings before income taxes                           | \$1,104                         | \$1,361 |
| Income taxes applicable to pretax operating earnings         | \$395                           | \$415   |
| Effect of foreign currency translation on operating earnings | (48 )                           | (71 )   |

<sup>(1)</sup> Excluding a gain of \$10 for the three-month period ended March 31, 2014 related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations



Assets were as follows:

| (In millions)                 | March 31,<br>2014 | December 31,<br>2013 |
|-------------------------------|-------------------|----------------------|
| Assets:                       |                   |                      |
| Aflac Japan                   | \$ 104,614        | \$ 102,973           |
| Aflac U.S.                    | 16,772            | 16,112               |
| Other business segments       | 154               | 155                  |
| Total business segment assets | 121,540           | 119,240              |
| Corporate                     | 20,949            | 19,909               |
| Intercompany eliminations     | (19,197 )         | (17,842 )            |
| Total assets                  | \$ 123,292        | \$ 121,307           |

### 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.

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|   | March 31, 2014               |                              |                               |               |
|---|------------------------------|------------------------------|-------------------------------|---------------|
| (In millions)   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Securities available for sale, carried at fair value: |                              |                              |                               |               |
| Fixed maturities:                                     |                              |                              |                               |               |
| Yen-denominated:                                      |                              |                              |                               |               |
| Japan government and agencies                         | \$ 18,152                    | \$ 608                       | \$ 3                          | \$ 18,757     |
| Mortgage- and asset-backed securities                 | 444                          | 33                           | 0                             | 477           |
| Public utilities                                      | 2,223                        | 96                           | 24                            | 2,295         |
| Sovereign and supranational                           | 937                          | 125                          | 0                             | 1,062         |
| Banks/financial institutions                          | 2,926                        | 235                          | 218                           | 2,943         |
| Other corporate                                       | 4,051                        | 184                          | 163                           | 4,072         |
| Total yen-denominated                                 | 28,733                       | 1,281                        | 408                           | 29,606        |
| Dollar-denominated:                                   |                              |                              |                               |               |
| U.S. government and agencies                          | 141                          | 10                           | 2                             | 149           |
| Municipalities  | 998                          | 103                          | 4                             | 1,097         |
| Mortgage- and asset-backed securities                 | 169                          | 20                           | 0                             | 189           |
| Public utilities                                      | 5,156                        | 577                          | 102                           | 5,631         |
| Sovereign and supranational                           | 396                          | 86                           | 0                             | 482           |
| Banks/financial institutions                          | 3,340                        | 526                          | 17                            | 3,849         |
| Other corporate                                       | 22,392                       | 1,611                        | 725                           | 23,278        |
| Total dollar-denominated                              | 32,592                       | 2,933                        | 850                           | 34,675        |
| Total fixed maturities                                | 61,325                       | 4,214                        | 1,258                         | 64,281        |
| Perpetual securities:                                 |                              |                              |                               |               |
| Yen-denominated:                                      |                              |                              |                               |               |
| Banks/financial institutions                          | 2,644                        | 165                          | 250                           | 2,559         |
| Other corporate                                       | 214                          | 15                           | 0                             | 229           |
| Dollar-denominated:                                   |                              |                              |                               |               |
| Banks/financial institutions                          | 199                          | 35                           | 6                             | 228           |
| Total perpetual securities                            | 3,057                        | 215                          | 256                           | 3,016         |
| Equity securities                                     | 17                           | 5                            | 1                             | 21            |
| Total securities available for sale                   | \$ 64,399                    | \$ 4,434                     | \$ 1,515                      | \$ 67,318     |

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| (In millions)   | March 31, 2014               |                              |                               |               |
|---|------------------------------|------------------------------|-------------------------------|---------------|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Securities held to maturity, carried at amortized cost: |                              |                              |                               |               |
| Fixed maturities:                                       |                              |                              |                               |               |
| Yen-denominated:  |                              |                              |                               |               |
| Japan government and agencies                           | \$23,461                     | \$1,668                      | \$0                           | \$25,129      |
| Municipalities  | 409                          | 46                           | 0                             | 455           |
| Mortgage- and asset-backed securities                   | 58                           | 3                            | 0                             | 61            |
| Public utilities  | 3,993                        | 189                          | 107                           | 4,075         |
| Sovereign and supranational                             | 3,011                        | 163                          | 56                            | 3,118         |
| Banks/financial institutions                            | 6,398                        | 174                          | 295                           | 6,277         |
| Other corporate   | 3,528                        | 221                          | 48                            | 3,701         |
| Total yen-denominated                                   | 40,858                       | 2,464                        | 506                           | 42,816        |
| Total securities held to maturity                       | \$40,858                     | \$2,464                      | \$506                         | \$42,816      |
| (In millions)   | December 31, 2013            |                              |                               |               |
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Securities available for sale, carried at fair value:   |                              |                              |                               |               |
| Fixed maturities:                                       |                              |                              |                               |               |
| Yen-denominated:  |                              |                              |                               |               |
| Japan government and agencies                           | \$14,936                     | \$431                        | \$33                          | \$15,334      |
| Mortgage- and asset-backed securities                   | 558                          | 29                           | 0                             | 587           |
| Public utilities  | 2,261                        | 100                          | 18                            | 2,343         |
| Sovereign and supranational                             | 978                          | 85                           | 28                            | 1,035         |
| Banks/financial institutions                            | 2,799                        | 220                          | 242                           | 2,777         |
| Other corporate   | 3,956                        | 151                          | 185                           | 3,922         |
| Total yen-denominated                                   | 25,488                       | 1,016                        | 506                           | 25,998        |
| Dollar-denominated:                                     |                              |                              |                               |               |
| U.S. government and agencies                            | 92                           | 10                           | 4                             | 98            |
| Municipalities  | 992                          | 71                           | 12                            | 1,051         |
| Mortgage- and asset-backed securities                   | 163                          | 21                           | 0                             | 184           |
| Public utilities  | 4,931                        | 471                          | 183                           | 5,219         |
| Sovereign and supranational                             | 404                          | 85                           | 1                             | 488           |
| Banks/financial institutions                            | 3,318                        | 447                          | 33                            | 3,732         |
| Other corporate   | 21,123                       | 1,347                        | 1,170                         | 21,300        |
| Total dollar-denominated                                | 31,023                       | 2,452                        | 1,403                         | 32,072        |
| Total fixed maturities                                  | 56,511                       | 3,468                        | 1,909                         | 58,070        |
| Perpetual securities:                                   |                              |                              |                               |               |
| Yen-denominated:  |                              |                              |                               |               |
| Banks/financial institutions                            | 2,582                        | 151                          | 217                           | 2,516         |
| Other corporate   | 209                          | 0                            | 0                             | 209           |
| Dollar-denominated:                                     |                              |                              |                               |               |
| Banks/financial institutions                            | 196                          | 35                           | 9                             | 222           |
| Total perpetual securities                              | 2,987                        | 186                          | 226                           | 2,947         |
| Equity securities                                       | 17                           | 5                            | 1                             | 21            |
| Total securities available for sale                     | \$59,515                     | \$3,659                      | \$2,136                       | \$61,038      |



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| (In millions)   | December 31, 2013            |                              |                               |               |
|---|------------------------------|------------------------------|-------------------------------|---------------|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Securities held to maturity, carried at amortized cost: |                              |                              |                               |               |
| Fixed maturities:                                       |                              |                              |                               |               |
| Yen-denominated:  |                              |                              |                               |               |
| Japan government and agencies                           | \$27,362                     | \$1,347                      | \$1                           | \$28,708      |
| Municipalities  | 399                          | 41                           | 0                             | 440           |
| Mortgage- and asset-backed securities                   | 58                           | 3                            | 0                             | 61            |
| Public utilities  | 3,900                        | 150                          | 122                           | 3,928         |
| Sovereign and supranational                             | 2,941                        | 171                          | 72                            | 3,040         |
| Banks/financial institutions                            | 6,310                        | 146                          | 328                           | 6,128         |
| Other corporate   | 3,445                        | 183                          | 87                            | 3,541         |
| Total yen-denominated                                   | 44,415                       | 2,041                        | 610                           | 45,846        |
| Total securities held to maturity                       | \$44,415                     | \$2,041                      | \$610                         | \$45,846      |

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

During the first quarter of 2014, 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 \$63 million and an unrealized loss of \$8 million. During the first quarter of 2013, we did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio.

#### Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at March 31, 2014, were as follows:

| (In millions)                             | Aflac Japan       |               | Aflac U.S.        |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Available for sale:                       |                   |               |                   |               |
| Due in one year or less                   | \$607             | \$616         | \$50              | \$52          |
| Due after one year through five years     | 1,819             | 1,953         | 565               | 662           |
| Due after five years through 10 years     | 10,783            | 10,868        | 1,562             | 1,653         |
| Due after 10 years                        | 36,378            | 37,916        | 8,675             | 9,608         |
| Mortgage- and asset-backed securities     | 509               | 553           | 38                | 47            |
| Total fixed maturities available for sale | \$50,096          | \$51,906      | \$10,890          | \$12,022      |
| Held to maturity:                         |                   |               |                   |               |
| Due in one year or less                   | \$101             | \$102         | \$0               | \$0           |
| Due after one year through five years     | 1,605             | 1,756         | 0                 | 0             |
| Due after five years through 10 years     | 2,180             | 2,316         | 0                 | 0             |
| Due after 10 years                        | 36,914            | 38,581        | 0                 | 0             |
| Mortgage- and asset-backed securities     | 58                | 61            | 0                 | 0             |
| Total fixed maturities held to maturity   | \$40,858          | \$42,816      | \$0               | \$0           |

At March 31, 2014, the Parent Company had a portfolio of available-for-sale fixed-maturity securities totaling \$339 million at amortized cost and \$353 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 premiums 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 March 31, 2014, were as follows:

| (In millions)                                 | Aflac Japan       |               | Aflac U.S.        |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Due in one year or less                       | \$291             | \$275         | \$0               | \$0           |
| Due after one year through five years         | 730               | 701           | 5                 | 5             |
| Due after five years through 10 years         | 214               | 229           | 0                 | 0             |
| Due after 10 years                            | 1,718             | 1,698         | 99                | 108           |
| Total perpetual securities available for sale | \$2,953           | \$2,903       | \$104             | \$113         |

### 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 March 31, 2014, 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:

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|                       | March 31, 2014<br>Total Investments in<br>Banks and Financial<br>Institutions Sector<br>(in millions) | Percentage of<br>Total Investment<br>Portfolio | December 31, 2013<br>Total Investments in<br>Banks and Financial<br>Institutions Sector<br>(in millions) | Percentage of<br>Total Investment<br>Portfolio |
|-----------------------|---|--|--|--|
| Fixed maturities:     |   |  |  |  |
| Amortized cost        | \$12,664  | 12 %   | \$12,427   | 12 %   |
| Fair value            | 13,069  | 12   | 12,637   | 12   |
| Perpetual securities: |   |  |  |  |
| Upper Tier II:        |   |  |  |  |
| Amortized cost        | \$1,967   | 2 %  | \$1,920  | 2 %  |
| Fair value            | 1,965   | 2  | 1,913  | 2  |
| Tier I:               |   |  |  |  |
| Amortized cost        | 876   | 1  | 858  | 1  |
| Fair value            | 822   | 1  | 825  | 1  |
| Total:                |   |  |  |  |
| Amortized cost        | \$15,507  | 15 %   | \$15,205   | 15 %   |
| Fair value            | 15,856  | 15   | 15,375   | 15   |

Realized Investment Gains and Losses

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

| (In millions)                                     | Three Months Ended<br>March 31, |       |
|---|---------------------------------|-------|
|   | 2014                            | 2013  |
| Realized investment gains (losses) on securities: |                                 |       |
| Fixed maturities:                                 |                                 |       |
| Available for sale:                               |                                 |       |
| Gross gains from sales                            | \$35                            | \$119 |
| Gross losses from sales                           | (1 )                            | (6 )  |
| Net gains (losses) from redemptions               | 7                               | 6     |
| Other-than-temporary impairment losses            | (3 )                            | (54 ) |
| Total fixed maturities                            | 38                              | 65    |
| Equity securities:                                |                                 |       |
| Other-than-temporary impairment losses            | 0                               | (1 )  |
| Total equity securities                           | 0                               | (1 )  |
| Derivatives and other:                            |                                 |       |
| Derivative gains (losses)                         | (83 )                           | 87    |
| Other   | (1 )                            | 5     |
| Total derivatives and other                       | (84 )                           | 92    |
| Total realized investment gains (losses)          | \$(46 )                         | \$156 |

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 values of our



investment securities related to

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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.

| (In millions)  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2014                            | 2013 |
| Corporate bonds  | \$3                             | \$38 |
| Sovereign and supranational  | 0                               | 16   |
| Equity securities  | 0                               | 1    |
| Total other-than-temporary impairment losses realized <sup>(1)</sup> | \$3                             | \$55 |

<sup>(1)</sup> Includes \$0 and \$1 for the three-month periods ended March 31, 2014 and 2013, respectively, for impairments due to severity and duration of decline in fair value and \$3 and \$54 for the three-month periods ended March 31, 2014 and 2013, 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)  | March 31, 2014 | December 31,<br>2013 |
|--|----------------|----------------------|
| Unrealized gains (losses) on securities available for sale                 | \$2,919        | \$1,523              |
| Unamortized unrealized gains on securities transferred to held to maturity | 10             | 11                   |
| Deferred income taxes  | (985 )         | (499 )               |

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|  |         |         |
|--|---------|---------|
| Shareholders' equity, unrealized gains (losses) on investment securities | \$1,944 | \$1,035 |
|--|---------|---------|

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## 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.

| (In millions)                  | March 31, 2014 |                   | Less than 12 months |                   | 12 months or longer |                   |
|--------------------------------|----------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                                | Fair Value     | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses |
| Fixed Maturities:              |                |                   |                     |                   |                     |                   |
| Japan government and agencies: |                |                   |                     |                   |                     |                   |
| Yen-denominated                | \$1,014        | \$3               | \$1,009             | \$3               | \$5                 | \$0               |
| Municipalities:                |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 91             | 4                 | 70                  | 2                 | 21                  | 2                 |
| Public utilities:              |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 1,700          | 102               | 1,342               | 70                | 358                 | 32                |
| Yen-denominated                | 1,959          | 131               | 1,119               | 47                | 840                 | 84                |
| Sovereign and supranational:   |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 13             | 0                 | 13                  | 0                 | 0                   | 0                 |
| Yen-denominated                | 887            | 56                | 358                 | 2                 | 529                 | 54                |
| Banks/financial institutions:  |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 381            | 17                | 283                 | 11                | 98                  | 6                 |
| Yen-denominated                | 4,665          | 513               | 1,187               | 28                | 3,478               | 485               |
| Other corporate:               |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 11,291         | 725               | 7,334               | 371               | 3,957               | 354               |
| Yen-denominated                | 2,685          | 211               | 598                 | 24                | 2,087               | 187               |
| U.S. government and agencies:  |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 88             | 2                 | 88                  | 2                 | 0                   | 0                 |
| Total fixed maturities         | 24,774         | 1,764             | 13,401              | 560               | 11,373              | 1,204             |
| Perpetual securities:          |                |                   |                     |                   |                     |                   |
| Dollar-denominated             | 63             | 6                 | 56                  | 4                 | 7                   | 2                 |
| Yen-denominated                | 1,485          | 250               | 349                 | 4                 | 1,136               | 246               |
| Total perpetual securities     | 1,548          | 256               | 405                 | 8                 | 1,143               | 248               |
| Equity securities              | 5              | 1                 | 5                   | 0                 | 0                   | 1                 |
| Total                          | \$26,327       | \$2,021           | \$13,811            | \$568             | \$12,516            | \$1,453           |

| (In millions)                  | December 31, 2013 |                   | Less than 12 months |                   | 12 months or longer |                   |
|--------------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                                | Fair Value        | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses |
| Fixed Maturities:              |                   |                   |                     |                   |                     |                   |
| Japan government and agencies: |                   |                   |                     |                   |                     |                   |
| Yen-denominated                | \$8,869           | \$34              | \$8,869             | \$34              | \$0                 | \$0               |
| Municipalities:                |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 177               | 12                | 145                 | 8                 | 32                  | 4                 |
| Public utilities:              |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 2,023             | 183               | 1,740               | 143               | 283                 | 40                |
| Yen-denominated                | 2,519             | 140               | 1,816               | 54                | 703                 | 86                |
| Sovereign and supranational:   |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 12                | 1                 | 12                  | 1                 | 0                   | 0                 |
| Yen-denominated                | 1,152             | 100               | 791                 | 34                | 361                 | 66                |
| Banks/financial institutions:  |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 547               | 33                | 454                 | 23                | 93                  | 10                |
| Yen-denominated                | 4,533             | 570               | 2,322               | 107               | 2,211               | 463               |
| Other corporate:               |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 11,588            | 1,170             | 8,504               | 733               | 3,084               | 437               |
| Yen-denominated                | 3,372             | 272               | 2,296               | 152               | 1,076               | 120               |
| U.S. government and agencies:  |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 36                | 4                 | 36                  | 4                 | 0                   | 0                 |
| Total fixed maturities         | 34,828            | 2,519             | 26,985              | 1,293             | 7,843               | 1,226             |
| Perpetual securities:          |                   |                   |                     |                   |                     |                   |
| Dollar-denominated             | 59                | 9                 | 52                  | 8                 | 7                   | 1                 |
| Yen-denominated                | 1,322             | 217               | 748                 | 74                | 574                 | 143               |
| Total perpetual securities     | 1,381             | 226               | 800                 | 82                | 581                 | 144               |
| Equity securities              | 5                 | 1                 | 5                   | 1                 | 0                   | 0                 |
| Total                          | \$36,214          | \$2,746           | \$27,790            | \$1,376           | \$8,424             | \$1,370           |

#### 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.

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

| (In millions)     | March 31, 2014  |  |  |   | December 31, 2013   |  |  |     |
|-------------------|---|--|--|---|---|--|--|-----|
|                   | Percentage of<br>Total Investments<br>in an Unrealized<br>Loss Position | Percentage of<br>Gross<br>Unrealized<br>Losses | Percentage of<br>Gross<br>Unrealized<br>Losses for<br>Investment<br>Grade Securities |   | Percentage of<br>Total Investments<br>in an Unrealized<br>Loss Position | Percentage of<br>Gross<br>Unrealized<br>Losses | Percentage of<br>Gross<br>Unrealized<br>Losses for<br>Investment<br>Grade Securities |     |
| Fixed Maturities: |   |  |  |   |   |  |  |     |
| Japan             |   |  |  |   |   |  |  |     |
| government        | 4   | %  | 0  | % | 100   | %  | 25   | %   |
| and agencies      |   |  |  |   |   |  | 1  | %   |
| Public utilities  | 14  |  | 12   |   | 96  |  | 12   |     |
| Sovereign and     | 4   |  | 3  |   | 100   |  | 4  |     |
| supranational     |   |  |  |   |   |  |  | 100 |
| Banks/financial   | 19  |  | 26   |   | 62  |  | 22   |     |
| institutions      |   |  |  |   |   |  |  | 64  |
| Other corporate   | 53  |  | 46   |   | 87  |  | 53   |     |
| Total fixed       | 94  | %  | 87   | % |   |  | 92   | %   |
| maturities        |   |  |  |   | 96  | %  |  |     |
| Perpetual         | 6   |  | 13   |   | 91  |  | 8  |     |
| securities        |   |  |  |   |   |  |  | 90  |
| Total             | 100   | %  | 100  | % |   |  | 100  | %   |

Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses are 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<br>Rating | March 31, 2014    |               | Unrealized<br>Gain (Loss) | December 31, 2013 |               | Unrealized<br>Gain (Loss) |
|---------------------|------------------|-------------------|---------------|---------------------------|-------------------|---------------|---------------------------|
|                     |                  | Amortized<br>Cost | Fair<br>Value |                           | Amortized<br>Cost | Fair<br>Value |                           |
| Upper Tier II:      |                  |                   |               |                           |                   |               |                           |
|                     | A                | \$ 149            | \$ 185        | \$ 36                     | \$ 145            | \$ 183        | \$ 38                     |
|                     | BBB              | 1,601             | 1,582         | (19 )                     | 1,563             | 1,532         | (31 )                     |
|                     | BB or lower      | 217               | 198           | (19 )                     | 212               | 198           | (14 )                     |
| Total Upper Tier II |                  | 1,967             | 1,965         | (2 )                      | 1,920             | 1,913         | (7 )                      |
| Tier I:             |                  |                   |               |                           |                   |               |                           |
|                     | BBB              | 764               | 696           | (68 )                     | 746               | 706           | (40 )                     |
|                     | BB or lower      | 112               | 126           | 14                        | 112               | 119           | 7                         |

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|                    |             |         |         |         |         |         |         |
|--------------------|-------------|---------|---------|---------|---------|---------|---------|
| Total Tier I       |             | 876     | 822     | (54 )   | 858     | 825     | (33 )   |
| Other subordinated | BB or lower | 214     | 229     | 15      | 209     | 209     | 0       |
| - non-banks:       |             |         |         |         |         |         |         |
| Total              |             | \$3,057 | \$3,016 | \$(41 ) | \$2,987 | \$2,947 | \$(40 ) |

Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses are 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

| (In millions)                            | March 31, 2014    |               | December 31, 2013 |               |
|--|-------------------|---------------|-------------------|---------------|
|  | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Assets:                                  |                   |               |                   |               |
| Fixed maturities, available for sale     | \$3,896           | \$4,662       | \$4,109           | \$4,843       |
| Perpetual securities, available for sale | 475               | 478           | 463               | 468           |
| Fixed maturities, held to maturity       | 243               | 240           | 237               | 236           |
| Other assets                             | 107               | 107           | 106               | 106           |
| Total assets of consolidated VIEs        | \$4,721           | \$5,487       | \$4,915           | \$5,653       |
| Liabilities:                             |                   |               |                   |               |
| Other liabilities                        | \$194             | \$194         | \$207             | \$207         |
| Total liabilities of consolidated VIEs   | \$194             | \$194         | \$207             | \$207         |

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

| (In millions)                              | March 31, 2014 |            | December 31, 2013 |            |
|--|----------------|------------|-------------------|------------|
|  | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Assets:                                    |                |            |                   |            |
| Fixed maturities, available for sale       | \$6,824        | \$7,191    | \$6,724           | \$6,916    |
| Perpetual securities, available for sale   | 379            | 395        | 370               | 378        |
| Fixed maturities, held to maturity         | 3,019          | 3,142      | 2,949             | 3,039      |
| Total investments in VIEs not consolidated | \$10,222       | \$10,728   | \$10,043          | \$10,333   |

The VIEs that we are not required to consolidate are investments that are in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents or sponsors. 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 174 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)                          | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Security loans outstanding, fair value | \$3,234        | \$5,656           |
| Cash collateral on loaned securities   | 3,313          | 5,820             |

#### 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) and futures used to hedge interest rate risk for certain 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

We enter into foreign currency swaps pursuant to which we exchange an initial principal amount in one currency for an initial principal amount of another currency, with an agreement 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 hedge the currency risk on the fair value of certain fixed-maturity dollar-denominated securities. 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 call options (options that limit exposure to increasing foreign exchange rates) and selling put options (options that limit exposure to decreasing foreign exchange rates). The combination of these two actions results in no net premium being 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 specified future dates at contracted prices.

Our CDSs are used to assume credit risk related to an individual security or an index. The only CDS derivatives that we have entered into relate to components of certain of our investments in VIEs. These CDS contracts entitle the consolidated VIE to receive periodic fees in exchange for an obligation to compensate the derivative counterparties should the reference security issuers experience a credit event, as defined in the contract.

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. 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'.

Periodically, depending on general economic conditions, we may enter into other derivative transactions.

#### 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, and 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 counterparties to those transactions must meet. As of March 31, 2014, there were 12 counterparties to our derivative agreements, with five comprising 87% of the aggregate notional amount. The counterparties to these derivatives are financial institutions with the following credit ratings:

| (In millions)                  | March 31, 2014                       |                                    |  | December 31, 2013                    |                                    |  |
|--------------------------------|--------------------------------------|------------------------------------|--|--------------------------------------|------------------------------------|--|
|                                | Notional<br>Amount<br>of Derivatives | Asset<br>Derivatives<br>Fair Value | Liability<br>Derivatives<br>Fair Value | Notional<br>Amount<br>of Derivatives | Asset<br>Derivatives<br>Fair Value | Liability<br>Derivatives<br>Fair Value |
| Counterparties' credit rating: |                                      |                                    |  |                                      |                                    |  |
| AA                             | \$161                                | \$0                                | \$(7 )                                 | \$161                                | \$1                                | \$(7 )                                 |
| A                              | 28,065                               | 523                                | (351 )                                 | 22,314                               | 487                                | (830 )                                 |
| Total                          | \$28,226                             | \$523                              | \$(358 )                               | \$22,475                             | \$488                              | \$(837 )                               |

We engage in derivative transactions directly with unaffiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentation. Most of the ISDA agreements also include Credit Support

Annex (CSA) provisions, which generally provide for two-way collateral postings, in certain cases at the first dollar of exposure and in other cases once various rating and exposure threshold levels are triggered. We mitigate 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 \$127 million at March 31, 2014, which consisted of \$52 million of pledged JGBs and \$75 million of cash, compared with \$8 million at December 31, 2013, which consisted of \$7 million of pledged JGBs and \$1 million of cash. 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 \$54 million and \$18 million as of March 31, 2014 and December 31, 2013, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2014, we would be required to post no additional collateral to these derivative counterparties. Collateral obtained by us from third parties for derivative transactions was \$263 million and \$295 million at March 31, 2014 and December 31, 2013, respectively. 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.  
March 31, 2014

| (In millions)    | Credit Rating | Less than one year     |                      | One to three years     |                      | Three to five years    |                      | Five to ten years      |                      | Total                  |                      |
|------------------|---------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
|                  |               | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value |
|                  |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
| Index exposure:  |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
| Corporate bonds: |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
|                  | A             | \$(115 )               | \$ 1                 | \$0                    | \$ 0                 | \$0                    | \$ 0                 | \$0                    | \$ 0                 | \$(115 )               | \$ 1                 |
|                  | BBB           | 0                      | 0                    | 0                      | 0                    | (97 )                  | (2 )                 | 0                      | 0                    | (97 )                  | (2 )                 |
| Total            |               | \$(115 )               | \$ 1                 | \$0                    | \$ 0                 | \$(97 )                | \$(2 )               | \$0                    | \$ 0                 | \$(212 )               | \$(1 )               |

December 31, 2013

|                  |               | Less than one year     |                      | One to three years     |                      | Three to five years    |                      | Five to ten years      |                      | Total                  |                      |
|------------------|---------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
| (In millions)    | Credit Rating | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value | Maximum potential risk | Estimated fair value |
|                  |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
| Index exposure:  |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
| Corporate bonds: |               |                        |                      |                        |                      |                        |                      |                        |                      |                        |                      |
|                  | A             | \$0                    | \$ 0                 | \$(112 )               | \$ 1                 | \$0                    | \$ 0                 | \$0                    | \$ 0                 | \$(112 )               | \$ 1                 |
|                  | BBB           | 0                      | 0                    | 0                      | 0                    | 0                      | 0                    | (95 )                  | (4 )                 | (95 )                  | (4 )                 |
| Total            |               | \$0                    | \$ 0                 | \$(112 )               | \$ 1                 | \$0                    | \$ 0                 | \$(95 )                | \$(4 )               | \$(207 )               | \$(3 )               |

#### 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 and options as derivative hedging instruments. We make our net investment hedge designation at the beginning of each quarter. 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 forward contracts and the time value of foreign currency options, are reported in the unrealized foreign currency component of other comprehensive income. Should these designated net investment hedge positions exceed our net investment in Aflac Japan, the foreign exchange effect on the portion that exceeds our investment in Aflac Japan would be recognized in current earnings within derivative and other gains (losses).

#### 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.

| (In millions)                      | March 31, 2014     |            | Asset<br>Derivatives | Liability<br>Derivatives |
|------------------------------------|--------------------|------------|----------------------|--------------------------|
|                                    | Net Derivatives    |            |                      |                          |
| Hedge Designation/ Derivative Type | Notional<br>Amount | Fair Value | Fair Value           | Fair Value               |
| Cash flow hedges:                  |                    |            |                      |                          |
| Foreign currency swaps             | \$75               | \$2        | \$2                  | \$0                      |
| Interest rate swaps                | 53                 | 0          | 0                    | 0                        |
| Total cash flow hedges             | 128                | 2          | 2                    | 0                        |
| Fair value hedges:                 |                    |            |                      |                          |
| Foreign currency forwards          | 12,077             | (11 )      | 48                   | (59 )                    |
| Interest rate swaptions            | 3,678              | (49 )      | 12                   | (61 )                    |
| Total fair value hedges            | 15,755             | (60 )      | 60                   | (120 )                   |
| Net investment hedge:              |                    |            |                      |                          |
| Foreign currency forwards          | 0                  | 10         | 10                   | 0                        |
| Foreign currency options           | 510                | 3          | 26                   | (23 )                    |
| Total net investment hedge         | 510                | 13         | 36                   | (23 )                    |
| Non-qualifying strategies:         |                    |            |                      |                          |
| Foreign currency swaps             | 5,679              | 218        | 424                  | (206 )                   |
| Credit default swaps               | 212                | (1 )       | 1                    | (2 )                     |
| Interest rate swaps                | 115                | 0          | 0                    | 0                        |
| Interest rate swaptions            | 12                 | 0          | 0                    | 0                        |
| Futures                            | 5,815              | (7 )       | 0                    | (7 )                     |
| Total non-qualifying strategies    | 11,833             | 210        | 425                  | (215 )                   |
| Total derivatives                  | \$28,226           | \$165      | \$523                | \$(358 )                 |
| Balance Sheet Location             |                    |            |                      |                          |
| Other assets                       | \$8,563            | \$523      | \$523                | \$0                      |
| Other liabilities                  | 19,663             | (358 )     | 0                    | (358 )                   |
| Total derivatives                  | \$28,226           | \$165      | \$523                | \$(358 )                 |

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| December 31, 2013                  |                 |            |                   |                       |
|------------------------------------|-----------------|------------|-------------------|-----------------------|
| (In millions)                      | Net Derivatives |            | Asset Derivatives | Liability Derivatives |
| Hedge Designation/ Derivative Type | Notional Amount | Fair Value | Fair Value        | Fair Value            |
| Cash flow hedges:                  |                 |            |                   |                       |
| Foreign currency swaps             | \$75            | \$3        | \$3               | \$0                   |
| Interest rate swaps                | 52              | 0          | 0                 | 0                     |
| Total cash flow hedges             | 127             | 3          | 3                 | 0                     |
| Fair value hedges:                 |                 |            |                   |                       |
| Foreign currency forwards          | 11,249          | (582 )     | 0                 | (582 )                |
| Interest rate swaptions            | 4,500           | (12 )      | 20                | (32 )                 |
| Total fair value hedges            | 15,749          | (594 )     | 20                | (614 )                |
| Net investment hedge:              |                 |            |                   |                       |
| Foreign currency forwards          | 356             | 17         | 17                | 0                     |
| Foreign currency options           | 95              | 3          | 4                 | (1 )                  |
| Total net investment hedge         | 451             | 20         | 21                | (1 )                  |
| Non-qualifying strategies:         |                 |            |                   |                       |
| Foreign currency swaps             | 5,829           | 224        | 442               | (218 )                |
| Credit default swaps               | 207             | (3 )       | 1                 | (4 )                  |
| Interest rate swaps                | 112             | 1          | 1                 | 0                     |
| Total non-qualifying strategies    | 6,148           | 222        | 444               | (222 )                |
| Total derivatives                  | \$22,475        | \$(349 )   | \$488             | \$(837 )              |
| Balance Sheet Location             |                 |            |                   |                       |
| Other assets                       | \$5,308         | \$488      | \$488             | \$0                   |
| Other liabilities                  | 17,167          | (837 )     | 0                 | (837 )                |
| Total derivatives                  | \$22,475        | \$(349 )   | \$488             | \$(837 )              |

### 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 effectively 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 long as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that ineffective portion would be reported in net earnings.

### Fair Value Hedges

We designate and account for certain 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 March 31, 2014: |                           |                      |  |  |                |   |
| Foreign currency forwards          | Fixed-maturity securities | \$264                | \$(10)   | ) \$274  | \$(269)        | ) \$5   |
| Interest rate swaptions            | Fixed-maturity securities | (23)                 | ) (22)   | ) (1)  | ) 1            | 0   |
| Three Months Ended March 31, 2013: |                           |                      |  |  |                |   |
| Foreign currency forwards          | Fixed-maturity securities | \$(609)              | ) \$(5)  | ) \$(604)  | ) \$603        | \$(1)   |

#### 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 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 forwards and options as derivative hedges of the foreign currency exposure of our net investment in Aflac Japan. As of March 31, 2014, we had foreign exchange forwards as an economic hedge on 52.5 billion yen of the profit repatriation expected to be received in July 2014.

Our net investment hedge was effective during the three-month periods ended March 31, 2014 and 2013.

#### Non-qualifying Strategies

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

We have cross-currency interest rate swap agreements related to 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. Changes in the values of these swaps are recorded through current period earnings.

For additional information regarding these swaps, see Note 7.

#### 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 March 31, |                       |            |                       |
|--|------------------------------|-----------------------|------------|-----------------------|
|  | 2014                         |                       | 2013       |                       |
|  | Realized                     | Other                 | Realized   | Other                 |
|  | Investment                   | Comprehensive         | Investment | Comprehensive         |
|  | Gains                        | Income                | Gains      | Income                |
|  | (Losses)                     | (Loss) <sup>(1)</sup> | (Losses)   | (Loss) <sup>(1)</sup> |
| Qualifying hedges:                       |                              |                       |            |                       |
| Cash flow hedges:                        |                              |                       |            |                       |
| Foreign currency swaps                   | \$(1 )                       | \$(1 )                | \$(1 )     | \$(7 )                |
| Total cash flow hedges                   | (1 )                         | (1 )                  | (1 )       | (7 )                  |
| Fair value hedges:                       |                              |                       |            |                       |
| Foreign currency forwards <sup>(2)</sup> | (5 )                         | 0                     | (6 )       | 0                     |
| Interest rate swaptions <sup>(2)</sup>   | (22 )                        | 0                     | 0          | 0                     |
| Total fair value hedges                  | (27 )                        | 0                     | (6 )       | 0                     |
| Net investment hedge:                    |                              |                       |            |                       |
| Non-derivative hedging instruments       | 0                            | (17 )                 | 0          | 69                    |
| Foreign currency forwards                | 0                            | (6 )                  | 0          | 0                     |
| Foreign currency options                 | 0                            | (1 )                  | 0          | 0                     |
| Total net investment hedge               | 0                            | (24 )                 | 0          | 69                    |
| Non-qualifying strategies:               |                              |                       |            |                       |
| Foreign currency swaps                   | (20 )                        | 0                     | 84         | 0                     |
| Foreign currency options                 | 0                            | 0                     | 2          | 0                     |
| Credit default swaps                     | 2                            | 0                     | 12         | 0                     |
| Interest rate swaps                      | (1 )                         | 0                     | (4 )       | 0                     |
| Futures                                  | (36 )                        | 0                     | 0          | 0                     |
| Total non-qualifying strategies          | (55 )                        | 0                     | 94         | 0                     |
| Total                                    | \$(83)                       | \$(25)                | \$87       | \$62                  |

<sup>(1)</sup> 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).

<sup>(2)</sup> 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-month periods ended March 31, 2014 and 2013. As of March 31, 2014, 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.

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  
March 31, 2014

| (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 |                       | Net Amount |
|--|-----------------------------------|--------------------------------------|---|---|-----------------------|------------|
|  |                                   |                                      |   | Carrying Value of Financial Instruments   | Collateral Received   |            |
| Derivative assets:   |                                   |                                      |   |   |                       |            |
| Foreign currency swaps   | \$426                             | \$0                                  | \$426   | \$0                                       | \$(253 )              | \$173      |
| Foreign currency forwards  | 58                                | 0                                    | 58  | 0   | (9 )                  | 49         |
| Foreign currency options   | 26                                | 0                                    | 26  | 0   | (1 )                  | 25         |
| Credit default swaps   | 1                                 | 0                                    | 1   | 0   | 0                     | 1          |
| Interest rate swaptions  | 12                                | 0                                    | 12  | 0   | 0                     | 12         |
| Total derivative assets, subject to a master netting arrangement or offsetting arrangement | 523                               | 0                                    | 523   | 0   | (263 ) <sup>(1)</sup> | 260        |
| Securities lending and similar arrangements  | 3,234                             | 0                                    | 3,234   | 0   | (3,234 )              | 0          |
| Total  | \$3,757                           | \$0                                  | \$3,757   | \$0                                       | \$(3,497 )            | \$260      |

<sup>(1)</sup> Consists entirely of cash.  
December 31, 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 |                       | Net Amount |
|--|-----------------------------------|--------------------------------------|---|---|-----------------------|------------|
|  |                                   |                                      |   | Carrying Value of Financial Instruments   | Collateral Received   |            |
| Derivative assets:   |                                   |                                      |   |   |                       |            |
| Foreign currency swaps   | \$445                             | \$0                                  | \$445   | \$0                                       | \$(276 )              | \$169      |
| Foreign currency forwards  | 17                                | 0                                    | 17  | 0   | (16 )                 | 1          |
| Foreign currency options   | 4                                 | 0                                    | 4   | 0   | (3 )                  | 1          |
| Credit default swaps   | 1                                 | 0                                    | 1   | 0   | 0                     | 1          |
| Interest rate swaps  | 1                                 | 0                                    | 1   | 0   | 0                     | 1          |
| Interest rate swaptions  | 20                                | 0                                    | 20  | 0   | 0                     | 20         |
| Total derivative assets, subject to a master netting arrangement or offsetting arrangement | 488                               | 0                                    | 488   | 0   | (295 ) <sup>(1)</sup> | 193        |
| Securities lending and similar arrangements  | 5,656                             | 0                                    | 5,656   | 0   | (5,656 )              | 0          |
| Total  | \$6,144                           | \$0                                  | \$6,144   | \$0                                       | \$(5,951)             | \$193      |

<sup>(1)</sup> Consists entirely of cash.





Offsetting of Financial Liabilities and Derivative Liabilities  
March 31, 2014

| (In millions)   | Gross Amount<br>of Recognized<br>Liabilities | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net Amount<br>of Liabilities<br>Presented in<br>Balance Sheet | Gross Amounts Not Offset<br>in Balance Sheet     |                       | Net Amount |
|---|--|--|---|--|-----------------------|------------|
|   |  |  |   | Carrying<br>Value of<br>Financial<br>Instruments | Collateral<br>Pledged |            |
| Derivative liabilities:   |  |  |   |  |                       |            |
| Foreign currency swaps  | \$(206 )                                     | \$0  | \$(206 )  | \$0  | \$2                   | \$(204 )   |
| Foreign currency forwards   | (59 )  | 0  | (59 )   | 0  | 0                     | (59 )      |
| Foreign currency options  | (23 )  | 0  | (23 )   | 0  | 0                     | (23 )      |
| Credit default swaps  | (2 )   | 0  | (2 )  | 0  | 0                     | (2 )       |
| Interest rate swaptions   | (61 )  | 0  | (61 )   | 0  | 52                    | (9 )       |
| Futures   | (7 )   | 0  | (7 )  | 0  | 73                    | 66         |
| Total derivative liabilities,<br>subject to a master<br>netting arrangement<br>or offsetting<br>arrangement | (358 )                                       | 0  | (358 )  | 0  | 127                   | (231 )     |
| Securities lending and<br>similar arrangements  | (3,313 )                                     | 0  | (3,313 )  | 3,234  | 0                     | (79 )      |
| Total   | \$(3,671)                                    | \$0  | \$(3,671)   | \$3,234  | \$127                 | \$(310 )   |

<sup>(1)</sup> Consists of \$52 of pledged JGBs and \$75 of cash.  
December 31, 2013

| (In millions)   | Gross Amount<br>of Recognized<br>Liabilities | Gross<br>Amount<br>Offset in<br>Balance<br>Sheet | Net Amount<br>of Liabilities<br>Presented in<br>Balance Sheet | Gross Amounts Not Offset<br>in Balance Sheet     |                       | Net Amount |
|---|--|--|---|--|-----------------------|------------|
|   |  |  |   | Carrying<br>Value of<br>Financial<br>Instruments | Collateral<br>Pledged |            |
| Derivative liabilities:   |  |  |   |  |                       |            |
| Foreign currency swaps  | \$(218 )                                     | \$0  | \$(218 )  | \$0  | \$1                   | \$(217 )   |
| Foreign currency forwards   | (582 )                                       | 0  | (582 )  | 0  | 0                     | (582 )     |
| Foreign currency options  | (1 )   | 0  | (1 )  | 0  | 0                     | (1 )       |
| Credit default swaps  | (4 )   | 0  | (4 )  | 0  | 0                     | (4 )       |
| Interest rate swaptions   | (32 )  | 0  | (32 )   | 0  | 7                     | (25 )      |
| Total derivative liabilities,<br>subject to a master<br>netting arrangement<br>or offsetting<br>arrangement | (837 )                                       | 0  | (837 )  | 0  | 8                     | (829 )     |
| Securities lending and<br>similar arrangements  | (5,820 )                                     | 0  | (5,820 )  | 5,656  | 0                     | (164 )     |
| Total   | \$(6,657)                                    | \$0  | \$(6,657)   | \$5,656  | \$8                   | \$(993 )   |

<sup>(1)</sup> Consists of \$7 of pledged JGBs and \$1 of cash.

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, 2013.

## 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.

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| (In millions)   | March 31, 2014<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|---|--|--|--|------------------------|
| Assets:   |  |  |  |                        |
| Securities available for sale, carried at fair value: |  |  |  |                        |
| Fixed maturities:                                     |  |  |  |                        |
| Government and agencies                               | \$18,407   | \$499  | \$0  | \$18,906               |
| Municipalities  | 0  | 1,097  | 0  | 1,097                  |
| Mortgage- and asset-backed securities                 | 0  | 404  | 262  | 666                    |
| Public utilities                                      | 0  | 7,926  | 0  | 7,926                  |
| Sovereign and supranational                           | 0  | 1,544  | 0  | 1,544                  |
| Banks/financial institutions                          | 0  | 6,767  | 25   | 6,792                  |
| Other corporate                                       | 0  | 27,350   | 0  | 27,350                 |
| Total fixed maturities                                | 18,407   | 45,587   | 287  | 64,281                 |
| Perpetual securities:                                 |  |  |  |                        |
| Banks/financial institutions                          | 0  | 2,731  | 56   | 2,787                  |
| Other corporate                                       | 0  | 229  | 0  | 229                    |
| Total perpetual securities                            | 0  | 2,960  | 56   | 3,016                  |
| Equity securities                                     | 14   | 4  | 3  | 21                     |
| Other assets:   |  |  |  |                        |
| Foreign currency swaps                                | 0  | 320  | 106  | 426                    |
| Foreign currency forwards                             | 0  | 58   | 0  | 58                     |
| Foreign currency options                              | 0  | 26   | 0  | 26                     |
| Credit default swaps                                  | 0  | 0  | 1  | 1                      |
| Interest rate swaptions                               | 0  | 12   | 0  | 12                     |
| Total other assets                                    | 0  | 416  | 107  | 523                    |
| Cash and cash equivalents                             | 1,994  | 0  | 0  | 1,994                  |
| Total assets  | \$20,415   | \$48,967   | \$453  | \$69,835               |
| Liabilities:  |  |  |  |                        |
| Foreign currency swaps                                | \$0  | \$14   | \$192  | \$206                  |
| Foreign currency forwards                             | 0  | 59   | 0  | 59                     |
| Foreign currency options                              | 0  | 23   | 0  | 23                     |
| Credit default swaps                                  | 0  | 0  | 2  | 2                      |
| Interest rate swaptions                               | 0  | 61   | 0  | 61                     |
| Futures   | 0  | 7  | 0  | 7                      |
| Total liabilities                                     | \$0  | \$164  | \$194  | \$358                  |

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| (In millions)   | December 31, 2013  |  |  |                        |
|---|--|--|--|------------------------|
|   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| Assets:   |  |  |  |                        |
| Securities available for sale, carried at fair value: |  |  |  |                        |
| Fixed maturities:                                     |  |  |  |                        |
| Government and agencies                               | \$14,928   | \$504  | \$0  | \$15,432               |
| Municipalities  | 0  | 1,051  | 0  | 1,051                  |
| Mortgage- and asset-backed securities                 | 0  | 402  | 369  | 771                    |
| Public utilities                                      | 0  | 7,562  | 0  | 7,562                  |
| Sovereign and supranational                           | 0  | 1,523  | 0  | 1,523                  |
| Banks/financial institutions                          | 0  | 6,486  | 23   | 6,509                  |
| Other corporate                                       | 0  | 25,222   | 0  | 25,222                 |
| Total fixed maturities                                | 14,928   | 42,750   | 392  | 58,070                 |
| Perpetual securities:                                 |  |  |  |                        |
| Banks/financial institutions                          | 0  | 2,686  | 52   | 2,738                  |
| Other corporate                                       | 0  | 209  | 0  | 209                    |
| Total perpetual securities                            | 0  | 2,895  | 52   | 2,947                  |
| Equity securities                                     | 14   | 4  | 3  | 21                     |
| Other assets:   |  |  |  |                        |
| Foreign currency swaps                                | 0  | 341  | 104  | 445                    |
| Foreign currency forwards                             | 0  | 17   | 0  | 17                     |
| Foreign currency options                              | 0  | 4  | 0  | 4                      |
| Credit default swaps                                  | 0  | 0  | 1  | 1                      |
| Interest rate swaps                                   | 0  | 0  | 1  | 1                      |
| Interest rate swaptions                               | 0  | 20   | 0  | 20                     |
| Total other assets                                    | 0  | 382  | 106  | 488                    |
| Cash and cash equivalents                             | 2,543  | 0  | 0  | 2,543                  |
| Total assets  | \$17,485   | \$46,031   | \$553  | \$64,069               |
| Liabilities:  |  |  |  |                        |
| Foreign currency swaps                                | \$0  | \$15   | \$203  | \$218                  |
| Foreign currency forwards                             | 0  | 582  | 0  | 582                    |
| Foreign currency options                              | 0  | 1  | 0  | 1                      |
| Credit default swaps                                  | 0  | 0  | 4  | 4                      |
| Interest rate swaptions                               | 0  | 32   | 0  | 32                     |
| Total liabilities                                     | \$0  | \$630  | \$207  | \$837                  |

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.

March 31, 2014

| (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 |
|---|----------------|--|---|---|------------------|
| <b>Assets:</b>  |                |  |   |   |                  |
| Securities held to maturity, carried at amortized cost: |                |  |   |   |                  |
| Fixed maturities:                                       |                |  |   |   |                  |
| Government and agencies                                 | \$23,461       | \$25,129   | \$0                                     | \$0                                       | \$25,129         |
| Municipalities  | 409            | 0  | 455                                     | 0   | 455              |
| Mortgage and asset-backed securities                    | 58             | 0  | 20                                      | 41  | 61               |
| Public utilities  | 3,993          | 0  | 4,075                                   | 0   | 4,075            |
| Sovereign and supranational                             | 3,011          | 0  | 3,118                                   | 0   | 3,118            |
| Banks/financial institutions                            | 6,398          | 0  | 6,277                                   | 0   | 6,277            |
| Other corporate   | 3,528          | 0  | 3,701                                   | 0   | 3,701            |
| Total assets  | \$40,858       | \$25,129   | \$17,646                                | \$41                                      | \$42,816         |
| <b>Liabilities:</b>                                     |                |  |   |   |                  |
| Other policyholders' funds                              | \$6,547        | \$0  | \$0                                     | \$6,391                                   | \$6,391          |
| Notes payable (excluding capital leases)                | 4,908          | 0  | 0                                       | 5,389                                     | 5,389            |
| Total liabilities                                       | \$11,455       | \$0  | \$0                                     | \$11,780                                  | \$11,780         |

| (In millions)   | December 31, 2013 |  |   |   |                  |
|---|-------------------|--|---|---|------------------|
|   | 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 |
| <b>Assets:</b>  |                   |  |   |   |                  |
| Securities held to maturity, carried at amortized cost: |                   |  |   |   |                  |
| Fixed maturities:                                       |                   |  |   |   |                  |
| Government and agencies                                 | \$27,362          | \$28,708   | \$0                                     | \$0                                       | \$28,708         |
| Municipalities  | 399               | 0  | 440                                     | 0   | 440              |
| Mortgage and asset-backed securities                    | 58                | 0  | 20                                      | 41  | 61               |
| Public utilities  | 3,900             | 0  | 3,928                                   | 0   | 3,928            |
| Sovereign and supranational                             | 2,941             | 0  | 3,040                                   | 0   | 3,040            |
| Banks/financial institutions                            | 6,310             | 0  | 6,128                                   | 0   | 6,128            |
| Other corporate   | 3,445             | 0  | 3,541                                   | 0   | 3,541            |
| Total assets  | \$44,415          | \$28,708   | \$17,097                                | \$41                                      | \$45,846         |
| <b>Liabilities:</b>                                     |                   |  |   |   |                  |
| Other policyholders' funds                              | \$5,861           | \$0  | \$0                                     | \$5,715                                   | \$5,715          |
| Notes payable (excluding capital leases)                | 4,891             | 0  | 0                                       | 5,241                                     | 5,241            |
| Total liabilities                                       | \$10,752          | \$0  | \$0                                     | \$10,956                                  | \$10,956         |

#### 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.

A third party pricing vendor has developed valuation models to determine fair values of privately issued securities to reflect the impact of the persistent economic environment and the changing regulatory framework. These models are discounted cash flow (DCF) valuation 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 security 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



security(ies) 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 Valuation 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. We have performed verification of the inputs and calculations in any valuation 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.



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| (In millions)   | March 31, 2014<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|---|--|--|--|------------------------|
| Securities available for sale, carried at fair value: |  |  |  |                        |
| Fixed maturities:                                     |  |  |  |                        |
| Government and agencies:                              |  |  |  |                        |
| Third party pricing vendor                            | \$18,407   | \$499  | \$0  | \$18,906               |
| Total government and agencies                         | 18,407   | 499  | 0  | 18,906                 |
| Municipalities:                                       |  |  |  |                        |
| Third party pricing vendor                            | 0  | 1,097  | 0  | 1,097                  |
| Total municipalities                                  | 0  | 1,097  | 0  | 1,097                  |
| Mortgage- and asset-backed securities:                |  |  |  |                        |
| Third party pricing vendor                            | 0  | 404  | 0  | 404                    |
| Broker/other  | 0  | 0  | 262  | 262                    |
| Total mortgage- and asset-backed securities           | 0  | 404  | 262  | 666                    |
| Public utilities:                                     |  |  |  |                        |
| Third party pricing vendor                            | 0  | 7,926  | 0  | 7,926                  |
| Total public utilities                                | 0  | 7,926  | 0  | 7,926                  |
| Sovereign and supranational:                          |  |  |  |                        |
| Third party pricing vendor                            | 0  | 1,544  | 0  | 1,544                  |
| Total sovereign and supranational                     | 0  | 1,544  | 0  | 1,544                  |
| Banks/financial institutions:                         |  |  |  |                        |
| Third party pricing vendor                            | 0  | 6,767  | 0  | 6,767                  |
| Broker/other  | 0  | 0  | 25   | 25                     |
| Total banks/financial institutions                    | 0  | 6,767  | 25   | 6,792                  |
| Other corporate:                                      |  |  |  |                        |
| Third party pricing vendor                            | 0  | 27,350   | 0  | 27,350                 |
| Total other corporate                                 | 0  | 27,350   | 0  | 27,350                 |
| Total fixed maturities                                | 18,407   | 45,587   | 287  | 64,281                 |
| Perpetual securities:                                 |  |  |  |                        |
| Banks/financial institutions:                         |  |  |  |                        |
| Third party pricing vendor                            | 0  | 2,731  | 56   | 2,787                  |
| Total banks/financial institutions                    | 0  | 2,731  | 56   | 2,787                  |
| Other corporate:                                      |  |  |  |                        |
| Third party pricing vendor                            | 0  | 229  | 0  | 229                    |
| Total other corporate                                 | 0  | 229  | 0  | 229                    |
| Total perpetual securities                            | 0  | 2,960  | 56   | 3,016                  |
| Equity securities:                                    |  |  |  |                        |
| Third party pricing vendor                            | 14   | 4  | 0  | 18                     |
| Broker/other  | 0  | 0  | 3  | 3                      |
| Total equity securities                               | 14   | 4  | 3  | 21                     |
| Total securities available for sale                   | \$18,421   | \$48,551   | \$346  | \$67,318               |



| (In millions)  | March 31, 2014<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|--|--|--|--|------------------------|
| Securities held to maturity, carried at<br>amortized cost: |  |  |  |                        |
| Fixed maturities:  |  |  |  |                        |
| Government and agencies:                                   |  |  |  |                        |
| Third party pricing vendor                                 | \$25,129   | \$0  | \$0  | \$25,129               |
| Total government and agencies                              | 25,129   | 0  | 0  | 25,129                 |
| Municipalities:  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 455  | 0  | 455                    |
| Total municipalities                                       | 0  | 455  | 0  | 455                    |
| Mortgage- and asset-backed<br>securities:                  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 20   | 0  | 20                     |
| Broker/other   | 0  | 0  | 41   | 41                     |
| Total mortgage- and<br>asset-backed securities             | 0  | 20   | 41   | 61                     |
| Public utilities:  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 4,075  | 0  | 4,075                  |
| Total public utilities                                     | 0  | 4,075  | 0  | 4,075                  |
| Sovereign and supranational:                               |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 3,118  | 0  | 3,118                  |
| Total sovereign and<br>supranational                       | 0  | 3,118  | 0  | 3,118                  |
| Banks/financial institutions:                              |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 6,277  | 0  | 6,277                  |
| Total banks/financial institutions                         | 0  | 6,277  | 0  | 6,277                  |
| Other corporate:   |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 3,669  | 0  | 3,669                  |
| Broker/other   | 0  | 32   | 0  | 32                     |
| Total other corporate                                      | 0  | 3,701  | 0  | 3,701                  |
| Total securities held to<br>maturity                       | \$25,129   | \$17,646   | \$41   | \$42,816               |

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| (In millions)   | December 31, 2013<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|---|---|--|--|------------------------|
| Securities available for sale, carried at fair value: |   |  |  |                        |
| Fixed maturities:                                     |   |  |  |                        |
| Government and agencies:                              |   |  |  |                        |
| Third party pricing vendor                            | \$ 14,928   | \$ 504   | \$ 0   | \$ 15,432              |
| Total government and agencies                         | 14,928  | 504  | 0  | 15,432                 |
| Municipalities:                                       |   |  |  |                        |
| Third party pricing vendor                            | 0   | 1,051  | 0  | 1,051                  |
| Total municipalities                                  | 0   | 1,051  | 0  | 1,051                  |
| Mortgage- and asset-backed securities:                |   |  |  |                        |
| Third party pricing vendor                            | 0   | 402  | 0  | 402                    |
| Broker/other  | 0   | 0  | 369  | 369                    |
| Total mortgage- and asset-backed securities           | 0   | 402  | 369  | 771                    |
| Public utilities:                                     |   |  |  |                        |
| Third party pricing vendor                            | 0   | 7,562  | 0  | 7,562                  |
| Total public utilities                                | 0   | 7,562  | 0  | 7,562                  |
| Sovereign and supranational:                          |   |  |  |                        |
| Third party pricing vendor                            | 0   | 1,523  | 0  | 1,523                  |
| Total sovereign and supranational                     | 0   | 1,523  | 0  | 1,523                  |
| Banks/financial institutions:                         |   |  |  |                        |
| Third party pricing vendor                            | 0   | 6,486  | 0  | 6,486                  |
| Broker/other  | 0   | 0  | 23   | 23                     |
| Total banks/financial institutions                    | 0   | 6,486  | 23   | 6,509                  |
| Other corporate:                                      |   |  |  |                        |
| Third party pricing vendor                            | 0   | 25,220   | 0  | 25,220                 |
| Broker/other  | 0   | 2  | 0  | 2                      |
| Total other corporate                                 | 0   | 25,222   | 0  | 25,222                 |
| Total fixed maturities                                | 14,928  | 42,750   | 392  | 58,070                 |
| Perpetual securities:                                 |   |  |  |                        |
| Banks/financial institutions:                         |   |  |  |                        |
| Third party pricing vendor                            | 0   | 2,686  | 52   | 2,738                  |
| Total banks/financial institutions                    | 0   | 2,686  | 52   | 2,738                  |
| Other corporate:                                      |   |  |  |                        |
| Third party pricing vendor                            | 0   | 209  | 0  | 209                    |
| Total other corporate                                 | 0   | 209  | 0  | 209                    |
| Total perpetual securities                            | 0   | 2,895  | 52   | 2,947                  |
| Equity securities:                                    |   |  |  |                        |
| Third party pricing vendor                            | 14  | 4  | 0  | 18                     |
| Broker/other  | 0   | 0  | 3  | 3                      |
| Total equity securities                               | 14  | 4  | 3  | 21                     |
|   | \$14,942  | \$45,649   | \$447  | \$61,038               |

Total securities available for  
sale  
42

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| (In millions)  | December 31, 2013  |  |  |                        |
|--|--|--|--|------------------------|
|  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| Securities held to maturity, carried at<br>amortized cost: |  |  |  |                        |
| Fixed maturities:  |  |  |  |                        |
| Government and agencies:                                   |  |  |  |                        |
| Third party pricing vendor                                 | \$28,708   | \$0  | \$0  | \$28,708               |
| Total government and agencies                              | 28,708   | 0  | 0  | 28,708                 |
| Municipalities:  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 440  | 0  | 440                    |
| Total municipalities                                       | 0  | 440  | 0  | 440                    |
| Mortgage- and asset-backed<br>securities:                  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 20   | 0  | 20                     |
| Broker/other   | 0  | 0  | 41   | 41                     |
| Total mortgage- and<br>asset-backed securities             | 0  | 20   | 41   | 61                     |
| Public utilities:  |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 3,928  | 0  | 3,928                  |
| Total public utilities                                     | 0  | 3,928  | 0  | 3,928                  |
| Sovereign and supranational:                               |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 3,040  | 0  | 3,040                  |
| Total sovereign and<br>supranational                       | 0  | 3,040  | 0  | 3,040                  |
| Banks/financial institutions:                              |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 6,128  | 0  | 6,128                  |
| Total banks/financial institutions                         | 0  | 6,128  | 0  | 6,128                  |
| Other corporate:   |  |  |  |                        |
| Third party pricing vendor                                 | 0  | 3,509  | 0  | 3,509                  |
| Broker/other   | 0  | 32   | 0  | 32                     |
| Total other corporate                                      | 0  | 3,541  | 0  | 3,541                  |
| Total securities held to<br>maturity                       | \$28,708   | \$17,097   | \$41   | \$45,846               |

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.

## 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

March 31, 2014

| (In millions)  | Fixed Maturities                                   |                     |                                   |                                     |                    | Perpetual Equity Securities         |      | Derivatives <sup>(1)</sup> |                              |                            | Total  |
|--|--|---------------------|-----------------------------------|-------------------------------------|--------------------|-------------------------------------|------|----------------------------|------------------------------|----------------------------|--------|
|  | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Sovereign<br>and<br>Supranational | Banks/<br>Financial<br>Institutions | Other<br>Corporate | Banks/<br>Financial<br>Institutions |      | Interest<br>Rate<br>Swaps  | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps |        |
| Balance,<br>beginning of<br>period   | \$369  | \$ 0                | \$ 0                              | \$ 23                               | \$ 0               | \$ 52                               | \$ 3 | \$1                        | \$ (99 )                     | \$(3 )                     | \$346  |
| Realized<br>investment gains<br>(losses) included<br>in earnings   | 0  | 0                   | 0                                 | 0                                   | 0                  | 0                                   | 0    | (1 )                       | (10 )                        | 2                          | (9 )   |
| Unrealized gains<br>(losses) included<br>in other<br>comprehensive<br>income (loss)  | (104 )   | 0                   | 0                                 | 2                                   | 0                  | 4                                   | 0    | 0                          | (1 )                         | 0                          | (99 )  |
| Purchases,<br>issuances, sales<br>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  | (3 )   | 0                   | 0                                 | 0                                   | 0                  | 0                                   | 0    | 0                          | 24                           | 0                          | 21     |
| Transfers into<br>Level 3  | 0  | 0                   | 0                                 | 0                                   | 0                  | 0                                   | 0    | 0                          | 0                            | 0                          | 0      |
| Transfers out of<br>Level 3  | 0  | 0                   | 0                                 | 0                                   | 0                  | 0                                   | 0    | 0                          | 0                            | 0                          | 0      |
| Balance, end of<br>period  | \$262  | \$ 0                | \$ 0                              | \$ 25                               | \$ 0               | \$ 56                               | \$ 3 | \$0                        | \$ (86 )                     | \$(1 )                     | \$259  |
| Changes in<br>unrealized gains<br>(losses) relating<br>to Level 3 assets<br>and liabilities still<br>held at<br>the end of the<br>period included in<br>realized<br>investment gains<br>(losses) | \$0  | \$ 0                | \$ 0                              | \$ 0                                | \$ 0               | \$ 0                                | \$ 0 | \$(1 )                     | \$(10 )                      | \$2                        | \$(9 ) |

<sup>(1)</sup> Derivative assets and liabilities are presented net

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Three Months Ended  
March 31, 2013

| (In millions)  | Fixed Maturities                                   |                     |                                   |                                     | Perpetual Equity Securities |                                     | Derivatives <sup>(1)</sup> |                              |                            |        |         |
|--|--|---------------------|-----------------------------------|-------------------------------------|-----------------------------|-------------------------------------|----------------------------|------------------------------|----------------------------|--------|---------|
|  | Mortgage-<br>and<br>Asset-<br>Backed<br>Securities | Public<br>Utilities | Sovereign<br>and<br>Supranational | Banks/<br>Financial<br>Institutions | Other<br>Corporate          | Banks/<br>Financial<br>Institutions | Interest<br>Rate<br>Swaps  | Foreign<br>Currency<br>Swaps | Credit<br>Default<br>Swaps | Total  |         |
| Balance,<br>beginning of<br>period   | \$338  | \$420               | \$418                             | \$1,024                             | \$986                       | \$215                               | \$4                        | \$29                         | \$(172)                    | \$(65) | \$3,197 |
| Realized<br>investment gains<br>(losses) included<br>in earnings   | 0  | 0                   | 0                                 | 0                                   | 0                           | 0                                   | 0                          | (4)                          | (5)                        | 11     | 2       |
| Unrealized gains<br>(losses) included<br>in other<br>comprehensive<br>income (loss)  | (21)   | (20)                | 0                                 | (1)                                 | 0                           | 0                                   | 0                          | 0                            | (7)                        | 0      | (49)    |
| Purchases,<br>issuances, sales<br>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                          | 0                            | 0                          | 0      | (400)   |
| Settlements  | (3)  | 0                   | 0                                 | 0                                   | 0                           | 0                                   | 0                          | 0                            | 0                          | 0      | (3)     |
| Transfers into<br>Level 3 <sup>(2)</sup>   | 125  | 0                   | 0                                 | 0                                   | 0                           | 0                                   | 0                          | 0                            | 0                          | 0      | 125     |
| Transfers out of<br>Level 3 <sup>(3)</sup>   | 0  | 0                   | (418)                             | (997)                               | (986)                       | (215)                               | 0                          | 0                            | 0                          | 0      | (2,616) |
| Balance, end of<br>period  | \$439  | \$0                 | \$0                               | \$26                                | \$0                         | \$0                                 | \$4                        | \$25                         | \$(184)                    | \$(54) | \$256   |
| Changes in<br>unrealized gains<br>(losses) relating<br>to Level 3 assets<br>and liabilities still<br>held at<br>the end of the<br>period included in<br>realized<br>investment gains<br>(losses) | \$0  | \$0                 | \$0                               | \$0                                 | \$0                         | \$0                                 | \$0                        | \$(4)                        | \$(5)                      | \$11   | \$2     |

<sup>(1)</sup> Derivative assets and liabilities are presented net

<sup>(2)</sup> Due to a lack of visibility to observe significant inputs to price

<sup>(3)</sup> A result of changing our pricing methodology to a valuation method that uses observable market data as significant inputs to estimate fair value



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 three-month period ended March 31, 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 securities 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-month periods ended March 31, 2014 and 2013.

#### 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.

March 31, 2014

| (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                 | \$262      | Consensus pricing      | Offered quotes         | N/A                      | (e) |
| Banks/financial institutions                          | 25         | Consensus pricing      | Offered quotes         | N/A                      | (e) |
| Perpetual securities:                                 |            |                        |                        |                          |     |
| Banks/financial institutions                          | 56         | Model pricing          | Offered quotes         | N/A                      | (e) |
| Equity securities                                     | 3          | Net asset value        | Offered quotes         | \$1-\$793 (\$7)          |     |
| Other assets:   |            |                        |                        |                          |     |
| Foreign currency swaps                                | 30         | Discounted cash flow   | Interest rates (USD)   | 2.84% - 3.56%            | (b) |
|   |            |                        | Interest rates (JPY)   | .83% - 1.96%             | (c) |
|   |            |                        | CDS spreads            | 11 - 124 bps             |     |
|   |            |                        | Foreign exchange rates | 20.45%                   | (d) |
|   | 8          | Discounted cash flow   | Interest rates (USD)   | 2.84% - 3.56%            | (b) |
|   |            |                        | Interest rates (JPY)   | .83% - 1.96%             | (c) |
|   |            |                        | CDS spreads            | 21 - 120 bps             |     |
|   |            |                        | Interest rates (USD)   | 2.84% - 3.56%            | (b) |
|   | 68         | Discounted cash flow   | Interest rates (JPY)   | .83% - 1.96%             | (c) |
|   |            |                        | Foreign exchange rates | 20.45%                   | (d) |
|   |            |                        | Base correlation       | 65% - 75% (72%)          | (a) |
|   |            |                        | CDS spreads            | 66 - 101 (86) bps        |     |
|   |            |                        | Recovery rate          | 37.00%                   |     |
| Credit default swaps                                  | 1          | Discounted cash flow   |                        |                          |     |
| Total assets  | \$453      |                        |                        |                          |     |

(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.

March 31, 2014

| (In millions)          | Fair Value | Valuation Technique(s) | Unobservable Input     | Range (Weighted Average) |
|------------------------|------------|------------------------|------------------------|--------------------------|
| Liabilities:           |            |                        |                        |                          |
| Foreign currency swaps | 100        | Discounted cash flow   | Interest rates (USD)   | 2.84% - 3.56% (b)        |
|                        |            |                        | Interest rates (JPY)   | .83% - 1.96% (c)         |
|                        |            |                        | CDS spreads            | 11 - 124 bps             |
|                        |            |                        | Foreign exchange rates | 20.45% (d)               |
|                        | 25         | Discounted cash flow   | Interest rates (USD)   | 2.84% - 3.56% (b)        |
|                        |            |                        | Interest rates (JPY)   | .83% - 1.96% (c)         |
|                        |            |                        | CDS spreads            | 10 - 177 bps             |
|                        | 67         | Discounted cash flow   | Interest rates (USD)   | 2.84% - 3.56% (b)        |
|                        |            |                        | Interest rates (JPY)   | .83% - 1.96% (c)         |
|                        |            |                        | Foreign exchange rates | 20.45% (d)               |
|                        |            |                        | Base correlations      | 65% - 75% (a)            |
|                        | 2          | Discounted cash flow   | CDS spreads            | 66 - 101 (86) bps        |
|                        |            |                        | Recovery rate          | 37.00%                   |
| Total liabilities      |            |                        | \$194                  |                          |

(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

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December 31, 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                 | \$369      | Consensus pricing      | Offered quotes         | N/A                      | (e) |
| Banks/financial institutions                          | 23         | Consensus pricing      | Offered quotes         | N/A                      | (e) |
| Perpetual securities:                                 |            |                        |                        |                          |     |
| Banks/financial institutions                          | 52         | Consensus pricing      | Offered quotes         | N/A                      | (e) |
| Equity securities                                     | 3          | Net asset value        | Offered quotes         | \$1-\$774 (\$7)          |     |
| Other assets:   |            |                        |                        |                          |     |
| Foreign currency swaps                                | 30         | Discounted cash flow   | Interest rates (USD)   | 3.09% - 3.96%            | (b) |
|   |            |                        | Interest rates (JPY)   | .93% - 2.02%             | (c) |
|   |            |                        | CDS spreads            | 16 - 141 bps             |     |
|   |            |                        | Foreign exchange rates | 21.16%                   | (d) |
|   | 9          | Discounted cash flow   | Interest rates (USD)   | 3.09% - 3.96%            | (b) |
|   |            |                        | Interest rates (JPY)   | .93% - 2.02%             | (c) |
|   |            |                        | CDS spreads            | 17 - 149 bps             |     |
|   |            |                        | Interest rates (USD)   | 3.09% - 3.96%            | (b) |
|   | 65         | Discounted cash flow   | Interest rates (JPY)   | .93% - 2.02%             | (c) |
|   |            |                        | Foreign exchange rates | 21.16%                   | (d) |
|   |            |                        | Base correlation       | 65% - 76% (72%)          | (a) |
|   |            |                        | CDS spreads            | 65 - 106 (92) bps        |     |
| Credit default swaps                                  | 1          | Discounted cash flow   | Recovery rate          | 37.00%                   |     |
|   |            |                        | Base correlation       | 65% - 76% (72%)          | (a) |
|   |            |                        | CDS spreads            | 65 - 106 (92) bps        |     |
|   |            |                        | Recovery rate          | 37.00%                   |     |
| Interest rate swaps                                   | 1          | Discounted cash flow   | Base correlation       | 65% - 76% (72%)          | (a) |
|   |            |                        | CDS spreads            | 65 - 106 (92) bps        |     |
|   |            |                        | Recovery rate          | 37.00%                   |     |
|   |            |                        | Recovery rate          | 37.00%                   |     |
| Total assets  | \$553      |                        |                        |                          |     |

(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, 2013

| (In millions)          | Fair Value | Valuation Technique(s) | Unobservable Input     | Range (Weighted Average) |
|------------------------|------------|------------------------|------------------------|--------------------------|
| <b>Liabilities:</b>    |            |                        |                        |                          |
| Foreign currency swaps | 99         | Discounted cash flow   | Interest rates (USD)   | 3.09% - 3.96% (b)        |
|                        |            |                        | Interest rates (JPY)   | .93% - 2.02% (c)         |
|                        |            |                        | CDS spreads            | 16 - 141 bps             |
|                        |            |                        | Foreign exchange rates | 21.16% (d)               |
|                        | 24         | Discounted cash flow   | Interest rates (USD)   | 3.09% - 3.96% (b)        |
|                        |            |                        | Interest rates (JPY)   | .93% - 2.02% (c)         |
|                        |            |                        | CDS spreads            | 11 - 189 bps             |
|                        | 80         | Discounted cash flow   | Interest rates (USD)   | 3.09% - 3.96% (b)        |
|                        |            |                        | Interest rates (JPY)   | .93% - 2.02% (c)         |
|                        |            |                        | Foreign exchange rates | 21.16% (d)               |
|                        |            |                        | Base correlations      | 65% - 76% (a)            |
|                        |            |                        | CDS spreads            | 65 - 106 (92) bps        |
|                        |            |                        | Recovery rate          | 37.00%                   |
| Credit default swaps   | 4          | Discounted cash flow   |                        |                          |
| Total liabilities      | \$207      |                        |                        |                          |

(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.

#### 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, 2013.

## 6. REINSURANCE

Effective 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 remaining deferred profit liability of \$625 million, as of March 31, 2014, included in future policy benefits in the consolidated balance sheet, is being amortized into income over the expected lives of the policies. The corresponding reinsurance recoverable is included in other assets in the consolidated balance sheet and totaled \$633 million as of March 31, 2014.

The following table outlines the effect of reinsurance on premiums written and earned and on benefits and claims.

| (In millions)  | Three Months Ended<br>March 31, 2014 |
|--|--------------------------------------|
| Direct premium income                                      | \$4,933                              |
| Ceded to other companies:                                  |                                      |
| Ceded Aflac Japan closed medical block                     | (73 )                                |
| Other  | (9 )                                 |
| Assumed from other companies                               | 3                                    |
| Net premium income   | \$4,854                              |
| Direct benefits and claims                                 | \$3,289                              |
| Ceded benefits and change in reserves for future benefits: |                                      |
| Ceded Aflac Japan closed medical block                     | (64 )                                |
| Other  | (7 )                                 |
| Assumed from other companies                               | 2                                    |



Benefits and claims, net

\$ 3,220

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.

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## 7. NOTES PAYABLE

A summary of notes payable follows:

| (In millions)   | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| 3.45% senior notes due August 2015  | \$300          | \$300             |
| 2.65% senior notes due February 2017  | 655 (1)        | 655 (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            | 700               |
| 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)                                       | 78             | 76                |
| Yen-denominated Samurai notes:  |                |                   |
| 1.47% notes due July 2014 (principal amount 28.7 billion yen)   | 279            | 272               |
| 1.84% notes due July 2016 (principal amount 15.8 billion yen)   | 154            | 150               |
| Variable interest rate notes due July 2014 (1.30% in 2014 and 2013, principal amount 5.5 billion yen) | 53             | 52                |
| Yen-denominated loans:  |                |                   |
| 3.60% loan due July 2015 (principal amount 10 billion yen)  | 97             | 95                |
| 3.00% loan due August 2015 (principal amount 5 billion yen)   | 49             | 48                |
| Capitalized lease obligations payable through 2018  | 5              | 6                 |
| Total notes payable   | \$4,913        | \$4,897           |

(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

The Parent Company and Aflac have a 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 March 31, 2014, 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 March 31, 2014. No events of default or defaults occurred during the three-month period ended March 31, 2014.

For additional information, see Notes 4 and 9 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013.

## 8. SHAREHOLDERS' EQUITY

The following table is a reconciliation of the number of shares of the Company's common stock for the three-month periods ended March 31.

| (In thousands of shares)                                    | 2014    | 2013    |
|---|---------|---------|
| Common stock - issued:                                      |         |         |
| Balance, beginning of period                                | 667,046 | 665,239 |
| Exercise of stock options and issuance of restricted shares | 574     | 539     |
| Balance, end of period                                      | 667,620 | 665,778 |
| Treasury stock:   |         |         |
| Balance, beginning of period                                | 207,633 | 197,453 |
| Purchases of treasury stock:                                |         |         |
| Open market   | 6,535   | 2,979   |
| Other   | 110     | 124     |
| Dispositions of treasury stock:                             |         |         |
| Shares issued to AFL Stock Plan                             | (284 )  | (364 )  |
| Exercise of stock options                                   | (281 )  | (294 )  |
| Other   | (121 )  | (145 )  |
| Balance, end of period                                      | 213,592 | 199,753 |
| Shares outstanding, end of period                           | 454,028 | 466,025 |

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<br>March 31, |       |
|----------------------------------|---------------------------------|-------|
| (In thousands)                   | 2014                            | 2013  |
| Anti-dilutive share-based awards | 492                             | 3,623 |

## Share Repurchase Program

During the first three months of 2014, we repurchased 6.5 million shares of our common stock in the open market for \$415 million as part of our share repurchase program. During the first three months of 2013, we repurchased 3.0 million shares of our common stock in the open market for \$150 million as part of our share repurchase program. As of March 31, 2014, a remaining balance of 42.7 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors.

## Reclassifications from Accumulated Other Comprehensive Income

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

Changes in Accumulated Other Comprehensive Income  
Three Months Ended  
March 31, 2014

| (In millions)  | Unrealized<br>Foreign<br>Currency<br>Translation<br>Gains (Losses) | Unrealized<br>Gains (Losses)<br>on Investment<br>Securities | Unrealized<br>Gains (Losses)<br>on Derivatives | Pension<br>Liability<br>Adjustment | Total    |
|--|--|---|--|------------------------------------|----------|
| Balance, beginning of period   | \$(1,505 )   | \$1,035   | \$(12 )  | \$(81 )                            | \$(563 ) |
| Other comprehensive<br>income before<br>reclassification               | (14 )  | 910   | (1 )   | (1 )                               | 894      |
| Amounts reclassified from<br>accumulated other<br>comprehensive income | (23 )  | (1 )  | 0  | 0                                  | (24 )    |
| Net current-period other<br>comprehensive<br>income                    | (37 )  | 909   | (1 )   | (1 )                               | 870      |
| Balance, end of period   | \$(1,542 )   | \$1,944   | \$(13 )  | \$(82 )                            | \$307    |

All amounts in the table above are net of tax.

Three Months Ended  
March 31, 2013

| (In millions)  | Unrealized<br>Foreign<br>Currency<br>Translation<br>Gains (Losses) | Unrealized<br>Gains (Losses)<br>on Investment<br>Securities | Unrealized<br>Gains (Losses)<br>on Derivatives | Pension<br>Liability<br>Adjustment | Total    |
|--|--|---|--|------------------------------------|----------|
| Balance, beginning of period   | \$333  | \$2,570   | \$(5 )   | \$(183 )                           | \$2,715  |
| Other comprehensive<br>income before<br>reclassification               | (467 )   | (554 )  | (5 )   | 0                                  | (1,026 ) |
| Amounts reclassified from<br>accumulated other<br>comprehensive income | (7 )   | (35 )   | 1  | 3                                  | (38 )    |
| Net current-period other<br>comprehensive<br>income                    | (474 )   | (589 )  | (4 )   | 3                                  | (1,064 ) |
| Balance, end of period   | \$(141 )   | \$1,981   | \$(9 )   | \$(180 )                           | \$1,651  |

All amounts in the table above are net of tax.

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)  | Three Months Ended<br>March 31, 2014                                  |   |
|--|---|---|
| Details about Accumulated Other<br>Comprehensive Income Components | Amount Reclassified from<br>Accumulated Other<br>Comprehensive Income | Affected Line Item in the<br>Statements of Earnings |
| Unrealized foreign currency translation gains<br>(losses)          | \$36  | Sales and redemptions                               |
|  | (13 )   | Tax (expense) or benefit <sup>(1)</sup>             |
|  | \$23  | Net of tax  |
| Unrealized gains (losses) on<br>available-for-sale<br>securities   | \$5   | Sales and redemptions                               |
|  | (3 )  | Other-than-temporary impairment<br>losses realized  |
|  | 2   | Total before tax                                    |
|  | (1 )  | Tax (expense) or benefit <sup>(1)</sup>             |
|  | \$1   | Net of tax  |
| Amortization of defined benefit pension<br>items:                  |   |   |
| Actuarial gains (losses)   | \$(4 )  | Acquisition and operating expenses <sup>(2)</sup>   |
| Prior service cost   | 4   | Acquisition and operating expenses <sup>(2)</sup>   |
|  | 0   | Tax (expense) or benefit <sup>(1)</sup>             |
|  | \$0   | Net of tax  |
| Total reclassifications for the period                             | \$24  | Net of tax  |

<sup>(1)</sup> Based on 35% tax rate

<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 10 for additional details).

| (In millions)  | Three Months Ended<br>March 31, 2013                                  |  |
|--|---|--|
| Details about Accumulated Other<br>Comprehensive Income Components | Amount Reclassified from<br>Accumulated Other<br>Comprehensive Income | Affected Line Item in the<br>Statements of Earnings  |
| Unrealized foreign currency translation gains<br>(losses)          | \$ 10<br>(3 )<br>\$ 7   | Sales and redemptions<br>Tax (expense) or benefit <sup>(1)</sup><br>Net of tax   |
| Unrealized gains (losses) on<br>available-for-sale<br>securities   | \$ 109<br><br>(55 )<br>54<br>(19 )<br>\$ 35                           | Sales and redemptions<br><br>Other-than-temporary impairment<br>losses realized<br>Total before tax<br>Tax (expense) or benefit <sup>(1)</sup><br>Net of tax |
| Gains (losses) on cash flow hedges:<br>Foreign currency swaps      | <br>\$(1 )<br>0<br>\$(1 )   | <br>Derivative and other gains (losses)<br>Tax (expense) or benefit <sup>(1)</sup><br>Net of tax   |
| Amortization of defined benefit pension<br>items:                  |   |  |
| Actuarial gains (losses)   | <br>\$(5 )<br>2<br>\$(3 )   | <br>Acquisition and operating expenses <sup>(2)</sup><br>Tax (expense) or benefit <sup>(1)</sup><br>Net of tax   |
| Total reclassifications for the period                             | 38  | Net of tax   |

<sup>(1)</sup> Based on 35% tax rate

<sup>(2)</sup> 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 March 31, 2014, 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 March 31, 2014, approximately 11.4 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 March 31, 2014.

|             | Stock<br>Option Shares<br>(in thousands) | Weighted-Average<br>Remaining Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in millions) | Weighted-Average<br>Exercise Price Per<br>Share |
|-------------|--|--|--|---|
| Outstanding | 9,994                                    | 4.9  | \$151  | \$47.98   |
| Exercisable | 8,137                                    | 4.1  | 132  | 46.89   |

We received cash from the exercise of stock options in the amount of \$18 million during the first three months of 2014, compared with \$15 million in the first three months of 2013. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$11 million in the first three months of 2014, compared with \$9 million in the first three months of 2013.

As of March 31, 2014, total compensation cost not yet recognized in our financial statements related to restricted stock awards was \$65 million, of which \$33 million (954 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 2.0 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 12 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2013.

## 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. 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 whose age plus service, in years, equals or exceeds 80 (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 was accounted for as a negative plan amendment and resulted in a reduction to the postretirement benefit obligation of approximately \$51 million, with an offset to accumulated other comprehensive income (AOCI). Starting in the fourth quarter of 2013, this reduction is being amortized as a reduction to net periodic benefit cost over three years. The postretirement plan obligation was remeasured using a discount rate of 4.75% as of October 1, 2013. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

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



| (In millions)                            | Three Months Ended March 31,<br>Pension Benefits |      |              |      | Other<br>Postretirement Benefits |      |
|--|--|------|--------------|------|----------------------------------|------|
|  | Japan<br>2014                                    | 2013 | U.S.<br>2014 | 2013 | 2014                             | 2013 |
| Components of net periodic benefit cost: |  |      |              |      |                                  |      |
| Service cost                             | \$4  | \$4  | \$5          | \$5  | \$0                              | \$2  |
| Interest cost                            | 2  | 2    | 7            | 7    | 0                                | 1    |
| Expected return on plan assets           | (1 )   | (1 ) | (5 )         | (4 ) | 0                                | 0    |
| Amortization of net actuarial loss       | 0  | 1    | 3            | 4    | 1                                | 0    |
| Amortization of prior service cost       | 0  | 0    | 0            | 0    | (4 )                             | 0    |
| Net periodic (benefit) cost              | \$5  | \$6  | \$10         | \$12 | \$(3)                            | \$3  |

During the three months ended March 31, 2014, Aflac Japan contributed approximately \$6 million (using the weighted-average yen/dollar exchange rate for the three-month period ending March 31, 2014) to the Japanese funded defined benefit plan, and Aflac U.S. did not make a contribution to the U.S. funded defined benefit plan.

For additional information regarding our Japanese and U.S. benefit plans, see Note 14 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013.

## 11. COMMITMENTS AND CONTINGENT LIABILITIES

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

## 12. SUBSEQUENT EVENTS

In April 2014, we entered into foreign exchange forwards as an economic hedge on 5.0 billion yen of the profit repatriation expected to be received in July 2015.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD-LOOKING INFORMATION

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

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

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and credit downgrades of securities in our investment portfolio
- exposure to significant financial and capital markets risk
- fluctuations in foreign currency exchange rates
- significant changes in investment yield rates
- credit and other risks associated with Aflac's investment in perpetual securities
- differing judgments applied to investment valuations
- significant valuation judgments in determination of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular single-issuer or sector
- concentration of business in Japan
- decline in creditworthiness of other financial institutions
- deviations in actual experience from pricing and reserving assumptions
- subsidiaries' ability to pay dividends to Aflac Incorporated
- changes in law or regulation by governmental authorities
- ability to attract and retain qualified sales associates and employees
- decreases in our financial strength or debt ratings
- ability to continue to develop and implement improvements in information technology systems
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems
- changes in U.S. and/or Japanese accounting standards
- failure to comply with restrictions on patient privacy and information security
- inability to recognize tax benefits associated with capital loss carryforwards
- level and outcome of litigation
- ability to effectively manage key executive succession
- catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, acts of terrorism and damage incidental to such events

•ongoing changes in our industry  
•events that damage our reputation  
•failure of internal controls or corporate governance policies and procedures

## MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-month periods ended March 31, 2014 and 2013. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2013. This MD&A is divided into the following sections:

Our Business

Performance Highlights

Critical Accounting Estimates

Results of Operations, consolidated and by segment

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

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

## OUR BUSINESS

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

## PERFORMANCE HIGHLIGHTS

Yen-denominated income comprises a large percentage of our business; in the first quarter of 2014, yen-denominated net income accounted for 82.2% of our total net earnings. Yen-denominated income statement accounts are translated to U.S. dollars using a weighted-average Japanese yen/U.S. dollar foreign exchange rate, while yen-denominated balance sheet accounts are translated to U.S. dollars using a spot Japanese yen/U.S. dollar foreign exchange rate. The spot and weighted-average yen/dollar exchange rates at March 31, 2014 were 102.92 and 102.70, or 8.6% and 9.8% weaker than the March 31, 2013 spot and weighted-average yen/dollar exchange rates of 94.05 and 92.59, respectively. Reflecting the weaker yen/dollar exchange rate, revenues were \$5.6 billion in the first quarter of 2014, compared with \$6.2 billion in the first quarter of 2013. Net earnings were \$732 million, or \$1.60 per diluted share, compared with \$892 million, or \$1.90 per diluted share, in the first quarter of 2013.

Results in the first quarter of 2014 included pretax net realized investment losses of \$46 million (\$30 million after-tax), compared with net realized investment gains of \$156 million (\$102 million after-tax) in the first quarter of 2013. Net investment losses in the first quarter of 2014 included \$3 million (\$2 million after-tax) of other-than-temporary impairment losses; \$41 million of net gains (\$27 million after-tax) from the sale or redemption of securities; and \$84 million of net losses (\$55 million after-tax) from valuing derivatives. Shareholders' equity included a net unrealized gain on investment securities and derivatives of \$1.9 billion at March 31, 2014, compared with a net unrealized gain of \$1.0 billion at December 31, 2013.

In the first three months of 2014, we repurchased 6.5 million shares of our common stock in the open market for \$415 million under our share repurchase program.

## CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to GAAP issued by the FASB are derived from the FASB Accounting Standards Codification<sup>TM</sup>(ASC). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values for which 95% of our assets and 74% of our liabilities are reported as of March 31, 2014, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

There have been no changes in the items that we have identified as critical accounting estimates during the three months ended March 31, 2014. For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2013.

### New Accounting Pronouncements

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

## RESULTS OF OPERATIONS

The following discussion includes references to our performance measures, operating earnings and operating earnings per diluted share, that are not based on accounting principles generally accepted in the United States of America ("GAAP"). Operating earnings is the measure of segment profit or loss we use to evaluate segment performance and allocate resources. Consistent with GAAP accounting guidance for segment reporting, operating earnings is our measure of segment performance. Aflac believes that an analysis of operating earnings is vitally important to an understanding of our underlying profitability drivers and trends of our insurance business.

Furthermore,

because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

Aflac defines operating earnings (a non-GAAP financial measure) as the profits derived from operations.

Operating earnings includes interest cash flows associated with notes payable but excludes items that cannot be predicted or that are outside of management's control, such as realized investment gains and losses (securities transactions, impairments, and derivative and hedging activities), nonrecurring items, and other non-operating income (loss) from net earnings. Aflac's derivative activities include: foreign currency, interest rate and credit default swaps in variable interest entities that are consolidated; foreign currency swaps associated with certain senior notes and our subordinated debentures; foreign currency forwards used in hedging foreign exchange risk and options on interest rate swaps (or interest rate swaptions) used in hedging interest rate risk on U.S. dollar-denominated securities in Aflac Japan's portfolio; and foreign currency forwards and options used to hedge certain portions of forecasted cash flows denominated in yen. Our management uses operating earnings to evaluate the financial performance of Aflac's insurance operations because realized investment gains and losses and other and nonrecurring items tend to be driven by general economic conditions and events or related to infrequent activities not directly associated with our insurance operations, and therefore may obscure the underlying fundamentals and trends in Aflac's insurance operations.

The following table is a reconciliation of items impacting operating and net earnings and operating and net earnings per diluted share.

## Reconciliation of Operating Earnings to Net Earnings

|   | In Millions                  |       | Per Diluted Share |        |
|---|------------------------------|-------|-------------------|--------|
|   | Three Months Ended March 31, |       |                   |        |
|   | 2014                         | 2013  | 2014              | 2013   |
| Operating earnings                                  | \$774                        | \$790 | \$1.69            | \$1.69 |
| Items impacting net earnings, net of tax:           |                              |       |                   |        |
| Realized investment gains (losses):                 |                              |       |                   |        |
| Securities transactions and impairments             | 25                           | 42    | .05               | .08    |
| Impact of derivative and hedging activities:        |                              |       |                   |        |
| Hedge costs related to foreign currency investments | (6 )                         | (3 )  | (.01 )            | (.01 ) |
| Other derivative and hedging activities             | (55 ) <sup>(1)</sup>         | 63    | (.12 )            | .14    |
| Other and non-recurring income (loss)               | (6 )                         | 0     | (.01 )            | .00    |
| Net earnings  | \$732                        | \$892 | \$1.60            | \$1.90 |

<sup>(1)</sup> Excludes a gain of \$6, after tax, in 2014 related to the interest rate component of the change in fair value of foreign currency swaps on notes payable which is classified as an operating gain when analyzing segment operations

## Realized Investment Gains and Losses

Our investment strategy is to invest in fixed-income securities to provide a reliable stream of investment income, which is one of the drivers of the Company's profitability. This investment strategy incorporates asset-liability matching (ALM) to align the expected cash flows of the portfolio to the needs of the Company's liability structure. We do not

purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio management and rebalancing. The realization of investment gains and losses is independent of the underwriting and administration of our insurance products, which are the principal drivers of our profitability.

## Securities Transactions and Impairments

During the three-month period ended March 31, 2014, we realized pretax investment gains, net of losses, of \$41 million (\$27 million after-tax) from sales and redemptions of securities. We realized pretax investment losses of \$3 million (\$2 million after-tax) as a result of the recognition of other-than-temporary impairment losses on certain securities.

During the three-month period ended March 31, 2013, we realized pretax investment gains, net of losses, of \$119 million (\$77 million after-tax) from sales and redemptions of securities. We realized pretax investment losses of \$55 million (\$35 million after-tax) as a result of the recognition of other-than-temporary impairment losses.

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

The following table details our pretax impairment losses by investment category.

| (In millions)  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2014                            | 2013 |
| Corporate bonds  | \$3                             | \$38 |
| Sovereign and supranational  | 0                               | 16   |
| Equity securities  | 0                               | 1    |
| Total other-than-temporary impairment losses realized <sup>(1)</sup> | \$3                             | \$55 |

<sup>(1)</sup> Includes \$0 and \$1 for the three-month periods ended March 31, 2014 and 2013, respectively, for impairments due to severity and duration of decline in fair value and \$3 and \$54 for the three-month periods ended March 31, 2014 and 2013, respectively, from change in intent to sell securities

### Impact of Derivative and Hedging Activities

Our derivative activities include foreign currency swaps, credit default swaps and interest rate swaps in VIEs that are consolidated; foreign currency forwards, interest rate swaptions and futures on certain fixed-maturity securities; foreign currency forwards and options that hedge certain portions of forecasted cash flows denominated in yen; foreign currency interest rate swaps associated with certain senior notes and our subordinated debentures; and an interest rate swap associated with our variable interest rate yen-denominated debt. During the three-month period ended March 31, 2014, we realized pretax investment losses, net of gains, of \$84 million (\$55 million after-tax), compared with pretax investment gains, net of losses, of \$92 million (\$60 million after-tax) for the same period in 2013, as a result of valuing these derivatives, net of the effects of hedge accounting. For a description of other items that could be included in the Impact of Derivative and Hedging Activities, see the Hedging Activities subsection of MD&A and Note 4 of the accompanying Notes to the Consolidated Financial Statements.

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

### Foreign Currency Translation

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

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

### Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 33.7% for the three-month period ended March 31, 2014, compared with 34.5% for the same period in 2013. The decline in the effective tax rate in the first quarter of 2014 was driven by tax benefits related to prior tax returns. We expect that the effective tax rate in future periods will return to a more normalized level of approximately 34% to 34.5%.

### Earnings Guidance

Our objective for 2014 is to increase operating earnings per diluted share by 2% to 5% over 2013, excluding the effect of foreign currency translation. Our 2014 earnings per diluted share objective will benefit significantly from increased share repurchase activities, but will also be challenged by sizeable expenditures in both Japan and the U.S. to enhance our operational infrastructure and an increase in Japan's consumption tax, which rises from 5% to 8% starting in April 2014. Additionally, we estimate the reinsurance agreement entered into at the end of third quarter 2013 will reduce 2014 operating earnings per diluted share by approximately \$.05. As the year progresses, we expect to see increased spending and higher benefit ratios than we experienced in the first quarter of 2014.

If we achieve our objective for 2014, the following table shows the likely results for operating earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.



2014 Operating Earnings Per Diluted Share Scenarios<sup>(1)</sup>

| Weighted-Average<br>Yen/Dollar<br>Exchange Rate | Operating Earnings Per<br>Diluted Share | % Growth<br>Over 2013 | Yen Impact |
|---|---|-----------------------|------------|
| 95  | \$6.40 - 6.58                           | 3.6 - 6.5 %           | \$ .09     |
| 97.54 <sup>(2)</sup>                            | 6.31 - 6.49                             | 2.1 - 5.0             | .00        |
| 100   | 6.22 - 6.40                             | .6 - 3.6              | (.09 )     |
| 105   | 6.06 - 6.24                             | (1.9) - 1.0           | (.25 )     |
| 110   | 5.91 - 6.09                             | (4.4) - (1.5 )        | (.40 )     |

<sup>(1)</sup>Excludes realized investment gains/losses (securities transactions, impairments, and the impact of derivative and hedging activities), nonrecurring items, and other non-operating income (loss) in 2014 and 2013

<sup>(2)</sup>Actual 2013 weighted-average exchange rate

Assuming we achieve our earnings objective and the yen/dollar exchange rate averages 100 to 105, we would expect to report operating earnings of \$6.06 to \$6.40 per diluted share for the full year of 2014. Additionally, for the second quarter of 2014, using the same currency assumptions, we would expect operating earnings in the range of \$1.54 to \$1.68 per diluted share.

## INSURANCE OPERATIONS

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

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

## AFLAC JAPAN SEGMENT

## Aflac Japan Pretax Operating Earnings

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

## Aflac Japan Summary of Operating Results

|   | Three Months Ended<br>March 31, |         |                              |       |
|---|---------------------------------|---------|------------------------------|-------|
| (In millions)                                     | 2014                            |         | 2013                         |       |
| Net premium income                                | \$3,560                         |         | \$3,905                      |       |
| Net investment income:                            |                                 |         |                              |       |
| Yen-denominated investment income                 | 361                             |         | 402                          |       |
| Dollar-denominated investment income              | 302                             |         | 272                          |       |
| Net investment income                             | 663                             |         | 674                          |       |
| Other income (loss)                               | 8                               |         | 26                           |       |
| Total operating revenues                          | 4,231                           |         | 4,605                        |       |
| Benefits and claims, net                          | 2,534                           |         | 2,831                        |       |
| Operating expenses:                               |                                 |         |                              |       |
| Amortization of deferred policy acquisition costs | 164                             |         | 163                          |       |
| Insurance commissions                             | 221                             |         | 247                          |       |
| Insurance and other expenses                      | 379                             |         | 375                          |       |
| Total operating expenses                          | 764                             |         | 785                          |       |
| Total benefits and expenses                       | 3,298                           |         | 3,616                        |       |
| Pretax operating earnings <sup>(1)</sup>          | \$933                           |         | \$989                        |       |
| Weighted-average yen/dollar exchange rate         | 102.70                          |         | 92.59                        |       |
|   | In Dollars                      |         | In Yen                       |       |
| Percentage change                                 | Three Months Ended March 31,    |         | Three Months Ended March 31, |       |
| over previous period:                             | 2014                            | 2013    | 2014                         | 2013  |
| Net premium income                                | (8.8 )%                         | (5.9 )% | 1.4 %                        | 9.8 % |
| Net investment income                             | (1.7 )                          | (7.6 )  | 9.4                          | 7.3   |
| Total operating revenues                          | (8.1 )                          | (5.9 )  | 2.2                          | 9.7   |
| Pretax operating earnings <sup>(1)</sup>          | (5.7 )                          | (4.8 )  | 4.6                          | 10.7  |

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

The percentage increases in premium income in yen reflect the growth of premiums in force. Annualized premiums in force increased 3.4% to 1.58 trillion yen as of March 31, 2014, compared with 1.52 trillion yen as of March 31, 2013.

The increase in annualized premiums in force in yen reflects the sales of new policies combined with the high persistency of Aflac Japan's business. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were \$15.3 billion at March 31, 2014, compared with \$16.2 billion a year ago.

Aflac Japan's investment portfolios include dollar-denominated securities and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 45% of Aflac Japan's investment income in the first three months of 2014, compared with 40% a year ago. This percentage increase is due to our higher allocation to U.S. dollar-denominated investments. In periods when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues and pretax operating earnings in yen terms. In periods when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. Excluding foreign currency changes from the prior period, dollar-denominated investment income accounted for approximately 43% of Aflac Japan's investment income during the first three months of 2014, compared

with 37% a year ago.

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

Aflac Japan Percentage Changes Over Previous Period

(Yen Operating Results)

For the Periods Ended March 31,

|  | Including Foreign<br>Currency Changes<br>Three Months |   |      |   | Excluding Foreign<br>Currency Changes <sup>(2)</sup><br>Three Months |   |      |   |
|--|---|---|------|---|--|---|------|---|
|  | 2014  | % | 2013 | % | 2014   | % | 2013 | % |
| Net investment income                    | 9.4   | % | 7.3  | % | 4.5  | % | 1.2  | % |
| Total operating revenues                 | 2.2   |   | 9.7  |   | 1.5  |   | 8.4  |   |
| Pretax operating earnings <sup>(1)</sup> | 4.6   |   | 10.7 |   | 1.5  |   | 5.4  |   |

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

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

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

|   | Three Months Ended<br>March 31, |   |      |   |
|---|---------------------------------|---|------|---|
|   | 2014                            | % | 2013 | % |
| Ratios to total revenues:                         |                                 |   |      |   |
| Benefits and claims, net                          | 59.9                            | % | 61.4 | % |
| Operating expenses:                               |                                 |   |      |   |
| Amortization of deferred policy acquisition costs | 3.9                             |   | 3.6  |   |
| Insurance commissions                             | 5.2                             |   | 5.4  |   |
| Insurance and other expenses                      | 9.0                             |   | 8.1  |   |
| Total operating expenses                          | 18.1                            |   | 17.1 |   |
| Pretax operating earnings <sup>(1)</sup>          | 22.0                            |   | 21.5 |   |

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

In the three-month period ended March 31, 2014, the benefit ratio decreased reflecting lower incurred claims and a change in the mix of business for new sales as we have seen a larger proportion of new sales from third sector products versus first sector products. The operating expense ratio increased primarily due to the change in mix of business for new sales. In total, the pretax operating profit margin improved compared with the same period in 2013. As the year progresses, we expect to see increased spending and higher benefit ratios than we experienced in the first quarter. For the full year of 2014, we anticipate the pretax operating profit margin to decline somewhat compared with 2013 as the impacts of challenges discussed in the Earnings Guidance subsection of this MD&A are realized.

Aflac Japan Sales

The following table presents Aflac Japan's new annualized premium sales for the periods ended March 31.

|  | In Dollars |          | In Yen   |       |
|--|------------|----------|----------|-------|
|  | 2014       | 2013     | 2014     | 2013  |
| (In millions of dollars and billions of yen) |            |          |          |       |
| New annualized premium sales                 | \$269      | \$578    | 27.6     | 53.8  |
| Increase (decrease) over prior year          | (53.5 )%   | (12.2 )% | (48.7 )% | 2.6 % |

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

|                     | Three Months |   |       |   |
|---------------------|--------------|---|-------|---|
|                     | 2014         |   | 2013  |   |
| Medical             | 35.4         | % | 15.5  | % |
| Cancer              | 18.6         |   | 11.7  |   |
| Ordinary life:      |              |   |       |   |
| Child endowment     | 11.0         |   | 14.8  |   |
| WAYS                | 17.9         |   | 42.3  |   |
| Other ordinary life | 9.2          |   | 11.7  |   |
| Other               | 7.9          |   | 4.0   |   |
| Total               | 100.0        | % | 100.0 | % |

As anticipated, Aflac Japan's total new annualized premium sales in the first quarter of 2014 were down significantly following difficult comparisons to the prior year when first sector sales increased dramatically ahead of a premium rate increase in April 2013 that was prompted by declines in interest rates. Aflac Japan's first sector product sales were down 67.6%, which significantly contributed to Aflac Japan's overall new annualized premium sales decline of 48.7%. We continue to expect that for the second through fourth quarters of 2014, the sale of first sector products will be down slightly compared with 2013.

The foundation of Aflac Japan's portfolio has been, and continues to be, our third sector cancer and medical products. Sales of third sector products increased 1.8% during the first quarter of 2014, compared with the same period in 2013. We have been focusing more on promotion of our cancer and medical products following the repricing of our first sector life products in April 2013. With continued cost pressure on Japan's health care system, we expect the need for third sector products will continue to rise in the future, and we remain convinced that the medical and cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

At March 31, 2014, we had agreements to sell our products at 372 banks, or more than 90% of the total number of banks in Japan. We believe we have significantly more banks selling our supplemental health insurance products than any other insurer operating in Japan. As expected, sales of the first sector WAYS product declined sharply in the first quarter of 2014, leading to a 63.7% decline in bank channel sales, compared with the first quarter of 2013. Bank channel sales accounted for 27.8% of new annualized premium sales in the first quarter of 2014 for Aflac Japan, compared with 39.2% during the first quarter of 2013.

We remain committed to selling through our traditional channels. These channels, consisting of affiliated corporate agencies, independent corporate agencies and individual agencies, accounted for 70.7% of total new annualized premium sales for Aflac Japan in the first quarter of 2014. During the three-month period ended March 31, 2014, we recruited more than 350 new sales agencies. At March 31, 2014, Aflac Japan was represented by more than 15,500 sales agencies and more than 126,200 licensed sales associates employed by those agencies.

Aflac Japan and Japan Post Holdings entered into a new agreement in July 2013, further expanding their partnership that was initially established in 2008 (see Japanese Regulatory Environment). Through this alliance, Japan Post intends to expand the number of post offices that offer Aflac's cancer products, gradually increasing from 1,000 postal outlets to eventually 20,000 outlets. Subject to regulatory approval, Japan Post Insurance (Kampo) will enter into an agency contract with Aflac Japan to begin distributing Aflac Japan's cancer insurance products at all of Kampo's 79 directly managed sales offices. Also subject to regulatory approval, Aflac Japan will work in consultation with Japan Post to develop a unique Aflac-branded cancer product for Japan Post and Kampo. Additionally, Aflac Japan has formed a business partnership with Daido Life Insurance Company (Daido). Daido will sell Aflac's cancer insurance policies to members of Hojinkai, a non-profit organization associated with 900,000 small and mid-sized member firms across Japan.

We believe that there is still a continued need for our products in Japan. Our sales target and focus in 2014 will continue to be centered around the sale of Aflac Japan's third sector products, including cancer and medical. We expect Aflac Japan's sales of third sector cancer and medical products to be up 2% to 7% for 2014.



### Japanese Economy

The Bank of Japan's April 2014 Monthly Report of Recent Economic and Financial Developments stated that Japan's economy continues to recover moderately. Public investment has continued to increase, while housing investment and private consumption have remained resilient, with some improvement observed in employment and income. The report projected that Japan's economy is expected to continue to recover moderately, while it will be affected by the front-loaded increase in demand prior to, and subsequent decline after, the consumption tax hike in April 2014. Exports are expected to increase moderately due to the improving overseas economies. As for domestic demand, public investment is expected to become relatively flat at a high level. Private consumption and housing investment are expected to remain resilient, while industrial production is expected to continue increasing moderately. For additional information, see the Japanese Economy subsection of MD&A in our annual report to shareholders for the year ended December 31, 2013.

### Japanese Regulatory Environment

In 2005, legislation aimed at privatizing Japan's postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four operating entities that began operations in October 2007. In 2007, one of these entities selected Aflac Japan as its provider of cancer insurance to be sold through its post offices, and, in 2008, we began selling cancer insurance through these post offices. Japan Post has historically been a popular place for consumers to purchase insurance products. Legislation to reform the postal system passed the Diet in April 2012 and resulted in the merger of two of the postal operating entities (the one that delivers the mail and the one that runs the post offices) on October 1, 2012. In July 2013, Aflac Japan entered into a new agreement with Japan Post Holdings to further expand a partnership that was initially established in 2008 (see Aflac Japan Sales).

On January 16, 2014, Japan's FSA issued a reporting order pursuant to Article 200, Paragraph 1 of the Insurance Business Law to all insurance companies, including Aflac Japan, entitled "Regarding the Rectification, etc. of Insurance

Agency Employees." Companies have been ordered to ascertain conditions on the ground regarding sales agents, facilitate the discontinuation of the practice of subcontracting (i.e., the use of non-employee contractors to sell insurance on behalf of insurance agencies), and report to the FSA no later than April 30, 2015. In light of the Company's current mix of distribution channels, the use of non-employee contractors is not a major channel for the Company in Japan.

In June 2013, a revision to the Financial Instruments and Exchange Act established a post-funded Orderly Resolution Regime for financial institutions to prevent a financial crisis in the event of a financial institution's failure. This regime came into effect in March 2014, but is not expected to have a material impact on the Company's operations in Japan.

### Aflac Japan Investments

The level of investment income in yen is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has historically invested primarily in JGBs and privately issued securities. Privately issued securities generally have higher yields than those available on JGBs and other publicly traded debt instruments. All of the privately issued securities we have purchased were rated investment grade at the time of purchase. These securities were generally either privately negotiated arrangements or were issued with documentation consistent with standard medium-term note programs. Many of these investments have protective covenants appropriate to the specific investment. These may include a prohibition of certain activities by the borrower, maintenance of certain financial measures, and specific conditions impacting the payment of our notes.

In order to address our challenge of investing in Japan's low-interest-rate environment and reduce the amount of privately issued securities in our overall portfolio, we have invested in higher-yielding U.S. dollar-denominated publicly-traded investment grade corporate fixed-maturity securities, and have entered into foreign currency forwards to hedge the currency risk on the fair value of the U.S. dollar securities. We started this program as part of our strategic review of portfolio allocation, maintain it as part of our on-going portfolio allocation, and will allocate new

money into the program based on multiple factors including market conditions, overall portfolio make-up, investment alternatives, needs of the business, and other factors.

The following table presents the results of Aflac Japan's investment yields for the periods ended March 31.

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|   | Three Months |     |      |     |
|---|--------------|-----|------|-----|
|   | 2014         | (1) | 2013 | (1) |
| New money yield   | 1.99         | %   | 3.03 | %   |
| Return on average invested assets, net of investment expenses                 | 2.76         |     | 2.84 |     |
| Portfolio book yield, including dollar-denominated investments, end of period | 2.86         | %   | 3.01 | %   |

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

Given the volatility in the U.S. interest rate environment, Aflac Japan did not purchase any additional U.S. dollar-denominated fixed maturities as part of the program discussed above during the last six months of 2013. However, we did resume purchasing investment-grade U.S. dollar-denominated securities during the first quarter of 2014. Despite resuming the purchase of higher yielding U.S. dollar investments, the majority of new money purchases in the first quarter of 2014 were JGBs, causing an overall decrease in the new money yield for the three-month period ended March 31, 2014, compared to the same period in 2013 when we purchased a substantial amount of U.S. dollar-denominated fixed maturities. We expect an increase in the proportion of investment-grade U.S. dollar-denominated securities new money purchases for the remainder of 2014.

See Notes 3, 4 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments and hedging strategies.

#### AFLAC U.S. SEGMENT

##### Aflac U.S. Pretax Operating Earnings

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

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

| (In millions)                                     | Three Months Ended |         |   |
|---|--------------------|---------|---|
|   | March 31,          |         |   |
|   | 2014               | 2013    |   |
| Premium income                                    | \$1,294            | \$1,280 |   |
| Net investment income                             | 161                | 157     |   |
| Other income                                      | 0                  | 1       |   |
| Total operating revenues                          | 1,455              | 1,438   |   |
| Benefits and claims                               | 686                | 691     |   |
| Operating expenses:                               |                    |         |   |
| Amortization of deferred policy acquisition costs | 130                | 120     |   |
| Insurance commissions                             | 145                | 144     |   |
| Insurance and other expenses                      | 191                | 202     |   |
| Total operating expenses                          | 466                | 466     |   |
| Total benefits and expenses                       | 1,152              | 1,157   |   |
| Pretax operating earnings <sup>(1)</sup>          | \$303              | \$281   |   |
| Percentage change over previous period:           |                    |         |   |
| Premium income                                    | 1.1                | % 4.0   | % |
| Net investment income                             | 2.5                | 3.4     |   |
| Total operating revenues                          | 1.2                | 3.9     |   |
| Pretax operating earnings <sup>(1)</sup>          | 7.9                | 3.6     |   |

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

Annualized premiums in force increased 1.4% to \$5.5 billion as of March 31, 2014, compared with \$5.4 billion as of March 31, 2013.

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

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|   | Three Months Ended<br>March 31, |   |      |   |
|---|---------------------------------|---|------|---|
| Ratios to total revenues:                         | 2014                            |   | 2013 |   |
| Benefits and claims                               | 47.1                            | % | 48.0 | % |
| Operating expenses:                               |                                 |   |      |   |
| Amortization of deferred policy acquisition costs | 8.9                             |   | 8.3  |   |
| Insurance commissions                             | 10.0                            |   | 10.0 |   |
| Insurance and other expenses                      | 13.2                            |   | 14.2 |   |
| Total operating expenses                          | 32.1                            |   | 32.5 |   |
| Pretax operating earnings <sup>(1)</sup>          | 20.8                            |   | 19.5 |   |

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

In the three-month period ended March 31, 2014, the benefit ratio and operating expense ratio decreased reflecting lower incurred claims and lower expenses. This resulted in an improvement in the pretax operating profit margin compared with the same period in 2013. As the year progresses, we expect to see increased spending and higher benefit ratios than we experienced in the first quarter. For the full year of 2014, we anticipate operating ratios to be fairly stable compared to 2013.

#### Aflac U.S. Sales

The following table presents Aflac's U.S. new annualized premium sales for the periods ended March 31.

|                                     | Three Months |         |
|-------------------------------------|--------------|---------|
| (In millions)                       | 2014         | 2013    |
| New annualized premium sales        | \$318        | \$332   |
| Increase (decrease) over prior year | (4.4 )%      | (5.2 )% |

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

|                              | Three Months |         |
|------------------------------|--------------|---------|
|                              | 2014         | 2013    |
| Income-loss protection:      |              |         |
| Short-term disability        | 21.6 %       | 21.3 %  |
| Life                         | 6.2          | 5.4     |
| Asset-loss protection:       |              |         |
| Accident                     | 27.9         | 27.2    |
| Critical care <sup>(1)</sup> | 21.1         | 20.8    |
| Supplemental medical:        |              |         |
| Hospital indemnity           | 16.8         | 16.0    |
| Dental/vision                | 6.4          | 6.4     |
| Other                        | 0.0          | 2.9     |
| Total                        | 100.0 %      | 100.0 % |

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

New annualized premium sales for accident insurance, our leading product category, decreased 2.0%, short-term disability sales decreased 3.1%, critical care insurance sales (including cancer insurance) decreased 3.3%, and hospital indemnity insurance sales increased .8% in the first quarter of 2014, compared with the same period in 2013.

As part of our U.S. sales strategy, we continue to focus on growing and enhancing the effectiveness of our U.S. sales force. As of March 31, 2014, our distribution network was made up of more than 73,300 licensed sales associates and brokers. Beyond expanding the size and capabilities of our traditional sales force, we remain encouraged about establishing and developing relationships with insurance brokers that typically handle the larger-case market.

The addition of group products has expanded our reach and enabled us to generate more sales opportunities with larger employers, brokers, and our traditional sales agents. We anticipate that the appeal of our group products will continue to enhance our opportunities to connect with larger businesses and their employees. Our portfolio of group and individual products offers businesses the opportunity to give their employees a more valuable and comprehensive selection of benefit options.

Although we remain somewhat cautious in the short-term sales outlook for Aflac U.S. due to the economic environment and uncertainty created by the introduction of health care reform, our longer-term view has not changed. With the evolving business market and the coverage standardization that will result from health care reform in the United States, we believe Aflac's voluntary products will become more relevant than ever. Our products provide cash benefits that can be used to help with increasing out-of-pocket medical expenses, help cover household costs, or protect against income and asset loss. Our group products and relationships with insurance brokers that handle the larger-case market are helping us as we expand our reach selling to larger businesses. We are regularly evaluating the marketplace to identify opportunities to bring the most relevant, cost-effective products to our customers. We believe the need for our products remains very strong, and we continue to work on enhancing our distribution capabilities to access employers of all sizes, including initiatives that benefit our field force and the broker community. At the same time, we are seeking opportunities to leverage our brand strength and attractive product portfolio in the evolving health care environment. For the full year of 2014, our objective is for Aflac U.S. new annualized premium sales to be in the range of flat to up 5%.

#### U.S. Economy

Operating in the U.S. economy continues to be challenging. While ongoing uncertainty around health care reform implementation has prompted many businesses and consumers to postpone decisions related to health care coverage, we believe that the need for our products remains strong, and that the United States remains a sizeable and attractive market for our products.

#### U.S. Regulatory Environment

The Affordable Care Act (ACA) is intended to give Americans of all ages and income levels access to comprehensive major medical health insurance. The major elements of the bill became effective on January 1, 2014. The primary subject of the legislation is major medical insurance; as enacted, the ACA does not materially affect the design of our insurance products. However, indirect consequences of the legislation and regulations, including short-term uncertainty related to implementation, could present challenges and/or opportunities that could potentially have an impact on our sales model, financial condition and results of operations. Our experience with Japan's national health care environment leads us to believe that the need for our products will only increase over the coming years.

The Dodd-Frank Act created, among other things, a Financial Stability Oversight Council (the Council). In April 2012, the Council released a final rule describing the general process it will follow in determining whether to designate a nonbank financial company for supervision by the Board of Governors of the U.S. Federal Reserve System (the Board). The Council may designate by a two-thirds vote whether certain nonbank financial companies, including certain insurance companies and insurance holding companies, could pose a threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the Board. On April 3, 2013, the Board published a final rule that establishes the requirements for determining when a nonbank financial company is "predominantly engaged in financial activities" - a prerequisite for designation by the Council. Prudential regulation by the Board includes supervision of capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit such company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. The Council designated two insurers and advanced a third insurer to the final stage of the designation process for supervision by the Board in 2013. Although Aflac is a nonbank financial company predominantly engaged in financial activities as defined in the Dodd-Frank Act, we do not believe Aflac will be considered a company that poses a threat to the financial stability of the United States.

Title VII of the Dodd-Frank Act and regulations issued thereunder may have an impact on Aflac's derivative activity, including activity on behalf of Aflac Japan, in particular rules and rule proposals to require central clearing and

collateral for certain types of derivatives.

The Dodd-Frank Act also established a Federal Insurance Office (FIO) under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. In December 2013, the FIO released a report entitled "How To Modernize And Improve The System Of Insurance Regulation In The United States." The report was required by the Dodd-Frank Act, and included 18

recommended areas of near-term reform for the states, including addressing capital adequacy and safety/soundness issues, reform of insurer resolution practices, and reform of marketplace regulation. The report also listed nine recommended areas for direct federal involvement in insurance regulation.

On December 10, 2013, five U.S. financial regulators adopted a final rule implementing the "Volcker Rule," which was created by Section 619 of the Dodd-Frank Act. The Volcker Rule generally prohibits "banking entities" from engaging in "proprietary trading" and making investments and conducting certain other activities with "private equity funds and hedge funds." The final rule became effective April 1, 2014; however, at the time the agencies released the final Volcker Rule, the Federal Reserve announced an extension of the conformance period for all banking entities until July 21, 2015. In response to industry questions regarding the final Volcker Rule, the five U.S. financial regulators, which included the Office of the Comptroller of the Currency (OCC); the Federal Reserve; the Federal Deposit Insurance Corporation (FDIC); the SEC and the U.S. Commodity Futures Trading Commission (CFTC), issued a clarifying interim final rule on January 14, 2014 that permits banking entities to retain interests in certain collateralized debt obligations (CDOs) backed by trust preferred securities if the CDO meets certain requirements.

Nonbank financial companies such as Aflac that are not affiliated with an insured depository institution or otherwise brought within the definition of "banking entity" generally will not be subject to the Volcker Rule's prohibitions. However, the prohibitions of the Volcker Rule could impact financial markets generally, for example, through reduced liquidity in certain markets or the exiting of positions by banking entities as the end of the conformance period approaches.

The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. At the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will have on our U.S. business, financial condition, or results of operations.

#### Aflac U.S. Investments

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

The following table presents the results of Aflac's U.S. investment yields for the periods ended March 31.

|   | Three Months |   |      |   |
|---|--------------|---|------|---|
|   | 2014         |   | 2013 |   |
| New money yield   | 4.33         | % | 3.69 | % |
| Return on average invested assets, net of investment expenses | 5.54         |   | 5.86 |   |
| Portfolio book yield, end of year                             | 5.96         | % | 6.19 | % |

The increase in the Aflac U.S. new money yield is primarily due to the increase in interest rates experienced throughout the period, partially offset by tightening credit spreads. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments.

#### ANALYSIS OF FINANCIAL CONDITION

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

The following table demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at March 31, 2014, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2013.



## Impact of Foreign Exchange on Balance Sheet Items

| (In millions)                           | As<br>Reported | Exchange<br>Effect | Net of<br>Exchange Effect |
|---|----------------|--------------------|---------------------------|
| Yen/dollar exchange rate <sup>(1)</sup> | 102.92         |                    | 105.39                    |
| Investments and cash                    | \$110,493      | \$1,730            | \$ 108,763                |
| Deferred policy acquisition costs       | 8,965          | 141                | 8,824                     |
| Total assets                            | 123,292        | 1,923              | 121,369                   |
| Policy liabilities                      | 92,890         | 1,961              | 90,929                    |
| Total liabilities                       | 107,616        | 2,139              | 105,477                   |

<sup>(1)</sup>The exchange rate at March 31, 2014, was 102.92 yen to one dollar, or 2.3% stronger than the December 31, 2013, exchange rate of 105.39.

## Market Risks of Financial Instruments

Our investment philosophy is to fulfill our fiduciary responsibility to invest assets in a prudent manner to meet the present and future needs of our policyholders' contractual obligations while maximizing the long-term financial return on assets consistent with the company goal of maximizing long-term shareholder value within defined risk appetites, limits, and maintaining adequate liquidity.

The following table details investment securities by segment.

## Investment Securities by Segment

| (In millions)                                   | Aflac Japan<br>March 31,<br>2014 | December 31,<br>2013 | Aflac U.S.<br>March 31,<br>2014 | December 31,<br>2013    |
|---|----------------------------------|----------------------|---------------------------------|-------------------------|
| Securities available for sale, at fair value:   |                                  |                      |                                 |                         |
| Fixed maturities                                | \$51,906                         | \$46,448             | \$12,022 <sup>(1)</sup>         | \$11,290 <sup>(1)</sup> |
| Perpetual securities                            | 2,903                            | 2,839                | 113                             | 108                     |
| Equity securities                               | 21                               | 21                   | 0                               | 0                       |
| Total available for sale                        | 54,830                           | 49,308               | 12,135                          | 11,398                  |
| Securities held to maturity, at amortized cost: |                                  |                      |                                 |                         |
| Fixed maturities                                | 40,858                           | 44,415               | 0                               | 0                       |
| Total held to maturity                          | 40,858                           | 44,415               | 0                               | 0                       |
| Total investment securities                     | \$95,688                         | \$93,723             | \$12,135                        | \$11,398                |

<sup>(1)</sup>Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of \$353 in 2014 and \$332 in 2013.

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

## Currency Risk

The functional currency of Aflac Japan's insurance operations is the Japanese yen. All of Aflac Japan's premiums, claims and commissions are received or paid in yen, as are most of its other expenses. Most of Aflac Japan's cash and liabilities are yen-denominated. Aflac Japan's investments consisted primarily of yen-denominated securities of \$72.5 billion, at amortized cost, at March 31, 2014. However, Aflac Japan also owns dollar-denominated securities of \$13.3 billion, at amortized cost, whose fair value is hedged against currency risk as well as \$8.2 billion of securities, at amortized cost, that are not hedged as of March 31, 2014. Due to this investment allocation, yen-denominated investment income accounted for 55% of Aflac Japan's investment income during the three-month period ended March 31, 2014, with the remainder denominated in U.S. dollars. In addition, Aflac Incorporated has yen-denominated debt obligations.

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This occurs when we repatriate yen-denominated funds from Aflac Japan to Aflac U.S., which is generally done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits



were earned. A portion of the yen repatriation may be used to service Aflac Incorporated's yen-denominated notes payable with

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the remainder converted into dollars. In order to hedge foreign exchange risk for a portion of the expected profit repatriation in yen from Aflac Japan scheduled to occur in July 2014, we have entered into foreign exchange forwards as part of a hedging strategy on 52.5 billion yen. Subsequent to the end of the first quarter, in April 2014, we further hedged foreign exchange risk for a portion of the expected profit repatriation in yen from Aflac Japan scheduled to occur in July 2015 using foreign exchange forwards as part of a hedging strategy on 5.0 billion yen.

In addition to profit repatriation, certain investment activities for Aflac Japan expose us to economic currency risk when yen are converted into dollars. As noted above, we invest a portion of our yen cash flows in dollar-denominated assets. This requires that we convert the yen cash flows to U.S. dollars before investing. As previously discussed, for certain of our U.S. dollar-denominated securities, we enter into a foreign currency forward contract to hedge the currency risk on the fair value of the securities. The dollar coupon payments received on these investments are not hedged and are subject to foreign exchange fluctuations, which are realized in earnings. Also, Aflac Japan has invested in reverse-dual currency securities (RDCs, or yen-denominated debt securities with dollar coupon payments), which exposes Aflac to changes in foreign exchange rates. The foreign currency effect on the yen-denominated securities is accounted for as a component of unrealized gains or losses on available-for-sale securities in accumulated other comprehensive income, while the foreign currency effect on the dollar coupons is realized in earnings. The RDCs provided a higher yield at the time of purchase than those available on Japanese government or other public corporate bonds, while still adhering to our investment standards at the time of the transaction. The yen/dollar exchange rate would have to strengthen to approximately 40 before the yield on these instruments would equal that of a comparable yen-denominated instrument.

Aside from the activities discussed above, we generally do not convert yen into dollars; however, we do translate financial statement amounts from yen into dollars for financial reporting purposes. Therefore, reported amounts are affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income. In periods when the yen weakens against the dollar, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The weakening of the yen relative to the dollar will generally adversely affect the value of our yen-denominated investments in dollar terms. We attempt to minimize the exposure of shareholders' equity to foreign currency. We accomplish this by investing a portion of Aflac Japan's investment portfolio in dollar-denominated securities and by the Parent Company's issuance of yen-denominated debt (for additional information, see the discussion under the Hedging Activities subsection of MD&A). As a result, the effect of currency fluctuations on our net assets is reduced.

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

Dollar Value of Yen-Denominated Assets and Liabilities  
at Selected Exchange Rates

| (In millions)  | March 31, 2014 |                       |            | December 31, 2013 |                       |            |
|--|----------------|-----------------------|------------|-------------------|-----------------------|------------|
| Yen/dollar exchange rates  | 87.92          | 102.92 <sup>(1)</sup> | 117.92     | 90.39             | 105.39 <sup>(1)</sup> | 120.39     |
| Yen-denominated financial instruments:   |                |                       |            |                   |                       |            |
| Assets:  |                |                       |            |                   |                       |            |
| Securities available for sale:   |                |                       |            |                   |                       |            |
| Fixed maturities <sup>(2)</sup>  | \$32,551       | \$27,807              | \$24,269   | \$27,893          | \$23,923              | \$20,942   |
| Fixed maturities - consolidated variable interest entities <sup>(3)</sup>                                    | 2,105          | 1,799                 | 1,570      | 2,419             | 2,075                 | 1,816      |
| Perpetual securities   | 2,806          | 2,397                 | 2,092      | 2,734             | 2,345                 | 2,053      |
| Perpetual securities - consolidated variable interest entities <sup>(3)</sup>                                | 457            | 391                   | 341        | 443               | 380                   | 333        |
| Equity securities  | 20             | 17                    | 15         | 20                | 17                    | 15         |
| Securities held to maturity:   |                |                       |            |                   |                       |            |
| Fixed maturities   | 47,544         | 40,615                | 35,448     | 51,509            | 44,178                | 38,673     |
| Fixed maturities - consolidated variable interest entities <sup>(3)</sup>                                    | 284            | 243                   | 212        | 277               | 237                   | 208        |
| Cash and cash equivalents  | 450            | 383                   | 335        | 479               | 411                   | 360        |
| Derivatives  | 2,240          | 523                   | 792        | 1,467             | 488                   | 737        |
| Other financial instruments  | 178            | 152                   | 132        | 166               | 143                   | 125        |
| Subtotal   | 88,635         | 74,327                | 65,206     | 87,407            | 74,197                | 65,262     |
| Liabilities:   |                |                       |            |                   |                       |            |
| Notes payable  | 835            | 715                   | 624        | 814               | 699                   | 611        |
| Derivatives  | 591            | 358                   | 2,243      | 489               | 837                   | 2,504      |
| Subtotal   | 1,426          | 1,073                 | 2,867      | 1,303             | 1,536                 | 3,115      |
| Net yen-denominated financial instruments  | 87,209         | 73,254                | 62,339     | 86,104            | 72,661                | 62,147     |
| Other yen-denominated assets   | 9,173          | 7,836                 | 6,839      | 9,327             | 8,000                 | 7,003      |
| Other yen-denominated liabilities  | 105,868        | 90,438                | 78,934     | 104,704           | 89,801                | 78,613     |
| Consolidated yen-denominated net assets (liabilities) subject to foreign currency fluctuation <sup>(2)</sup> | \$(9,486 )     | \$(9,348 )            | \$(9,756 ) | \$(9,273 )        | \$(9,140 )            | \$(9,463 ) |

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

<sup>(2)</sup> Does not include the U.S. dollar-denominated corporate bonds for which we have entered into foreign currency forwards as

discussed in the Aflac Japan Investment subsection of MD&A

<sup>(3)</sup> Does not include U.S. dollar-denominated bonds that have corresponding cross-currency swaps in consolidated VIEs

We are required to consolidate certain variable interest entities (VIEs). Some of the consolidated VIEs in Aflac Japan's portfolio use foreign currency swaps to convert foreign denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. Foreign currency swaps exchange an initial principal amount in two currencies, agreeing to re-exchange the currencies at a future date, at an agreed upon exchange rate. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. Prior to consolidation, our beneficial interest in these VIEs was a yen-denominated available-for-sale fixed maturity security. Upon consolidation, the original yen-denominated investment was derecognized and the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps were recognized. The combination of a U.S. dollar-denominated investment and cross-currency swap economically creates a yen-denominated investment and has no impact on our net investment hedge position.

Similarly, the combination of the U.S. corporate bonds and the foreign currency forwards that we have entered into, as discussed in the Aflac Japan Investment subsection of MD&A, economically creates a yen-denominated investment that qualifies for inclusion as a component of our investment in Aflac Japan for net investment hedge purposes.

For additional information regarding our Aflac Japan net investment hedge, see the Hedging Activities subsection of MD&A.

### Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt and perpetual securities. We estimate that the reduction in the fair value of debt and perpetual securities we own resulting from a 100 basis point increase in market interest rates, based on our portfolios at March 31, 2014, and December 31, 2013, would be as follows:

| (In millions)  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| Effect on yen-denominated debt and perpetual securities    | \$(10,073 )       | \$(9,337 )           |
| Effect on dollar-denominated debt and perpetual securities | (3,245 )          | (3,021 )             |
| Effect on total debt and perpetual securities              | \$(13,318 )       | \$(12,358 )          |

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

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

We entered into an interest rate swap agreement related to the 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011. This agreement effectively converted the variable interest rate notes to fixed rate notes to eliminate the volatility in our interest expense. We also have interest rate swaps related to some of our consolidated VIEs. These interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates.

Interest rate swaptions are options on interest rate swaps. We have entered into interest rate collars, combinations of two swaption positions, 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'.

Periodically, depending on general economic conditions, we may enter into other derivative transactions to hedge interest rate risk.

For further information on our interest rate derivatives, see Note 4 of the accompanying Notes to the Consolidated Financial Statements and Note 9 of the Notes to the Consolidated Financial Statements and the Interest Rate Risk subsection of MD&A in our annual report to shareholders for the year ended December 31, 2013.

### Credit Risk

A significant portion of our investment portfolio consists of debt securities or perpetual securities that expose us to the credit risk of the underlying issuer. We carefully evaluate this risk on every new investment and closely monitor the credit risk of our existing investment portfolio. We incorporate the needs of our products and liabilities, the overall requirements of the business, and other factors in addition to our underwriting of the credit risk for each investment in the portfolio.



Evaluating the underlying risks in our credit portfolio involves a multitude of factors including but not limited to our assessment of the issuers business activities, assets, products, market position, financial condition, and future prospects. We also must incorporate the assessment of the Nationally Recognized Statistical Rating Organizations (NRSROs) in assigning credit ratings to our specific portfolio holdings. We employ a team of experienced credit investment professionals to perform extensive internal assessments of the credit risks for all our portfolio holdings and potential new investments.

The ratings of our securities referenced in the two tables below are based on the ratings designations provided by major NRSROs (Moody's, S&P and Fitch) or, if not rated, are determined based on our internal analysis of such securities. For investment-grade securities where the ratings assigned by the major credit agencies are not equivalent, we use the second lowest rating that is assigned. For a description of the ratings methodology that we use when a security is split-rated, see "Market Risks of Financial Instruments - Below-Investment-Grade and Split-Rated Securities" in the Analysis of Financial Condition section of this MD&A.

The distributions by credit rating of our purchases of debt securities, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

|             | Three Months Ended<br>March 31, 2014 |   | Twelve Months Ended<br>December 31, 2013 |   | Three Months Ended<br>March 31, 2013 |   |
|-------------|--------------------------------------|---|--|---|--------------------------------------|---|
| AAA         | 1.3                                  | % | .6                                       | % | .2                                   | % |
| AA          | 72.6                                 |   | 74.2                                     |   | 46.6                                 |   |
| A           | 11.8                                 |   | 12.6                                     |   | 25.3                                 |   |
| BBB         | 13.0                                 |   | 11.0                                     |   | 25.6                                 |   |
| BB or lower | 1.3                                  |   | 1.6                                      |   | 2.3                                  |   |
| Total       | 100.0                                | % | 100.0                                    | % | 100.0                                | % |

Purchases of securities from period to period are determined based on multiple objectives including appropriate portfolio diversification, the relative value of a potential investment and availability of investment opportunities, liquidity, credit and other risk factors while adhering to our investment policy guidelines. We did not purchase any perpetual securities during the periods presented in the table above. The increase in purchases of AA rated securities in the first quarter of 2014 and the full year of 2013 was primarily due to the purchase of JGBs. The relatively higher purchases of A rated and BBB rated securities in the first quarter of 2013 was related primarily to the purchase of U.S. dollar-denominated corporate fixed-income publicly traded securities for the Aflac Japan portfolio as discussed further in the Results of Operations - Aflac Japan Segment section of this MD&A. The purchases of BB or lower rated securities in 2014 and 2013 were for a program to invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. The program is managed externally by third party firms specializing in this asset class. This mandate requires a minimum average credit quality of BB-/Ba3, prohibits loans rated below B/B2, and restricts exposure to any individual credit to less than 3% of the program's assets. The objectives of this program include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates through the acquisition of floating rate assets.

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

Composition of Portfolio by Credit Rating

|             | March 31, 2014    |               | December 31, 2013 |               |
|-------------|-------------------|---------------|-------------------|---------------|
|             | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| AAA         | 1.4 %             | 1.3 %         | 1.4 %             | 1.4 %         |
| AA          | 45.8              | 46.3          | 46.7              | 47.5          |
| A           | 23.8              | 24.3          | 23.4              | 23.7          |
| BBB         | 25.0              | 24.3          | 24.4              | 23.6          |
| BB or lower | 4.0               | 3.8           | 4.1               | 3.8           |
| Total       | 100.0 %           | 100.0 %       | 100.0 %           | 100.0 %       |

As of March 31, 2014, our direct and indirect exposure to securities in our investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.





### Subordination Distribution

The majority of our total investments in debt and perpetual securities was senior debt at March 31, 2014, and December 31, 2013. We also maintained investments in subordinated financial instruments that primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities, listed in order of seniority. The Lower Tier II (LTII) securities are debt instruments with fixed maturities. Our Upper Tier II (UTII) and Tier I investments consisted of debt instruments with fixed maturities and perpetual securities, which have an economic maturity as opposed to a stated maturity. The following table shows the subordination distribution of our debt and perpetual securities.

### Subordination Distribution of Debt and Perpetual Securities

| (In millions)                                  | March 31, 2014 |                     | December 31, 2013 |                     |
|--|----------------|---------------------|-------------------|---------------------|
|  | Amortized Cost | Percentage of Total | Amortized Cost    | Percentage of Total |
| Senior notes                                   | \$98,354       | 93.5 %              | \$97,165          | 93.5 %              |
| Subordinated securities:                       |                |                     |                   |                     |
| Fixed maturities (stated maturity date):       |                |                     |                   |                     |
| Lower Tier II                                  | 3,220          | 3.1                 | 3,156             | 3.1                 |
| Tier I <sup>(1)</sup>                          | 141            | .1                  | 139               | .1                  |
| Surplus notes                                  | 332            | .3                  | 330               | .3                  |
| Trust preferred - non-banks                    | 85             | .1                  | 85                | .1                  |
| Other subordinated - non-banks                 | 51             | .0                  | 51                | .0                  |
| Total fixed maturities                         | 3,829          | 3.6                 | 3,761             | 3.6                 |
| Perpetual securities (economic maturity date): |                |                     |                   |                     |
| Upper Tier II                                  | 1,967          | 1.9                 | 1,920             | 1.9                 |
| Tier I   | 876            | .8                  | 858               | .8                  |
| Other subordinated - non-banks                 | 214            | .2                  | 209               | .2                  |
| Total perpetual securities                     | 3,057          | 2.9                 | 2,987             | 2.9                 |
| Total debt and perpetual securities            | \$105,240      | 100.0 %             | \$103,913         | 100.0 %             |

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

### Portfolio Composition

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

### Investment Concentrations

One of our largest investment concentrations as of March 31, 2014, was banks and financial institutions.

Approximately 15% of our total portfolio of debt and perpetual securities, on an amortized cost basis, was in the bank and financial institution sector at March 31, 2014 and December 31, 2013. 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. Within this sector, our credit risk by geographic region or country of issuer at March 31, 2014, based on amortized cost, was: Europe, excluding the United Kingdom (30%); United States (27%); Australia (8%); Japan (8%); United Kingdom (8%); and other (19%).

Our 20 largest global investment exposures as of March 31, 2014, were as follows:

## Largest Global Investment Positions

| (In millions)   | Amortized Cost | % of Total | Seniority     | Ratings Moody's | S&P  | Fitch |
|---|----------------|------------|---------------|-----------------|------|-------|
| Japan National Government <sup>(1)</sup>                                  | \$41,251       | 39.20 %    | Senior        | Aa3             | AA-  | A+    |
| Republic of South Africa  | 590            | .56        | Senior        | Baa1            | BBB  | BBB   |
| Bank of America Corp. (includes Merrill Lynch)                            | 439            | .42        |               |                 |      |       |
| Bank of America Corp.   | 243            | .23        | Senior        | Baa2            | A-   | A     |
| Bank of America Corp.   | 194            | .19        | Lower Tier II | Baa3            | BBB+ | BBB+  |
| Bank of America NA  | 2              | .00        | Senior        | A2              | A    | A     |
| Bank of Tokyo-Mitsubishi UFJ Ltd.   | 437            | .42        |               |                 |      |       |
| Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao Holdings NV)              | 437            | .42        | Lower Tier II | A1              | A    | A-    |
| Investcorp SA   | 409            | .39        |               |                 |      |       |
| Investcorp Capital Limited  | 409            | .39        | Senior        | Ba2             | —    | BB    |
| Metlife Inc.  | 396            | .38        |               |                 |      |       |
| Metropolitan Life Global Fund   | 243            | .23        | Senior        | Aa3             | AA-  | A+    |
| Metlife Inc   | 151            | .14        | Senior        | A3              | A-   | A-    |
| Metropolitan Life Global Funding I  | 2              | .01        | Senior        | Aa3             | AA-  | —     |
| Deutsche Bank AG  | 389            | .37        |               |                 |      |       |
| Deutsche Postbank AG  | 233            | .22        | Lower Tier II | Baa3            | —    | A-    |
| Deutsche Bank Capital Trust II  | 141            | .13        | Tier I        | Ba2             | BBB- | BBB-  |
| Deutsche BK CAP FDG Capital Trust I                                       | 15             | .02        | Tier I        | Ba2             | BBB- | BBB-  |
| National Grid PLC   | 389            | .37        |               |                 |      |       |
| National Grid Gas PLC   | 195            | .19        | Senior        | A3              | A-   | A     |
| National Grid Electricity Transmission PLC                                | 194            | .18        | Senior        | A3              | A-   | A     |
| Telecom Italia SpA  | 389            | .37        |               |                 |      |       |
| Telecom Italia Finance SA   | 195            | .19        | Senior        | Ba1             | BB+  | BBB-  |
| Olivetti Finance NV   | 194            | .18        | Senior        | Ba1             | BB+  | BBB-  |
| Sumitomo Mitsui Financial Group Inc.                                      | 389            | .37        |               |                 |      |       |
| Sumitomo Mitsui Banking Corporation (includes SMBC International Finance) | 243            | .23        | Upper Tier II | A2              | BBB+ | —     |
| Sumitomo Mitsui Banking Corporation                                       | 97             | .09        | Lower Tier II | A1              | A    | —     |
| Sumitomo Mitsui Banking Corporation                                       | 49             | .05        | Upper Tier II | A2              | BBB+ | —     |
| JP Morgan Chase & Co. (including Bear Stearns)                            | 386            | .37        |               |                 |      |       |
| JPMorgan Chase & Co. (including Bear Stearns Companies Inc.)              | 343            | .33        | Senior        | A3              | A    | A+    |
| JPMorgan Chase & Co. (Bank One Corp.)                                     | 17             | .02        | Lower Tier II | Baa1            | A-   | A     |
| JPMorgan Chase & Co. (FNBC)   | 15             | .01        | Senior        | Aa1             | A+   | —     |
| JPMorgan Chase & Co. (NBD Bank)   | 11             | .01        | Lower Tier II | A2              | A    | A     |
| Citigroup Inc.  | 364            | .35        |               |                 |      |       |
| Citigroup Inc. (includes Citigroup Global Markets Holdings Inc.)          | 291            | .27        | Senior        | Baa2            | A-   | A     |
| Citigroup Inc. (Citicorp)   | 72             | .07        | Senior        | Baa2            | A-   | A     |

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|  |           |          |               |      |      |      |
|--|-----------|----------|---------------|------|------|------|
| Citigroup Inc. (Citicorp)              | 1         | .01      | Lower Tier II | Baa3 | BBB+ | A-   |
| Banobras                               | 360       | .34      | Senior        | A3   | BBB+ | BBB+ |
| Deutsche Telekom AG                    | 343       | .33      |               |      |      |      |
| Deutsche Telekom AG                    | 291       | .28      | Senior        | Baa1 | BBB+ | BBB+ |
| Deutsche Telekom International Finance | 52        | .05      | Senior        | Baa1 | BBB+ | BBB+ |
| Petroleos Mexicanos (Pemex)            | 343       | .33      |               |      |      |      |
| Pemex Proj FDG Master TR               | 291       | .28      | Senior        | Baa1 | BBB+ | BBB+ |
| Pemex Finance LTD                      | 52        | .05      | Senior        | Baa1 | A-   | A+   |
| Sultanate of Oman                      | 340       | .32      | Senior        | A1   | A    | —    |
| Koninklijke Ahold NV                   | 335       | .32      |               |      |      |      |
| Koninklijke Ahold NV                   | 320       | .31      | Senior        | Baa3 | BBB  | BBB  |
| Ahold USA Lease                        | 15        | .01      | Senior        | Baa3 | BBB  | —    |
| Nordea Bank AB                         | 327       | .31      |               |      |      |      |
| Nordea Bank AB                         | 249       | .24      | Tier I        | Baa3 | BBB+ | BBB+ |
| Nordea Bank Finland                    | 77        | .07      | Upper Tier II | Baa2 | A-   | A-   |
| Nordea Bank AB                         | 1         | .00      | Senior        | Aa3  | AA-  | AA-  |
| German Agency Banks                    | 326       | .31      |               |      |      |      |
| Landwirtschaftliche Rentenbank         | 243       | .23      | Lower Tier II | Aaa  | AAA  | AAA  |
| KfW                                    | 83        | .08      | Senior        | Aaa  | AAA  | AAA  |
| SLM Corp (Sallie Mae)                  | 321       | .31      | Senior        | Ba1  | BBB- | BB+  |
| Subtotal                               | \$48,523  | 46.14 %  |               |      |      |      |
| Total debt and perpetual securities    | \$105,240 | 100.00 % |               |      |      |      |

(1) JGBs or JGB-backed securities

(2) We consider MidAmerican Energy Company and Burlington Northern Santa Fe, LLC holdings distinct from those of their parent company Berkshire Hathaway and believe it appropriate to report them separately. If aggregated, our total exposure under the Berkshire Hathaway family of companies would have been \$394 million and would have placed them among our top 10 exposures.

As previously disclosed, we own long-dated debt instruments in support of our long-dated policyholder obligations. Some of our largest global investment holdings are positions that were purchased many years ago and increased in size due to merger and consolidation activity among the issuing entities. In addition, many of our largest holdings are yen-denominated, therefore strengthening of the yen can increase our position in dollars, and weakening of the yen can decrease our position in dollars. Our global investment guidelines establish concentration limits for our investment portfolios.

#### Geographical Exposure

The following table indicates the geographic exposure of our investment portfolio.

| (In millions)                       | March 31, 2014 |            | December 31, 2013 |            |
|-------------------------------------|----------------|------------|-------------------|------------|
|                                     | Amortized Cost | % of Total | Amortized Cost    | % of Total |
| Japan                               | \$44,539       | 42.3 %     | \$45,224          | 43.5 %     |
| United States and Canada            | 29,619         | 28.1       | 28,167            | 27.1       |
| United Kingdom                      | 3,452          | 3.3        | 3,385             | 3.3        |
| Germany                             | 3,139          | 3.0        | 3,070             | 2.9        |
| France                              | 2,128          | 2.0        | 2,085             | 2.0        |
| Peripheral Eurozone                 | 3,442          | 3.3        | 3,365             | 3.2        |
| Portugal                            | 235            | .2         | 230               | .2         |
| Italy                               | 1,960          | 1.9        | 1,914             | 1.8        |
| Ireland                             | 419            | .4         | 410               | .4         |
| Spain                               | 828            | .8         | 811               | .8         |
| Nordic Region                       | 2,623          | 2.5        | 2,564             | 2.5        |
| Sweden                              | 1,135          | 1.1        | 1,109             | 1.1        |
| Norway                              | 654            | .6         | 641               | .6         |
| Denmark                             | 389            | .4         | 380               | .4         |
| Finland                             | 445            | .4         | 434               | .4         |
| Other Europe                        | 3,380          | 3.2        | 3,313             | 3.2        |
| Netherlands                         | 1,879          | 1.8        | 1,838             | 1.8        |
| Switzerland                         | 239            | .2         | 236               | .2         |
| Czech Republic                      | 486            | .5         | 474               | .5         |
| Austria                             | 322            | .3         | 315               | .3         |
| Belgium                             | 260            | .2         | 254               | .2         |
| Poland                              | 194            | .2         | 196               | .2         |
| Asia excluding Japan                | 4,254          | 4.1        | 4,163             | 4.0        |
| Africa and Middle East              | 2,532          | 2.4        | 2,579             | 2.5        |
| Latin America                       | 2,985          | 2.8        | 2,911             | 2.8        |
| Australia                           | 2,645          | 2.5        | 2,594             | 2.5        |
| All Others                          | 502            | .5         | 493               | .5         |
| Total debt and perpetual securities | \$105,240      | 100.0 %    | \$103,913         | 100.0 %    |

## Investments in Certain European Countries

Since 2008, many countries in Europe, and specifically Greece, Ireland, Italy, Portugal, and Spain (collectively the "peripheral Eurozone" countries), have been experiencing a debt crisis. In 2013, Cyprus joined the list of European sovereigns requiring official assistance to address that country's banking crisis. Collective action by multiple parties including the European Central Bank (ECB), International Monetary Fund (IMF), European Council, and individual member states' governments has improved market perception of the situation. Although risks ranging from individual country downgrades to dissolution of the entire union appear to have been reduced and recent economic indicators suggest some improvement, overall economic activity remains subdued throughout the region. Despite the improvement, investments in European issuers continue to have an elevated level of inherent risk and volatility. The primary factor considered when determining the domicile of investment exposure is the legal domicile of the issuer. However, other factors such as the location of the parent guarantor, the location of the company's headquarters or major business operations (including location of major assets), location of primary market (including location of revenue generation) and specific country risk publicly recognized by rating agencies can influence the assignment of the country (or geographic) risk location. When the issuer is a special financing vehicle or a branch or subsidiary of a global company, then we consider any guarantees and/or legal, regulatory and corporate relationships of the issuer relative to its ultimate parent in determining the proper assignment of country risk.

Due largely to their high debt loads and weakened economies, the peripheral Eurozone countries quickly became the epicenter of the crisis. Greece, Ireland, and Portugal required external aid from the IMF and European Union to fund their governments, and while Italy and Spain were able to avoid such outside help, they were under intense pressure to improve their situation. Throughout the crisis we took steps to improve the risk profile of our portfolio by selling certain holdings throughout Europe, including the periphery countries.

We had no direct exposure to Greece or Cyprus as of March 31, 2014 and December 31, 2013. Our direct investment exposures to Ireland, Italy, Portugal and Spain and the related maturities of those investments were as follows:

March 31, 2014

| (In millions)                       | One to Five Years |            | Five to Ten Years |            | After Ten Years |            | Total          |            |
|-------------------------------------|-------------------|------------|-------------------|------------|-----------------|------------|----------------|------------|
|                                     | Amortized Cost    | Fair Value | Amortized Cost    | Fair Value | Amortized Cost  | Fair Value | Amortized Cost | Fair Value |
| Available-for-sale securities:      |                   |            |                   |            |                 |            |                |            |
| Ireland:                            |                   |            |                   |            |                 |            |                |            |
| Banks/financial institutions        | \$0               | \$0        | \$0               | \$0        | \$225           | \$169      | \$225          | \$169      |
| Italy:                              |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 14              | 18         | 14             | 18         |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 498             | 469        | 498            | 469        |
| Portugal:                           |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 7                 | 8          | 131               | 141        | 97              | 91         | 235            | 240        |
| Spain:                              |                   |            |                   |            |                 |            |                |            |
| Sovereign                           | 0                 | 0          | 0                 | 0          | 64              | 130        | 64             | 130        |
| Banks/financial institutions        | 35                | 38         | 0                 | 0          | 0               | 0          | 35             | 38         |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 195             | 194        | 195            | 194        |
| Held-to-maturity securities:        |                   |            |                   |            |                 |            |                |            |
| Ireland:                            |                   |            |                   |            |                 |            |                |            |
| Banks/financial institutions        | 0                 | 0          | 0                 | 0          | 194             | 139        | 194            | 139        |
| Italy:                              |                   |            |                   |            |                 |            |                |            |
| Sovereign                           | 0                 | 0          | 0                 | 0          | 243             | 217        | 243            | 217        |
| Banks/financial institutions        | 0                 | 0          | 0                 | 0          | 146             | 129        | 146            | 129        |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 719             | 725        | 719            | 725        |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 340             | 335        | 340            | 335        |
| Spain:                              |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 340             | 330        | 340            | 330        |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 194             | 203        | 194            | 203        |
| Total gross and net funded exposure | \$42              | \$46       | \$131             | \$141      | \$3,269         | \$3,149    | \$3,442        | \$3,336    |

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December 31, 2013

| (In millions)                       | One to Five Years |            | Five to Ten Years |            | After Ten Years |            | Total          |            |
|-------------------------------------|-------------------|------------|-------------------|------------|-----------------|------------|----------------|------------|
|                                     | Amortized Cost    | Fair Value | Amortized Cost    | Fair Value | Amortized Cost  | Fair Value | Amortized Cost | Fair Value |
| Available-for-sale securities:      |                   |            |                   |            |                 |            |                |            |
| Ireland:                            |                   |            |                   |            |                 |            |                |            |
| Banks/financial institutions        | \$0               | \$0        | \$0               | \$0        | \$220           | \$164      | \$220          | \$164      |
| Italy:                              |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 14              | 17         | 14             | 17         |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 487             | 434        | 487            | 434        |
| Portugal:                           |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 7                 | 8          | 128               | 134        | 95              | 89         | 230            | 231        |
| Spain:                              |                   |            |                   |            |                 |            |                |            |
| Sovereign                           | 0                 | 0          | 0                 | 0          | 62              | 113        | 62             | 113        |
| Banks/financial institutions        | 35                | 38         | 0                 | 0          | 0               | 0          | 35             | 38         |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 192             | 181        | 192            | 181        |
| Held-to-maturity securities:        |                   |            |                   |            |                 |            |                |            |
| Ireland:                            |                   |            |                   |            |                 |            |                |            |
| Banks/financial institutions        | 0                 | 0          | 0                 | 0          | 190             | 141        | 190            | 141        |
| Italy:                              |                   |            |                   |            |                 |            |                |            |
| Sovereign                           | 0                 | 0          | 0                 | 0          | 237             | 199        | 237            | 199        |
| Banks/financial institutions        | 0                 | 0          | 0                 | 0          | 142             | 121        | 142            | 121        |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 702             | 682        | 702            | 682        |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 332             | 319        | 332            | 319        |
| Spain:                              |                   |            |                   |            |                 |            |                |            |
| Public utilities                    | 0                 | 0          | 0                 | 0          | 332             | 298        | 332            | 298        |
| Other corporate                     | 0                 | 0          | 0                 | 0          | 190             | 188        | 190            | 188        |
| Total gross and net funded exposure | \$42              | \$46       | \$128             | \$134      | \$3,195         | \$2,946    | \$3,365        | \$3,126    |

We do not have any unfunded exposure in the European countries shown in the preceding table, and we have not entered into any hedges to mitigate credit risk for our funded exposure. The banks and financial institutions investments in Ireland, Italy, Portugal and Spain represented 4% of total investments in the banks and financial institutions sector at March 31, 2014 and December 31, 2013, and 1% of total investments in debt and perpetual securities at March 31, 2014 and December 31, 2013.

#### European sovereign debt crisis - monitoring and mitigating exposure

During most of 2011, we saw the European sovereign crisis persist and escalate. Our internal team of experienced credit professionals has continued to monitor the impact of the crisis on our individual investment holdings' overall credit quality. Our analysis includes factors beyond a baseline assessment of a company's assets, operations, financial statements, and credit metrics that may provide support for the instruments we own. Specifically, for our investments in European banks and financial institutions, we monitor the importance of the issuer to its local financial system, the

likelihood of government support, and our investment's position in the capital structure of the issuer. For our investments in European utilities, we monitor the role of the issuer in its local economy as a provider of necessary infrastructure, and we monitor the value of the underlying assets owned by the issuer. For our investment in European corporates, industrials, and other commercial entities, we monitor the general credit quality of the issuer, the geographical mix of the



issuer's customers (i.e. domestic vs. foreign), the geographical breakdown of the issuer's assets (i.e. domestic versus foreign), the value of the underlying assets owned by the issuer, capitalization of the issuer, and overall profitability and cash generation ability of the issuer. We monitor NRSRO actions and the likely actions for our investment exposures, as well as overall market conditions. By performing these analyses, we make a determination on the probability of timely payment of principal and interest of the issuers of our investments.

Some of our peripheral Eurozone fixed income investments contain covenants that we believe mitigate our risk to the issuer. These covenants could include put options that allow us to return our holdings to the issuer at a predetermined price, usually par, should the issuer be downgraded to below investment grade by a rating agency, plus restrictions on the ability to incur additional debt, sell assets, or provide collateral for indebtedness. As of March 31, 2014, all of the issuers of our holdings from peripheral Eurozone countries were current on their obligations to us, and we believe they have the ability to meet their obligations to us.

Apart from our direct investments in peripheral Eurozone sovereign debt totaling \$307 million, our other exposures as of March 31, 2014 to the European sovereign debt crisis were investments in peripheral Eurozone banks and financial institutions of \$600 million, peripheral Eurozone non-banks (excluding sovereigns) of \$2.5 billion, core Eurozone<sup>1</sup> banks and financial institutions of \$2.7 billion, core Eurozone non-banks (excluding sovereigns) of \$4.9 billion, core Eurozone sovereigns of \$569 million, and non-Eurozone<sup>2</sup> holdings throughout the balance of Europe of \$6.5 billion, all at amortized cost. Other investment risks stemming from the European sovereign debt crisis are not possible to measure and include the impact of slower economic activity throughout Europe and its impact on global economic growth and market disruption including illiquidity and impaired valuations due to heightened concerns and lack of investor confidence.

Although by most measures the crisis in Europe has stabilized and is showing signs of improvement, we continue to monitor the situation closely. Among the areas that we believe warrant continued attention include the heightened interrelationship between political, monetary, fiscal, and economic forces; the pace of underlying structural reforms; the possibility of continued contagion to additional sovereigns and other entities; further stress on the banking systems throughout the region; and the impact on the underlying economic fundamentals throughout the Eurozone. See the following discussion regarding steps that management has taken in the past several years to reduce our investment exposure to Europe.

#### Portfolio Risk Management

In response to the financial crisis, we undertook a significant derisking program in 2011 and 2012 to reduce significant concentrations within our investment portfolio, most notably perpetual securities and peripheral Eurozone issuers. While we have completed the majority of our derisking activities, we remain diligent in monitoring our portfolio and continually evaluate opportunities to manage risk within our portfolio, including those from concentrated positions. In the first quarter of 2014, we further reduced exposure to two of our historically largest investment holdings by selling \$38 million of our investment in Israel Electric and \$66 million of our investment in Republic of Tunisia, at amortized cost. As of March 31, 2014, both of these issuers were current on their obligations to us, and we believe they have the ability to meet their obligations to us. We will continue evaluating such opportunities to improve the risk profile of our portfolio.

#### Securities by Type of Issuance

We have investments in both publicly and privately issued securities. Our ability to sell either type of security is a function of overall market liquidity which is impacted by, among other things, the amount of outstanding securities of a particular issuer or issuance, trading history of the issue or issuer, overall market conditions, and idiosyncratic events affecting the specific issue or issuer.

<sup>1</sup>Core Eurozone includes Germany, France, Netherlands, Austria, Belgium and Finland.

<sup>2</sup>Non-Eurozone Europe includes the United Kingdom, Switzerland, Sweden, Norway, Denmark, Czech Republic and Poland.

The following table details investment securities by type of issuance.

Investment Securities by Type of Issuance

| (In millions)                | March 31, 2014 |            | December 31, 2013 |            |
|------------------------------|----------------|------------|-------------------|------------|
|                              | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Publicly issued securities:  |                |            |                   |            |
| Fixed maturities             | \$70,727       | \$74,410   | \$69,934          | \$72,179   |
| Perpetual securities         | 119            | 152        | 117               | 150        |
| Equity securities            | 9              | 14         | 9                 | 14         |
| Total publicly issued        | 70,855         | 74,576     | 70,060            | 72,343     |
| Privately issued securities: |                |            |                   |            |
| Fixed maturities             | 31,456         | 32,687     | 30,992            | 31,737     |
| Perpetual securities         | 2,938          | 2,864      | 2,870             | 2,797      |
| Equity securities            | 8              | 7          | 8                 | 7          |
| Total privately issued       | 34,402         | 35,558     | 33,870            | 34,541     |
| Total investment securities  | \$105,257      | \$110,134  | \$103,930         | \$106,884  |

The following table details our privately issued investment securities.

Privately Issued Securities

| (Amortized cost, in millions)  | March 31, 2014 |   | December 31, 2013 |   |
|--|----------------|---|-------------------|---|
| Privately issued securities as a percentage of total debt and perpetual securities                     | 32.7           | % | 32.6              | % |
| Privately issued securities held by Aflac Japan  | \$31,567       |   | \$31,040          |   |
| Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities | 30.0           | % | 29.9              | % |

Reverse-Dual Currency Securities<sup>(1)</sup>

| (Amortized cost, in millions)   | March 31, 2014 |   | December 31, 2013 |   |
|---|----------------|---|-------------------|---|
| Privately issued reverse-dual currency securities                                       | \$7,257        |   | \$7,087           |   |
| Publicly issued collateral structured as reverse-dual currency securities               | 2,210          |   | 2,348             |   |
| Total reverse-dual currency securities  | \$9,467        |   | \$9,435           |   |
| Reverse-dual currency securities as a percentage of total debt and perpetual securities | 9.0            | % | 9.1               | % |

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

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

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

We use specific criteria to judge the credit quality of both existing and prospective investments. The ratings referenced in the tables below are based on the ratings designations provided by the major credit rating agencies (Moody's, S&P, and Fitch) or, if not rated, are determined based on our internal credit analysis of such securities.

When

the ratings issued by the rating agencies differ, we utilize the second lowest rating, regardless of how many of the three

rating agencies actually rated the instrument. Split-rated securities are those where the ratings are not equivalent and one

or more of the ratings is investment grade and one or more is below investment grade. For these split-rated securities, if

there are only two ratings assigned by the credit rating agencies, we take the lower below-investment-grade rating. If there are three ratings assigned, and two of the three are below investment grade, we consider it a below-investment grade security. If there are three ratings and two are investment grade, we consider it an investment grade security unless

our evaluation and assessment shows a below-investment-grade rating is warranted despite two of the three rating agencies rating it investment grade.

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

Below-Investment-Grade Securities<sup>(1)</sup>

| (In millions)                               | March 31, 2014 |                |            |                        | December 31, 2013 |                |            |                       |
|---|----------------|----------------|------------|------------------------|-------------------|----------------|------------|-----------------------|
|   | Par Value      | Amortized Cost | Fair Value | Unrealized Gain (Loss) | Par Value         | Amortized Cost | Fair Value | Unrealized Gain(Loss) |
| Investcorp Capital Limited                  | \$410          | \$409          | \$367      | \$(42 )                | \$401             | \$401          | \$327      | \$(74 )               |
| Telecom Italia SpA                          | 389            | 389            | 352        | (37 )                  | 380               | 380            | 328        | (52 )                 |
| Commerzbank AG (includes Dresdner Bank)     | 389            | 250            | 352        | 102                    | 380               | 244            | 336        | 92                    |
| Israel Electric Corporation Limited         | 379            | 286            | 291        | 5                      | 417               | 316            | 316        | 0                     |
| Republic of Tunisia                         | 360            | 217            | 235        | 18                     | 446               | 275            | 284        | 9                     |
| SLM Corp (Sallie Mae)                       | 321            | 321            | 234        | (87 )                  | 314               | 314            | 227        | (87 )                 |
| UPM-Kymmene                                 | 301            | 301            | 243        | (58 )                  | 294               | 294            | 233        | (61 )                 |
| KLM Royal Dutch Airlines                    | 291            | 214            | 229        | 15                     | 285               | 209            | 209        | 0                     |
| Societe Generale <sup>(2)</sup>             | 243            | 217            | 199        | (18 )                  | 237               | 212            | 198        | (14 )                 |
| Bank of Ireland                             | 194            | 194            | 138        | (56 )                  | 190               | 190            | 134        | (56 )                 |
| Generalitat de Catalunya                    | 175            | 64             | 130        | 66                     | 171               | 63             | 113        | 50                    |
| Energias de Portugal SA (EDP)               | 139            | 138            | 149        | 11                     | 137               | 135            | 142        | 7                     |
| IKB Deutsche Industriebank AG               | 126            | 53             | 53         | 0                      | 123               | 55             | 55         | 0                     |
| Tokyo Electric Power Co., Inc.              | 125            | 126            | 127        | 1                      | 163               | 164            | 166        | 2                     |
| Redes Energeticas Nacionais SGPS,S.A. (REN) | 97             | 97             | 91         | (6 )                   | 95                | 95             | 89         | (6 )                  |
| Barclays Bank PLC <sup>(2)</sup>            | 64             | 47             | 64         | 17                     | 64                | 47             | 62         | 15                    |
| Landesbank                                  |                |                |            |                        |                   |                |            |                       |
| Baden-Wuerttemberg (LBBW)                   | 63             | 63             | 56         | (7 )                   | *                 | *              | *          | *                     |
| Sparebanken Vest <sup>(2)</sup>             | 60             | 60             | 56         | (4 )                   | 60                | 60             | 52         | (8 )                  |

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|  |         |         |         |       |   |         |         |         |        |   |
|--|---------|---------|---------|-------|---|---------|---------|---------|--------|---|
| Other Issuers (below \$50 million in par value) <sup>(3)</sup> | 371     | 376     | 373     | (3    | ) | 367     | 359     | 354     | (5     | ) |
| Total  | \$4,497 | \$3,822 | \$3,739 | \$(83 | ) | \$4,524 | \$3,813 | \$3,625 | \$(188 | ) |

\* Investment grade at respective reporting date

<sup>(1)</sup> Does not include senior secured bank loans in an externally managed portfolio that were below investment grade when initially purchased

<sup>(2)</sup> Includes perpetual security

<sup>(3)</sup> Includes 16 issuers in 2014 and 15 issuers in 2013

The following table shows the 10 largest holdings with a split rating, and includes the determination between investment grade and below investment grade based on the above methodology.

## Split-Rated Securities

| (In millions)   | Amortized<br>Cost | Investment-Grade<br>Status                  |
|---|-------------------|---|
| Telecom Italia SpA  | \$389             | Below Investment Grade                      |
| SLM Corp. (Sallie Mae)  | 321               | Below Investment Grade                      |
| Israel Electric Corporation Limited                                     | 286               | Below Investment Grade                      |
| Lloyds Banking Group PLC  | 277               | Investment Grade                            |
| Commerzbank AG (includes Dresdner Bank)                                 | 250               | Below Investment Grade                      |
| Societe Generale <sup>(1)</sup>   | 217               | Below Investment Grade                      |
| Bank of Ireland   | 194               | Below Investment Grade                      |
| Barclays Bank PLC <sup>(1)(2)</sup>                                     | 167               | Below Investment Grade/<br>Investment Grade |
| Deutsche Bank Capital Trust II & Capital Funding Trust I <sup>(1)</sup> | 156               | Investment Grade                            |
| Energias de Portugal SA (EDP)   | 138               | Below Investment Grade                      |

<sup>(1)</sup> Includes perpetual security

<sup>(2)</sup> Barclays is listed as "Below Investment Grade (BIG)/ Investment Grade (IG)" since the Upper Tier II holdings (\$120 million amortized cost) are IG and the Tier I holdings (\$47 million amortized cost) are BIG

We invest in senior secured bank loans to U.S. and Canadian corporate borrowers, most of which have below-investment-grade ratings. The program is managed externally by third party firms specializing in this asset class. This mandate requires a minimum average credit quality of BB-/Ba3, prohibits loans rated below B/B2, and prohibits exposure to any individual credit greater than 3% of the program's assets. The objectives of this program include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates through the acquisition of floating rate assets. Our investments in this program totaled \$460 million at March 31, 2014, compared with \$451 million at December 31, 2013, on an amortized cost basis.

Excluding the senior secured bank loans discussed above that were rated below investment grade when initially purchased, below-investment-grade debt and perpetual securities represented 3.6% of total debt and perpetual securities at March 31, 2014, compared with 3.7% at December 31, 2013, on an amortized cost basis. Debt and perpetual securities classified as below investment grade at March 31, 2014 and December 31, 2013 were generally reported as available for sale and carried at fair value.

Split-rated securities, excluding the senior secured bank loan investments discussed above, totaled \$3.0 billion as of March 31, 2014, compared with \$2.7 billion as of December 31, 2013, and represented 2.9% of total debt and perpetual securities, at amortized cost, at March 31, 2014, compared with 2.6% at December 31, 2013.

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; and foreign currency options, 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 and senior note and subordinated debenture swaps is mitigated by collateral posting requirements the counterparty must meet. The counterparty risk associated with the foreign currency forwards and foreign currency options is the risk that at expiry of the contract, the counterparty is unable to deliver the agreed upon amount of yen at the agreed upon price or delivery date, thus exposing the Company to additional unhedged exposure to U.S. dollars in the Aflac Japan investment portfolio. See Note 4 of the Notes to the Consolidated Financial Statements for more information.

## Other-than-temporary Impairment

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



## Unrealized Investment Gains and Losses

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt and perpetual securities by investment-grade status as of March 31, 2014.

| (In millions)                     | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value | Percentage<br>of Total<br>Fair Value | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |
|-----------------------------------|----------------------------|------------------------|--------------------------------------|------------------------------|-------------------------------|
| Available-for-sale securities:    |                            |                        |                                      |                              |                               |
| Investment-grade securities       | \$60,122                   | \$63,090               | 57.3 %                               | \$4,131                      | \$ 1,163                      |
| Below-investment-grade securities | 4,260                      | 4,207                  | 3.8                                  | 298                          | 351                           |
| Held-to-maturity securities:      |                            |                        |                                      |                              |                               |
| Investment-grade securities       | 40,858                     | 42,816                 | 38.9                                 | 2,464                        | 506                           |
| Total                             | \$105,240                  | \$110,113              | 100.0 %                              | \$6,893                      | \$ 2,020                      |

The following table presents an aging of debt and perpetual securities in an unrealized loss position as of March 31, 2014.

## Aging of Unrealized Losses

| (In millions)                     | Total<br>Amortized<br>Cost | Total<br>Unrealized<br>Loss | Less than Six Months |                    | Six Months to Less<br>than 12 Months |                    | 12 Months<br>or Longer |                    |
|-----------------------------------|----------------------------|-----------------------------|----------------------|--------------------|--------------------------------------|--------------------|------------------------|--------------------|
|                                   |                            |                             | Amortized<br>Cost    | Unrealized<br>Loss | Amortized<br>Cost                    | Unrealized<br>Loss | Amortized<br>Cost      | Unrealized<br>Loss |
| Available-for-sale securities:    |                            |                             |                      |                    |                                      |                    |                        |                    |
| Investment-grade securities       | \$18,910                   | \$ 1,163                    | \$2,290              | \$16               | \$9,634                              | \$485              | \$6,986                | \$662              |
| Below-investment-grade securities | 2,037                      | 351                         | 104                  | 2                  | 92                                   | 5                  | 1,841                  | 344                |
| Held-to-maturity securities:      |                            |                             |                      |                    |                                      |                    |                        |                    |
| Investment-grade securities       | 7,395                      | 506                         | 1,895                | 58                 | 360                                  | 2                  | 5,140                  | 446                |
| Total                             | \$28,342                   | \$2,020                     | \$4,289              | \$76               | \$10,086                             | \$492              | \$13,967               | \$1,452            |

The following table presents a distribution of unrealized losses on debt and perpetual securities by magnitude as of March 31, 2014.

## Percentage Decline From Amortized Cost

| (In millions)                     | Total<br>Amortized<br>Cost | Total<br>Unrealized<br>Loss | Less than 20%     |                    | 20% to 50%        |                    | Greater than 50%  |                    |
|-----------------------------------|----------------------------|-----------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|                                   |                            |                             | Amortized<br>Cost | Unrealized<br>Loss | Amortized<br>Cost | Unrealized<br>Loss | Amortized<br>Cost | Unrealized<br>Loss |
| Available-for-sale securities:    |                            |                             |                   |                    |                   |                    |                   |                    |
| Investment-grade securities       | \$18,910                   | \$ 1,163                    | \$18,320          | \$1,024            | \$590             | \$139              | \$0               | \$0                |
| Below-investment-grade securities | 2,037                      | 351                         | 1,438             | 185                | 599               | 166                | 0                 | 0                  |
| Held-to-maturity securities:      |                            |                             |                   |                    |                   |                    |                   |                    |
|                                   | 7,395                      | 506                         | 7,074             | 423                | 321               | 83                 | 0                 | 0                  |



Investment-grade  
securities

|       |          |         |          |         |         |       |     |     |
|-------|----------|---------|----------|---------|---------|-------|-----|-----|
| Total | \$28,342 | \$2,020 | \$26,832 | \$1,632 | \$1,510 | \$388 | \$0 | \$0 |
|-------|----------|---------|----------|---------|---------|-------|-----|-----|

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The following table presents the 10 largest unrealized loss positions in our portfolio as of March 31, 2014.

| (In millions)                               | Credit<br>Rating | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Loss |
|---|------------------|-------------------|---------------|--------------------|
| SLM Corp (Sallie Mae)                       | BB               | \$321             | \$234         | \$(87 )            |
| UPM-Kymmene                                 | BB               | 301               | 243           | (58 )              |
| Bank of Ireland                             | BB               | 194               | 138           | (56 )              |
| DEPFA Bank PLC                              | BBB              | 224               | 170           | (54 )              |
| Kommunal Landspankasse (KLP) <sup>(1)</sup> | BBB              | 238               | 185           | (53 )              |
| Investcorp Capital Limited                  | BB               | 409               | 367           | (42 )              |
| AXA <sup>(1)</sup>                          | BBB              | 313               | 271           | (42 )              |
| Nordea Bank AB                              | BBB              | 327               | 290           | (37 )              |
| Telecom Italia SpA                          | BB               | 389               | 352           | (37 )              |
| Bank of America Corp                        | A                | 439               | 408           | (31 )              |

<sup>(1)</sup> Includes perpetual security

The declines in the fair values noted above were a result of changes in interest rates, movement in the yen/dollar exchange rate, and/or changes in credit spreads driven by the issuer's underlying credit quality. As we believe these issuers have the ability to continue making timely payments of principal and interest, we view these changes in fair value to be temporary and do not believe it is necessary to impair the carrying value of these securities. See the Unrealized Investment Gains and Losses section in Note 3 of the Notes to the Consolidated Financial Statements for further discussions of unrealized losses related to financial institutions, including perpetual securities, and other corporate investments.

#### Investment Valuation and Cash

We estimate the fair values of our securities on a monthly basis. We monitor the estimated fair values obtained from our custodian, pricing vendors and brokers for consistency from month to month, while considering current market conditions. We also periodically discuss with our custodian and pricing brokers and vendors the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. 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. We have performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

Cash and cash equivalents totaled \$2.0 billion, or 1.8% of total investments and cash, as of March 31, 2014, compared with \$2.5 billion, or 2.3%, at December 31, 2013. For a discussion of the factors affecting our cash balance, see the Operating Activities, Investing Activities and Financing Activities subsections of this MD&A.

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

#### Deferred Policy Acquisition Costs

The following table presents deferred policy acquisition costs by segment.

| (In millions) | March 31, 2014 | December 31, 2013 | % Change |                  |
|---------------|----------------|-------------------|----------|------------------|
| Aflac Japan   | \$5,995        | \$5,819           | 3.0      | % <sup>(1)</sup> |
| Aflac U.S.    | 2,970          | 2,979             | (.3      | )                |
| Total         | \$8,965        | \$8,798           | 1.9      | %                |

<sup>(1)</sup>Aflac Japan's deferred policy acquisition costs increased .6% in yen during the three months ended March 31, 2014.



See Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013 for a discussion of changes to the accounting policy for DAC which was effective January 1, 2012.

#### Policy Liabilities

The following table presents policy liabilities by segment.

| (In millions) | March 31, 2014 | December 31, 2013 | % Change |                  |
|---------------|----------------|-------------------|----------|------------------|
| Aflac Japan   | \$83,683       | \$80,302          | 4.2      | % <sup>(1)</sup> |
| Aflac U.S.    | 9,205          | 9,098             | 1.2      |                  |
| Other         | 2              | 2                 | .0       |                  |
| Total         | \$92,890       | \$89,402          | 3.9      | %                |

<sup>(1)</sup>Aflac Japan's policy liabilities increased 1.8% in yen during the three months ended March 31, 2014.

#### Notes Payable

Notes payable totaled \$4.9 billion at March 31, 2014 and December 31, 2013. The ratio of adjusted debt to total capitalization was 23.6% as of March 31, 2014, compared with 24.3% as of December 31, 2013. Adjusted debt is the sum of gross notes payable, less 50% of our subordinated debentures and the portion of our senior notes designated as pre-funding of our 2014 maturities. Total capitalization is the sum of adjusted debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities and derivatives. See Note 7 of the accompanying Notes to the Consolidated Financial Statements for additional information on our notes payable.

#### Benefit Plans

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on our Japanese and U.S. plans, see Note 10 of the accompanying Notes to the Consolidated Financial Statements and Note 14 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013.

#### Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection Corporation (LIPPC) included government fiscal measures supporting the LIPPC. On December 27, 2011, Japan's FSA announced the plans to enhance the stability of the LIPPC by extending the government's fiscal support of the LIPPC through March 2017. Accordingly, the FSA submitted legislation to the Diet on January 27, 2012 to extend the government's fiscal support framework, and the legislation was approved on March 30, 2012. On March 6, 2014, the LIPPC announced changes to its Articles of Incorporation stating that effective April 2014, the annual LIPPC contribution amount for the total life industry will be lowered from 40 billion yen to 33 billion yen.

In June 2013, a revision to the Financial Instruments and Exchange Act established a post-funded Orderly Resolution Regime for financial institutions to prevent a financial crisis in the event of a financial institution's failure. This regime came into effect in March 2014, but is not expected to have a material impact on the Company's operations in Japan.

#### Hedging Activities

##### Net Investment Hedge

Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains certain unhedged dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. Second, we have designated the majority of the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes and yen-denominated loans) as non-derivative hedging instruments and certain foreign currency forwards and options as derivative hedges of our net investment in Aflac Japan. We make our net investment hedge designation at the beginning of each quarter. 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, and the exchange effect on the yen-denominated liabilities and the change in estimated fair value of the derivatives are reported in the unrealized foreign currency component of other comprehensive income. We estimate that if the designated net investment hedge positions exceeded our net investment in Aflac Japan by 10 billion yen, we would report a foreign exchange gain/loss of approximately \$1 million for every 1% yen weakening/strengthening in the end-of-period yen/dollar



exchange rate. Our net investment hedge was effective during the three-month periods ended March 31, 2014 and 2013, respectively.

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

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

| (In millions)   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
| Aflac Japan net assets                                | \$13,832          | \$12,315             |
| Aflac Japan unhedged dollar-denominated net assets    | (7,616 )          | (7,621 )             |
| Consolidated yen-denominated net assets (liabilities) | \$6,216           | \$4,694              |

For the hedge of our net investment in Aflac Japan, we have designated certain of the Parent Company's yen-denominated liabilities, certain unhedged U.S. dollar investments and foreign currency forwards and options as a hedge of our net investment in Aflac Japan. Our consolidated yen-denominated net assets position was partially hedged at \$1.2 billion as of March 31, 2014 and partially hedged at \$1.1 billion as of December 31, 2013.

#### Cash Flow Hedges

We have freestanding derivative instruments related to our consolidated VIE investments that are reported in the consolidated balance sheet at fair value within other assets and other liabilities. As of March 31, 2014, two of the freestanding swaps that are used within VIEs to hedge the risk arising from changes in foreign currency exchange rates qualified for hedge accounting.

We have an interest rate swap agreement related to the 5.5 billion yen variable interest rate Samurai notes that we issued in July 2011. 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. This hedge was effective during the three-month periods ended March 31, 2014 and 2013.

#### Fair Value Hedges

We have entered into foreign currency forwards to mitigate the foreign exchange risk associated with new investments in U.S. dollar-denominated fixed-maturities that support yen-denominated liabilities within our Aflac Japan segment.

We have entered into interest rate swaptions to mitigate the interest rate risk associated with our U.S. dollar-denominated fixed-maturities that support yen-denominated liabilities within our Aflac Japan segment.

See Note 4 of the Notes to the Consolidated Financial Statements for additional information on our hedging activities.

#### Off-Balance Sheet Arrangements

As of March 31, 2014, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 15 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013, for information on material unconditional purchase obligations that are not recorded on our balance sheet.



**CAPITAL RESOURCES AND LIQUIDITY**

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following table presents the amounts provided for the three-month periods ending March 31.

**Liquidity Provided by Aflac to Parent Company**

| (In millions)                       | 2014  | 2013  |
|-------------------------------------|-------|-------|
| Dividends declared or paid by Aflac | \$269 | \$163 |
| Management fees paid by Aflac       | 75    | 89    |

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

The Parent Company also accesses debt security markets to provide additional sources of capital. We filed a shelf registration statement with the SEC in May 2012 that allows us to issue an indefinite amount of senior and subordinated debt, in one or more series, from time to time until May 2015. In March 2014, we filed a shelf registration statement with Japanese regulatory authorities that allows us to issue up to 100 billion yen of yen-denominated Samurai notes in Japan through March 2016. If issued, these yen-denominated Samurai notes would not be available to U.S. persons. We believe outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 7 of the Notes to the Consolidated Financial Statements.

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

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

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

The Parent Company and Aflac have a senior unsecured revolving credit facility agreement with a syndicate of financial institutions 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. 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. As of March 31, 2014, we did not have any borrowings outstanding under our 50 billion yen revolving credit agreement.

Our financial statements convey our financing arrangements during the periods presented. We have not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in our balance sheet. We were in compliance with all of the covenants of our notes payable and line of credit at March 31, 2014. We have not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial



assets that have been accounted for as a sale under applicable accounting standards, including securities lending transactions. See Note 3 of the Notes to the Consolidated Financial Statements and Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013, for more information on our securities lending activity. We do not have a known trend, demand, commitment, event or uncertainty that would reasonably result in our liquidity increasing or decreasing by a material amount. Our cash and cash equivalents

include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure.

#### Consolidated Cash Flows

We translate cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported.

The following table summarizes consolidated cash flows by activity for the three-month periods ended March 31.

| (In millions)                                | 2014     | 2013     |
|--|----------|----------|
| Operating activities                         | \$1,615  | \$3,832  |
| Investing activities                         | (2,123 ) | (3,085 ) |
| Financing activities                         | (32 )    | (156 )   |
| Exchange effect on cash and cash equivalents | (9 )     | (36 )    |
| Net change in cash and cash equivalents      | \$(549 ) | \$555    |

#### Operating Activities

The following table summarizes operating cash flows by source for the three-month periods ended March 31.

| (In millions)                   | 2014    | 2013    |
|---------------------------------|---------|---------|
| Aflac Japan                     | \$1,340 | \$3,486 |
| Aflac U.S. and other operations | 275     | 346     |
| Total                           | \$1,615 | \$3,832 |

#### Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. The following table summarizes investing cash flows by source for the three-month periods ended March 31.

| (In millions)                   | 2014       | 2013       |
|---------------------------------|------------|------------|
| Aflac Japan                     | \$(2,033 ) | \$(2,918 ) |
| Aflac U.S. and other operations | (90 )      | (167 )     |
| Total                           | \$(2,123 ) | \$(3,085 ) |

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when our fixed-maturity securities and perpetual securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected fixed-maturity and perpetual securities that are available for sale to improve the duration matching of our assets and liabilities, improve future investment yields, and/or re-balance our portfolio. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 1% of the year-to-date average investment portfolio of fixed maturities and perpetual securities available for sale during the three-month periods ended March 31, 2014 and 2013.

#### Financing Activities

Consolidated cash used by financing activities was \$32 million in the first three months of 2014, compared with consolidated cash used by financing activities of \$156 million for the same period of 2013.

Cash returned to shareholders through dividends and treasury stock purchases was \$584 million during the three-month period ended March 31, 2014, compared with \$315 million during the three-month period ended March 31, 2013.

We were in compliance with all of the covenants of our notes payable and line of credit at March 31, 2014.

The following tables present a summary of treasury stock activity during the three-month periods ended March 31.

|  |       |       |
|--|-------|-------|
| Treasury Stock Purchased<br>(In millions of dollars and thousands of shares) | 2014  | 2013  |
| Treasury stock purchases   | \$421 | \$156 |
| Number of shares purchased:  |       |       |
| Open market  | 6,535 | 2,979 |
| Other  | 110   | 124   |
| Total shares purchased   | 6,645 | 3,103 |

|   |      |      |
|---|------|------|
| Treasury Stock Issued<br>(In millions of dollars and thousands of shares) | 2014 | 2013 |
| Stock issued from treasury:   |      |      |
| Cash financing  | \$16 | \$19 |
| Noncash financing   | 18   | 18   |
| Total stock issued from treasury  | \$34 | \$37 |
| Number of shares issued   | 686  | 803  |

During the first three months of 2014, we repurchased 6.5 million shares of our common stock for \$415 million as part of our share repurchase program. As of March 31, 2014, a remaining balance of 42.7 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors in 2008 and 2013. We currently plan to purchase \$800 million to \$1 billion of our common stock in 2014.

Cash dividends paid to shareholders were \$.37 per share in the first quarter of 2014, compared with \$.35 per share in the first quarter of 2013. The following table presents the dividend activity for the three-month periods ended March 31.

|   |       |       |
|---|-------|-------|
| (In millions)                                 | 2014  | 2013  |
| Dividends paid in cash                        | \$163 | \$159 |
| Dividends through issuance of treasury shares | 7     | 6     |
| Total dividends to shareholders               | \$170 | \$165 |

In April 2014, the board of directors declared the second quarter cash dividend of \$.37 per share. The dividend is payable on June 2, 2014, to shareholders of record at the close of business on May 21, 2014.

#### Regulatory Restrictions

Aflac is domiciled in Nebraska and is subject to its regulations. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency. The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. While we have not yet finalized out statutory financial statements, we estimate that Aflac's RBC ratio as of March 31, 2014 exceeded 775%. Aflac's RBC ratio remains high and reflects a strong capital and surplus position. The maximum amount of dividends that can be paid to the Parent Company by Aflac without prior approval of Nebraska's director of insurance is the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2014 in excess of \$2.4 billion would require such approval.

In addition to limitations and restrictions imposed by U.S. insurance regulators, Japan's FSA may not allow profit repatriations from Aflac Japan if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard which is quantified through the solvency margin

ratio (SMR). Aflac Japan's SMR is sensitive to interest rate and foreign exchange rate changes, therefore we continue to evaluate alternatives for reducing this sensitivity. We have a senior unsecured revolving credit facility in the amount of 50 billion yen as a capital contingency plan in the event of a rapid change in interest rates. We have undertaken various measures to mitigate the sensitivity of Aflac Japan's SMR. We employ policy reserve matching (PRM) investment strategies, which is a Japan-specific accounting treatment that reduces SMR sensitivity since PRM-designated investments are carried at amortized cost consistent with corresponding liabilities. For U.S. GAAP, PRM investments are categorized as available-for-sale. We also have interest rate swaptions to mitigate increases in U.S. interest rates and the related impact to the available-for-sale investment portfolio in Japan. (See Notes 3, 4, and 8 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2013 for additional information on our investment strategies and hedging activities, respectively.) While we have not yet completed our FSA financial statements for the first quarter of 2014, we estimate that as of March 31, 2014, Aflac Japan's SMR was above 750%.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following table details Aflac Japan remittances for the three-month periods ended March 31.

#### Aflac Japan Remittances

| (In millions of dollars and billions of yen)       | 2014 | 2013 |
|--|------|------|
| Aflac Japan management fees paid to Parent Company | \$12 | \$10 |
| Expenses allocated to Aflac Japan                  | 26   | 28   |

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 13 of the Notes to the Consolidated Financial Statements and the Regulatory Restrictions subsection of MD&A, both in our annual report to shareholders for the year ended December 31, 2013.

Other

For information regarding commitments and contingent liabilities, see Note 11 of the Notes to the Consolidated Financial Statements.

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

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

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

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

#### Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II. OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

During the first three months of 2014, we repurchased shares of Aflac common stock as follows:

| Period                   | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total<br>Number<br>of Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|--------------------------|---|------------------------------------|--|---|
| January 1 - January 31   | 3,218,667                                 | \$64.24                            | 3,217,000  | 45,993,020  |
| February 1 - February 28 | 3,113,966                                 | 62.45                              | 3,008,016  | 42,985,004  |
| March 1 - March 31       | 311,944                                   | 64.60                              | 310,000  | 42,675,004  |
| Total                    | 6,644,577                                 | <sup>(2)</sup> \$63.42             | 6,535,016  | 42,675,004 <sup>(1)</sup>   |

<sup>(1)</sup>The total remaining shares available for purchase at March 31, 2014, consisted of: (1) 2,675,004 shares related to a share repurchase authorization by the board of directors in 2008 and (2) 40,000,000 shares related to a share repurchase authorization by the board of directors in 2013.

<sup>(2)</sup>During the first quarter of 2014, 109,561 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

Item 6. Exhibits

(a) EXHIBIT INDEX

- 3.0 - Articles of Incorporation, as amended – incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended – incorporated by reference from Form 10-Q for March 31, 2010, Exhibit 3.1 (File No. 001-07434).
- 4.0 - There are no instruments with respect to long-term debt not being registered in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 4.1 - Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee – incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.2 - First Supplemental Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 8.500% Senior Note due 2019) – incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.2 (File No. 001-07434).
- 4.3 - Second Supplemental Indenture, dated as of December 17, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.900% Senior Note due 2039) – incorporated by reference from Form 8-K dated December 14, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.4 - Third Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.45% Senior Note due 2040) - incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.1 (File No. 001-07434).
- 4.5 - Fourth Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York and Mellon Trust Company, N.A., as trustee (including the form of 3.45% Senior Note due 2015) – incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.2 (File No. 001-07434).
- 4.6 - Fifth Supplemental Indenture, dated as of February 10, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.65% Senior Note due 2017) - incorporated by reference from Form 8-K dated February 8, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.7 - Sixth Supplemental Indenture, dated as of February 10, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.00% Senior Note due 2022) - incorporated by reference from Form 8-K dated February 8, 2012, Exhibit 4.2 (File No. 001-07434).
- 4.8 - Seventh Supplemental Indenture, dated as of July 31, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.65% Senior Note due 2017) - incorporated by reference from Form 8-K dated July 27, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.9 - Eighth Supplemental Indenture, dated as of June 10, 2013, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.625% Senior Note due 2023) - incorporated by reference from Form 8-K dated June 10, 2013, Exhibit 4.1 (File No. 001-07434).
- 4.10 - Subordinated Indenture, dated as of September 26, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee - incorporated by reference from Form 8-K dated October 1, 2012, Exhibit 4.1 (File No. 001-07434).
- 4.11 - First Supplemental Indenture, dated as of September 26, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 5.50%



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Subordinated Debenture due 2052) - incorporated by reference from Form 8-K dated October 1, 2012, Exhibit 4.2 (File No. 001-07434).

- 10.0\* - American Family Corporation Retirement Plan for Senior Officers, as amended and restated October 1, 1989 – incorporated by reference from 1993 Form 10-K, Exhibit 10.2 (File No. 001-07434).
- 10.1\* - Amendment to American Family Corporation Retirement Plan for Senior Officers, dated December 8, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.1 (File No. 001-07434).
- 10.2\* - Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 – incorporated by reference from 2008 Form 10-K, Exhibit 10.5 (File No. 001-07434).

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- 10.3\* - First Amendment to the Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 – incorporated by reference from 2012 Form 10-K, Exhibit 10.3 (File No. 001-07434).
- 10.4\* - Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2009 – incorporated by reference from 2008 Form 10-K, Exhibit 10.9 (File No. 001-07434).
- 10.5\* - First Amendment to the Aflac Incorporated Executive Deferred Compensation Plan dated June 1, 2009 – incorporated by reference from Form 10-Q for June 30, 2009, Exhibit 10.4 (File No. 001-07434).
- 10.6\* - Second Amendment to the Aflac Incorporated Executive Deferred Compensation Plan dated June 1, 2009.
- 10.7\* - Aflac Incorporated Amended and Restated 2009 Management Incentive Plan – incorporated by reference from the 2008 Shareholders’ Proxy Statement, Appendix B (File No. 001-07434).
- 10.8\* - First Amendment to the Aflac Incorporated Amended and Restated 2009 Management Incentive Plan, dated December 19, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.11 (File No. 001-07434).
- 10.9\* - Aflac Incorporated 2013 Management Incentive Plan - incorporated by reference from the 2012 Proxy Statement, Appendix B (File No. 001-07434).
- 10.10\* - Aflac Incorporated Sales Incentive Plan – incorporated by reference from 2007 Form 10-K, Exhibit 10.8 (File No. 001-07434).
- 10.11\* - 1999 Aflac Associate Stock Bonus Plan, amended and restated as of January 1, 2013 - incorporated by reference from Form 10-Q for March 31, 2013, Exhibit 10.10 (File No. 001-07434).
- 10.12\* - Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from the 1997 Shareholders’ Proxy Statement, Appendix B (File No. 001-07434).
- 10.13\* - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.5 (File No. 001-07434).
- 10.14\* - Form of Officer Stock Option Agreement (Incentive Stock Option) under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.6 (File No. 001-07434).
- 10.15\* - Notice of grant of stock options and stock option agreement to officers under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.7 (File No. 001-07434).
- 10.16\* - 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from the 2012 Proxy Statement, Appendix A (File No. 001-07434).
- 10.17\* - Form of Non-Employee Director Stock Option Agreement (NQSO) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.16 (File No. 001-07434).
- 10.18\* - Notice of grant of stock options to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.17 (File No. 001-07434).
- 10.19\* - Form of Non-Employee Director Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.18 (File No. 001-07434).
- 10.20\* - Notice of restricted stock award to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.19 (File No. 001-07434).
- 10.21\* - U.S. Form of Officer Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference

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from Form 10-Q for June 30, 2013, Exhibit 10.20 (File No. 001-07434).

- 10.22\* - Japan Form of Officer Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.21 (File No. 001-07434).
- 10.23\* - Notice of time based restricted stock award to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.22 (File No. 001-07434).
- 10.24\* - Notice of performance based restricted stock award to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.23 (File No. 001-07434).

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- 10.25\* - U.S. Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.24 (File No. 001-07434).
- 10.26\* - Japan Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.25 (File No. 001-07434).
- 10.27\* - U.S. Form of Officer Stock Option Agreement (Incentive Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.26 (File No. 001-07434).
- 10.28\* - Japan Form of Officer Stock Option Agreement (Incentive Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.27 (File No. 001-07434).
- 10.29\* - U.S. Notice of grant of stock options to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.28 (File No. 001-07434).
- 10.30\* - Japan Notice of grant of stock options to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.29 (File No. 001-07434).
- 10.31\* - Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated February 9, 2010 – incorporated by reference from 2009 Form 10-K, Exhibit 10.26 (File No. 001-07434).
- 10.32\* - Amendment to Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated August 10, 2010 – incorporated by reference from Form 10-Q for September 30, 2010, Exhibit 10.27 (File No. 001-07434).
- 10.33\* - Aflac Incorporated Employment Agreement with Daniel P. Amos, dated August 1, 1993 – incorporated by reference from 1993 Form 10-K, Exhibit 10.4 (File No. 001-07434).
- 10.34\* - Amendment to Aflac Incorporated Employment Agreement with Daniel P. Amos, dated December 8, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.32 (File No. 001-07434).
- 10.35\* - Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated February 14, 1992, and as amended November 12, 1993 – incorporated by reference from 1993 Form 10-K, Exhibit 10.6 (File No. 001-07434).
- 10.36\* - Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated November 3, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.34 (File No. 001-07434).
- 10.37\* - Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated December 19, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.35 (File No. 001-07434).
- 10.38\* - Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated March 15, 2011 – incorporated by reference from Form 10-Q for March 31, 2011, Exhibit 10.33 (File No. 001-07434).
- 10.39\* - Aflac Incorporated Employment Agreement with Paul S. Amos II, dated January 1, 2005 – incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.2 (File No. 001-07434).
- 10.40\* - Amendment to Aflac Incorporated Employment Agreement with Paul S. Amos II, dated December 19, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.39 (File No. 001-07434).
- 10.41\* - Amendment to Aflac Incorporated Employment Agreement with Paul S. Amos II, dated March 7, 2012 - incorporated by reference from Form 10-Q for March 31, 2012, Exhibit 10.36 (File No. 001-07434).

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- 10.42\* - Aflac Incorporated Employment Agreement with Joey Loudermilk, dated September 12, 1994 and as amended December 10, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.40 (File No. 001-07434).
- 10.43\* - Amendment to Aflac Incorporated Employee Agreement with Joey Loudermilk, dated December 14, 2011 - incorporated by reference from 2011 Form 10-K, Exhibit 10.37 (File No. 001-07434).
- 10.44\* - Aflac Incorporated Employment Agreement with Tohru Tonoike, effective February 1, 2007 – incorporated by reference from 2008 Form 10-K, Exhibit 10.41 (File No. 001-07434).
- 10.45\* - Amendment to Aflac Incorporated Employment Agreement with Tohru Tonoike, dated February 9, 2010 – incorporated by reference from 2009 Form 10-K, Exhibit 10.36 (File No. 001-07434).
- 10.46\* - Amendment to Aflac Incorporated Employment Agreement with Tohru Tonoike, dated October 8, 2012 – incorporated by reference from 2012 Form 10-K, Exhibit 10.40 (File No. 001-07434).

- 10.47\* - Aflac Incorporated Employment Agreement with Eric Kirsch, effective November 1, 2011.
  - 10.48\* - Amendment to Aflac Incorporated Employment Agreement with Eric Kirsch, dated December 10, 2012.
  - 10.49\* - Amendment to Aflac Incorporated Employment Agreement with Eric Kirsch, dated January 1, 2014.
  - 10.50\* - Aflac Retirement Agreement with E. Stephen Purdom, dated February 15, 2000 – incorporated by reference from 2000 Form 10-K, Exhibit 10.13 (File No. 001-07434).
  - 11 - Statement regarding the computation of per-share earnings for the Registrant.
  - 12 - Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.
  - 15 - Letter from KPMG LLP regarding unaudited interim financial information.
  - 31.1 - Certification of CEO dated May 2, 2014, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
  - 31.2 - Certification of CFO dated May 2, 2014, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
  - 32 - Certification of CEO and CFO dated May 2, 2014, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 99.1 - Senior unsecured revolving credit facility agreement, dated March 29, 2013 - incorporated by reference from Form 10-Q for March 31, 2013, Exhibit 99.1 (File No. 001-07434).
  - 101.INS - XBRL Instance Document.<sup>(1)</sup>
  - 101.SCH - XBRL Taxonomy Extension Schema.
  - 101.CAL - XBRL Taxonomy Extension Calculation Linkbase.
  - 101.DEF - XBRL Taxonomy Extension Definition Linkbase.
  - 101.LAB - XBRL Taxonomy Extension Label Linkbase.
  - 101.PRE - XBRL Taxonomy Extension Presentation Linkbase.
- Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Earnings, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to the Consolidated Financial Statements
- (1) Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 6 of this report

SIGNATURES

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

Aflac Incorporated

May 2, 2014

/s/ Kriss Cloninger III  
(Kriss Cloninger III)  
President, Chief Financial Officer,  
Treasurer and Director

May 2, 2014

/s/ June Howard  
(June Howard)  
Senior Vice President, Financial Services; Chief  
Accounting Officer