



*It's no mystery
how Aflac makes a difference.*



Annual Report for 2008

Who Dun It?



In “Who Dun It,” one of our recent commercials, the Aflac Duck has been cast in the role of the overlooked, albeit quite vociferous benefactor, as the befuddled friends struggle to solve a mystery:

Who pays you cash to cover expenses that other insurance doesn’t cover?

Additional clues about how Aflac policies make a difference are revealed each and every time we hear from our policyholders and claimants. These are real people who have benefited by financial relief from Aflac when they needed it most. Our claimants send their experiences to ilovemyaflac@aflac.com. And the stories just keep coming!

“Who pays you cash when you’re hurt and miss work?”

Aflac, of course.
Mystery solved!



Aflac: Making a Difference

We've extended a promise for more than 50 years to help support our policyholders when they need it most. The stress of a medical event is bad enough. But unexpected out-of-pocket expenses associated with a serious illness or accident compound the stress. And coping with everyday living expenses like mortgage or car payments, or other household costs makes things that much worse, especially if a patient or caregiver misses work. That's where we come in. Aflac's affordable products provide cash benefits directly to policyholders so they can spend more time on recovery and less time worrying about paying bills.

Aflac's mission is to combine innovative, strategic marketing with quality products and services at competitive prices to provide the best insurance value for consumers.

Aflac's value-driven product portfolio is the culmination of more than five decades of experience developing products that provide the best coverage possible and the best possible value for our customers. And we are continually making enhancements to our product line to ensure they are always relevant in an ever-changing health care environment. We have tens of thousands of sales associates and employees dedicated to helping policyholders resume life where they left off. Aflac's insurance products provide protection to more than 40 million people worldwide. We've again

maintained the distinction of being the number one provider of guaranteed-renewable insurance in the United States and the number one insurance company in terms of individual policies in force in Japan.

As of February 27, 2009, Aflac was rated AA- by Standard & Poor's, AA by Fitch Ratings and Aa2 (Excellent) by Moody's for financial strength. A.M. Best rates Aflac as A+ (Superior) for financial strength and operating performance. Among many accolades, Aflac has been recognized by *Ethisphere* magazine as one of the World's Most Ethical Companies for two consecutive years and was also named by the Reputation Institute as the Most Respected Company in the global insurance industry in 2008. In 2009 *Fortune* magazine recognized Aflac as one of the 100 Best Companies to Work For in America for the eleventh consecutive year. *Fortune* magazine also ranked Aflac No. 1 on its global list of the Most Admired Companies in the Life and Health Insurance category. Aflac appears on *Hispanic Enterprise* magazine's list of the 50 Best Companies for Supplier Diversity and on *Black Enterprise* magazine's list of the 40 Best Companies for Diversity. Aflac was also named by *Forbes* magazine as America's Best-Managed Company in the insurance category. Aflac Incorporated is a Fortune 500 company listed on the New York Stock Exchange under the symbol AFL. To find out more about Aflac, visit aflac.com.

Table of Contents

Message from Management	2	Selected Financial Data	22
2008 was a year that took its toll on the U.S. economy and international financial markets. Despite the economic turmoil, we remained focused on our proven business model by leveraging our competitive strengths in the two markets in which we operate: the United States and Japan. In doing so, we generated combined sales of more than 5.5 million policies in the United States and Japan and produced more than \$2.6 billion of new annualized premium.		This section includes summary statements of earnings and balance sheets, stock price ranges and exchange rates for the past 11 years.	
A Conversation with Dan Amos	6	Management's Discussion and Analysis	24
Chairman and CEO Dan Amos shares his thoughts on topics including corporate citizenship, the economy and opportunities for Aflac.		This section provides an analysis of Aflac's overall financial condition, and reviews the company's financial and operational performance in Japan and in the United States.	
Aflac Japan	8	Consolidated Financial Statements	52
Aflac Japan continued its status as the number one insurance company in terms of individual policies in force. In addition to favorable financial performance, 2008 ushered in two new significant long-term sales opportunities for distributing our products.		This section contains the consolidated financial statements of Aflac Incorporated and its subsidiaries.	
Aflac U.S.	16	Notes to the Consolidated Financial Statements	56
Despite a tough economic environment, Aflac U.S. forged ahead with a strong brand and product line and a growing sales force. Aflac U.S. also employed technology to further enhance the efficiency of its operations and productivity of its sales force.		This section provides additional information about the company's consolidated financial statements and accounting policies.	
		Board of Directors and Management	96
		Biographical information on the company's leaders	

The Composition of Aflac's Market in Japan

What We Sell

Supplemental insurance products, including:

Cancer
Medical
Care
Living benefit life

Supplemental insurance riders, including:

Rider MAX
Life insurance
Rider Pack

Ordinary life insurance products, including:

Term life
Whole life
Fixed annuity
WAYS

Who Buys It

At the worksite:

Employees at more than 39,600 payroll accounts representing 89% of the companies listed on the Tokyo Stock Exchange, including workers at Hitachi, Fujitsu, Kirin Brewery, Canon, Ricoh, Toyota and Takashimaya, as well as employers and employees at 157,600 small businesses

At the home:

Individuals seeking specific insurance coverage

Who Sells It For Us

More than 107,400 licensed sales associates, representing about 2,200 affiliated corporate agencies, more than 16,600 individual or independent corporate agencies, the sales force of Dai-ichi Mutual Life Insurance Co. and 242 banks with 11,400 branches as well as 300 post offices

Who Else Sells It

Alico Japan
Asahi
AXA
Dai-ichi
Fukoku
Meiji Yasuda
Mitsui Sumitomo
Mitsui Sumitomo Kirameki
Nippon
Orix
Sompo Japan
Sompo Japan Himawari
Sony
Sumitomo
Tokio Marine Nichido Anshin

and in the United States

What We Sell

Supplemental insurance products, including:

Accident/disability
Cancer indemnity
Short-term disability
Intensive care
Hospital indemnity
Sickness indemnity
Long-term care
Specified health event
Fixed-benefit dental
Vision

Life insurance products, including:

Term life
Whole life
Juvenile life

Who Buys It

At the worksite:

Employees at more than 427,700 payroll accounts, including businesses of all sizes, banks, hospitals, school districts, and city and state governments. Payroll accounts include the City of Atlanta, American Express, Genesis Healthcare, the State of Florida, Valero Energy Corporation, Viacom and Wachovia.

At the home:

Individuals seeking specific insurance coverage

Who Sells It For Us

More than 74,300 licensed sales associates, including more than 11,200 who, on average, produced business every week in 2008

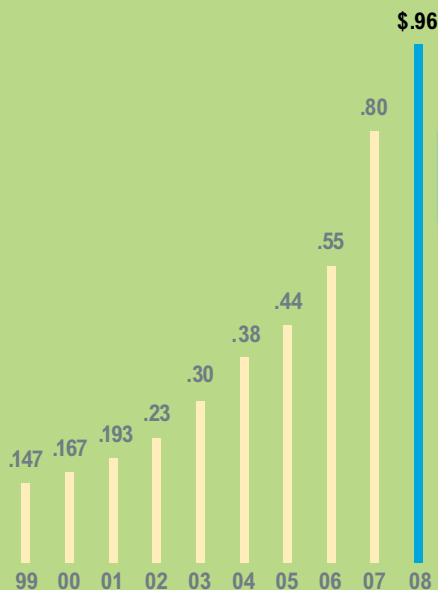
Who Else Sells It

Aegon
AIG
Allstate
American Fidelity
Aon
Assurant
Colonial
Conseco
MetLife
Unum Group
Certain regional or national carriers whose products indirectly compete

Financial Highlights

Aflac Incorporated and Subsidiaries

	2008	2007	2006	% Change 2008 – 2007
For the Year:				
(In millions)				
Total revenues	\$ 16,554	\$ 15,393	\$ 14,616	7.5%
Pretax earnings	1,914	2,499	2,264	(23.4)
Net earnings	1,254	1,634	1,483	(23.2)
At Year-end:				
(In millions)				
Total investments and cash	\$ 68,550	\$ 57,056	\$ 51,972	20.1%
Total assets	79,331	65,805	59,805	20.6
Shareholders' equity	6,639	8,795	8,341	(24.5)
Per Common Share:				
Net earnings (basic)	\$ 2.65	\$ 3.35	\$ 2.99	(20.9)%
Net earnings (diluted)	2.62	3.31	2.95	(20.8)
Shareholders' equity	14.23	18.08	16.93	(21.3)
Cash dividends paid	.96	.80	.55	20.0
Supplemental Data:				
Number of common shares outstanding	466,615,392	486,529,962	492,549,966	
Number of registered common shareholders	83,022	80,062	82,647	
Number of full-time employees	8,242	8,213	7,704	



Annual Cash Dividends Paid Per Share

Aflac has increased its annual dividend for 26 consecutive years. Total cash dividends paid in 2008 were 20.0% higher than in 2007.



Message from Management

Another Year of Making a Difference

2008 was a year for the history books. As 2008 progressed, it became abundantly clear that the U.S. economy was on a downward trajectory. With the housing market rapidly deteriorating, economic weakness took its toll on the U.S. consumer. Then the financial crisis erupted late in the year, which was both unimaginable and frightening. It's an understatement to say that 2008 tested virtually every company, including Aflac. Although the global economic downturn dampened the growth of our new policy sales last year, we still sold more than 5.5 million policies in the United States and Japan in 2008, generating more than \$2.6 billion of new annualized premium.

A year like 2008 reminds us of why it's so important to stay focused on what Aflac does best. Aflac develops and markets affordable products consumers need to help protect them from unexpected health-

related expenses. Furthermore, it is our duty to invest the premiums we collect to ensure we will always meet our policyholder obligations. And it is our goal to operate efficiently and generate consistent growth that will reward our shareholders. In the best or worst of times, our focus hasn't changed.

Aflac Incorporated Results

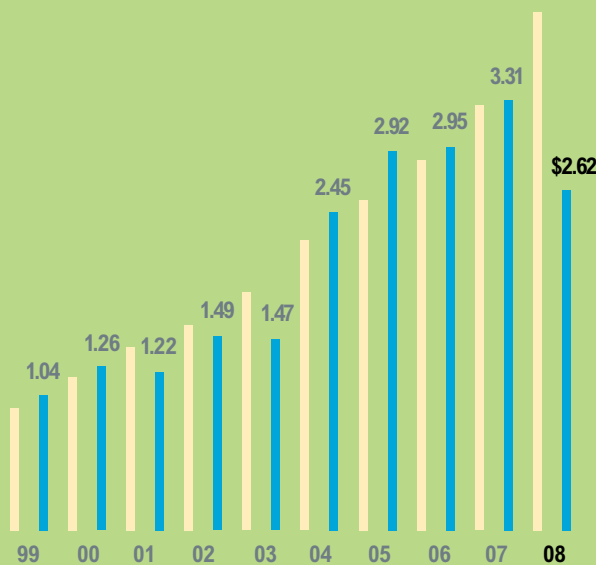
Despite the challenges Aflac faced in 2008, we generated solid financial performance for the year. Total revenues rose 7.5% to \$16.6 billion, reflecting solid growth in premium income and net investment income, as well as the benefit of the stronger yen/dollar exchange rate for the year. Importantly, we achieved the primary financial objective we use internally to assess the growth of our business for the 19th consecutive year – the growth of net earnings per diluted share, excluding items that are inherently uncontrollable or unpredictable. We believe this measure best exemplifies our

management and business performance, and that achieving it is the principal driver of creating value for our shareholders over the long term.

Net earnings in 2008 were \$1.3 billion, or \$2.62 per diluted share, compared with \$1.6 billion, or \$3.31 per share, in 2007.

The decline in net earnings for the year resulted from sizeable realized investment losses attributable to the financial crisis. The realized losses primarily arose from the sale of our holdings of Lehman Brothers debt, and the impairments of our investments in certain perpetual securities, collateralized debt obligations (CDOs) and other corporate securities.

Prior to the onset of the financial crisis, we deployed capital to benefit our shareholders. We bought 23.2 million of Aflac's shares in 2008, with the purchases all funded with internal capital. Since initiating our repurchase



Net Earnings Per Diluted Share

Net earnings benefited from record operating results, although realized investment losses increased sharply in 2008. Based on the internal financial measure we use to assess management's performance, which excludes items that are either outside management's control or inherently unpredictable, we achieved our primary financial target in 2008.

Net Earnings Per Diluted Share

Internal Performance Measure

Amounts in 2001 through 2004 have been adjusted to reflect adoption of SFAS 123R on January 1, 2005.



*Daniel P. Amos
Chairman and CEO*

program in 1994, we have bought more than 232 million shares. We also increased cash dividends. Paid cash dividends in 2008 were 20.0% higher than in 2007. In October 2008, the board of directors approved a 16.7% increase in the cash dividend effective with the first quarter of 2009, which will mark our 27th consecutive year of dividend increases. While we still believe our capital position to be strong, we will be closely monitoring global financial markets and Aflac's capital position as 2009 progresses. As we have previously announced, we do not anticipate buying shares during the first half of the year. Beyond the first six months, we will evaluate that market and our capital position. Obviously if conditions do not improve, or if they deteriorate further, it is unlikely we will buy shares back this year. Although a significantly stronger yen to the dollar at the end of the year and realized investment losses in 2008 suppressed our risk-based capital ratio, that important measure of capital adequacy was still 476.5% at the end

of 2008. We believe our ratio compares favorably to the industry.

Investing Prudently in a Volatile Market

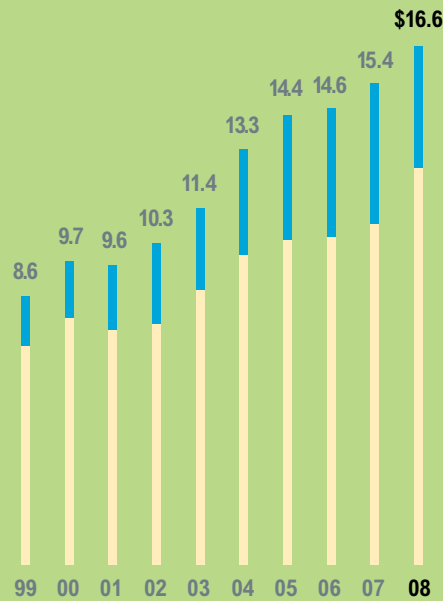
I'm sure every individual and institutional investor revisited their investment approach in 2008 to make sure it was still appropriate. We certainly did. However, we're convinced our global investment approach, which has been consistently guided by Aflac's board of directors for many years, proved to be prudent and effective in an extremely distressed environment. Our investment policy prohibits us from purchasing assets that are deemed "speculative in nature." As such, we do not purchase junk bonds, nor do we have any direct investment exposure to the subprime mortgage market. At the end of 2008, more than 98% of our holdings were investment grade.

We purchase investments that best support the liabilities of our insurance operations. Our products in Japan, for instance, produce long-duration, yen-denominated

policy liabilities. As such, we purchase long-duration, yen-denominated assets to support those liabilities. With the widening of credit spreads in 2008, the long-duration nature of our investments and the stronger yen in relation to the dollar led to a large unrealized loss in our portfolio. However, because of our very strong cash flows, we do not anticipate liquidating securities at a loss to make claims payments. Instead, we have both the intent and ability to hold our investments until the market prices recover, or when they mature.

Aflac Japan

We were pleased to see Aflac Japan's new annualized premium sales increase slightly for the year, even though they fell below our annual target for 2008. At the same time, we remain encouraged about the opportunities in the Japanese market, especially in light of two new distribution opportunities that have started gaining traction.



Total Revenues (In billions)

Despite a significant increase in realized investment losses, total revenues rose 7.5% to \$16.6 billion in 2008, benefiting from solid growth in premium income and the stronger yen.

Japan U.S.

Following a regulatory change, we began offering our products to banking customers over the counter in Japan at the start of 2008. We believe the opportunity to sell through Japan's vast banking network will benefit our sales in the long run, as we have established longstanding and extensive relationships over the years within the banking sector. In fact, we have secured a much greater number of selling agreements with banks than any of our competitors.

The second new channel was presented when the Japan Post Network Co., Ltd. selected Aflac to be the provider of cancer insurance. The Japan Post Network Co., Ltd. has a long history of successfully selling insurance to consumers. We began selling through 300 post offices in October 2008.

These new opportunities add to our confidence in Aflac Japan's core competitive strengths that have positioned us as the number one seller of both cancer and stand-alone medical insurance, and as

the largest insurer in Japan in terms of individual policies in force. We also believe the need for our products, combined with our well-known and well-respected brand, tremendous scale, efficient operations, relevant products, broadening distribution and dedicated customer service, will continue to help Aflac stand out and position us for future success.

Aflac U.S.

Throughout our history of operating for more than 50 years in the United States, we have never encountered a period when the sale of our products was impacted by economic conditions – until now. As each quarter passed in 2008, it became clearer that the purchase decisions of some of our potential customers were being affected by the weakening economy.

Although 2008 was a challenging year for Aflac U.S. in terms of new annualized premium sales, we concluded the year convinced of one thing: The demand for

our products may have been temporarily interrupted by the economic downturn, but the need for the products we sell has not changed. The incidence of serious illnesses like cancer does not change with economic cycles, nor do the costs associated with treatment decline when times are tough. Actually, a case can be made that Aflac's protection products are more needed in a weak economy because of the increased likelihood a household has for lower investment returns, fewer overtime hours or even the loss of a steady income. We believe now more than ever, consumers need that extra layer of protection to provide peace of mind in very uncertain times.

Aflac U.S. effectively recruited new sales associates last year, and we also increased the number of associates who regularly write new business. In addition, we produced solid growth in the opening of new payroll accounts throughout the year. Our new sales associates in particular were key drivers in opening up new accounts and selling new

business in 2008. I believe their success is tied to the enhanced training we've developed and implemented in recent years.

Our brand continued to evolve and broaden in 2008 as we refined our positioning and advertising message. While still striking a chord with consumers with the famous Aflac Duck, most of the commercials in 2008 also supported our Aflac for BusinessSM campaign designed to engage business owners and benefits decision-makers. The commercials convey how Aflac can help serve as a benefits solution provider for companies of all sizes and can help attract and retain employees as well as complement existing insurance plans at no direct cost to a company. I believe our solid new payroll account growth suggests that employers are better understanding the benefits Aflac brings to the table. They are seeing how Aflac products help to provide health care options to their workers at an affordable price.

We will continue to develop new ways to further tap into the vast potential of the United States as we segment the market to more effectively meet the needs of specific consumer groups. And we will continue to grow and enhance our tremendous distribution network. I remain excited about the future of Aflac, and I am convinced that the United States is a tremendous and underpenetrated market for our products, with tens of millions of consumers who can benefit from our affordable insurance protection.

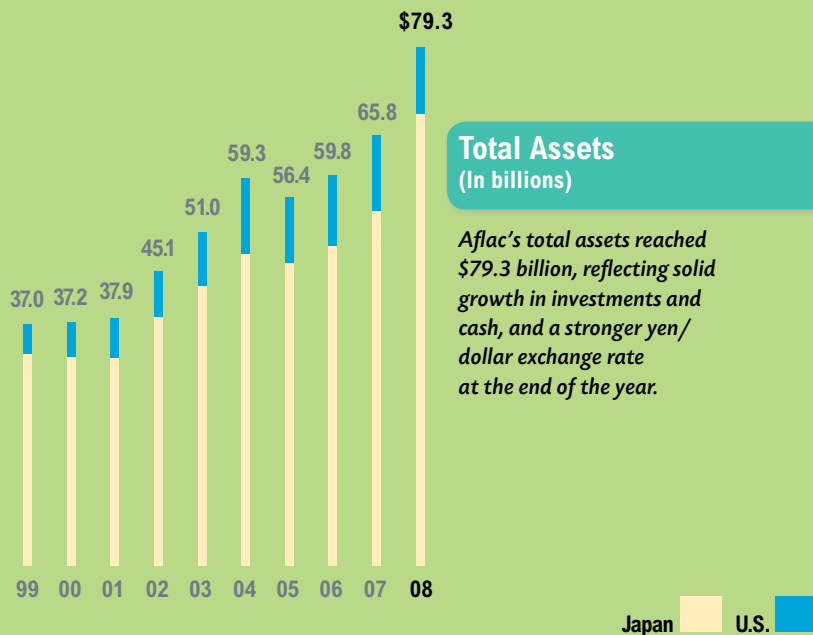
The Aflac Difference: Strength and Protection

In a landscape of challenges, Aflac still stands strong, driven by the determination of the one and only Aflac Duck and by hundreds of thousands of dedicated sales agents and employees. We offer innovative products that meet consumers' needs by helping them cope with ever-increasing health care costs. At the same time, we continually enhance our distribution capabilities to deliver those

products to consumers. This approach has created a lengthy record of success, providing financial security and protection to more than 40 million people throughout more than five decades of operation.

Millions of families rely on us to help with expenses arising from accidents, illnesses and many other life challenges – or simply to have the peace of mind knowing they have the protection only Aflac can offer. Knowing that our products help lift people up when they need it most is something that makes all of us at Aflac extremely proud and it propels us to do more and achieve more. We believe we will continue to achieve more by building on the same strategies that have been the pillars of our success.

Daniel P. Amos
Chairman and
Chief Executive Officer



A Conversation with Dan Amos

Q: What is your view on Aflac's share price?

A: I find it frustrating, especially following the sharp drop in price in January 2009. In fact, our share performance in 2009 was one of my primary considerations when I chose to forgo a \$2.8 million bonus based on 2008 financial performance. Although Aflac earned \$1.3 billion of net income in 2008, and we achieved our bonus-related performance measures, I was not comfortable taking a bonus, given the weakness of our share price in 2009. However, we're not alone. Each company in our peer group has experienced similar or greater declines in share price. We are now selling at our lowest valuation in decades.



While we believe our operations will have a good year from an earnings perspective, my primary focus is on our capital position. I remain optimistic because we have a resilient business model that we believe will continue to enhance our capital position and see us through these challenging times.

Q: How do you feel Aflac is positioned in the current economic environment?

A: We are in an incredibly challenging environment. I have never seen anything like it in my nearly 20 years as CEO. It is in an economic crisis like this that I feel it's especially important that we remain transparent to our shareholders. Today's reality may not be tomorrow's reality. It's also important that we remain flexible to respond to that changing reality. I have always lived by the three principles of risk, which are more relevant than ever: 1) don't risk a lot for a little, 2) don't risk more than you can afford to lose, and 3) consider the odds. Those principles certainly apply to investing in today's market. We have tremendous cash flows to invest each year. For instance, in 2008 we invested more than ¥590 billion, which translates to about ¥2.4 billion or \$23 million each and every day we were open for business. When investing these funds for the future benefit of our customers, we take great care. Over the long term, we have produced a very good investment track record. I was not happy with the investment losses we incurred in 2008, but I'm pleased that Aflac's balance sheet was strong enough to absorb those losses.

Q: Has your view of the market changed in light of the current financial crisis?

A: While past economic downturns, especially in Japan, have helped us prepare for the current economy, make no mistake about it – these are unprecedented times. In the short term, I expect the economy to continue to pose challenges. Families are struggling financially, and we understand that even though our products are affordable, people have to make difficult choices. However, even though the weak economy may have somewhat dampened the demand for our products in the United States and Japan, I don't in any way think that the need for our products has changed. Serious

illnesses and accidents are just as likely to occur in a weak economy as they are in a strong economy. If a covered health event were to occur when economic times are tough, I believe consumers would appreciate the cash benefits Aflac products pay more than ever because rising household expenses are more of a drain on a family's finances.

Q: What do you see as opportunities and challenges in the United States and Japan?

A: In the United States, where we sell primarily at the worksite, the recessionary environment means that there are fewer employees to approach. On the flip side, a weak labor market creates a great opportunity to recruit new sales associates. Despite the fact that sales were soft and businesses are closing their doors, 2008 turned out to be a solid year in terms of payroll account growth. This is important because we believe that payroll account growth gives us valuable shelf space for future expansion when the economy improves and companies hire more employees. Sales success in this environment boils down to a salesperson's ability to convey to the consumer why, during bad economic times, our insurance is one of the most important things that they can buy. In Japan, difficult economic times have made for a more challenging market. More competitors have emerged in the marketplace over time, and this requires our sales agents to spend more time explaining why Aflac offers the best products with the best price, reducing valuable face time with other potential policyholders. Along with the strong marketing organization, I still think controlling expenses while offering the best products with the best value and competitive commissions, as well as our position as the low-cost producer, continues to be the driving force behind the success of the company. At the same time, we must continually motivate and energize our existing corporate agency channel to adapt to a more competitive environment.

Q: *With the new administration in office, what do you see as the impact from health care reform? How do Aflac's products fit in?*

A: First, let me say that I would like to see every American covered by major medical health insurance. At the same time, we know that even if this becomes a reality, it would not have the capacity to cover all medical and non-medical expenses stemming from a major health event. We believe there is a strong need for our products as an added layer of protection, and we want to make sure that people have the opportunity to buy Aflac products. We sell mostly at the worksite on an employer/employee basis where typically the employer offers some form of major medical insurance to their employees. As a means of comparison, all Japanese citizens are covered by a government-sponsored national health care system, and like U.S. consumers, Japanese consumers face out-of-pocket expenses, including copayments. In this environment, we know that Aflac insurance has done very well, insuring one out of every four households. Whether we sell Aflac products to Japanese citizens already covered by a national-sponsored health plan or to United States citizens covered by a health plan offered through the employer, people will still face out-of-pocket expenses, and we want to be there to help fill those gaps.

Q: *In 2008, you opted to forgo the benefits of a "golden parachute" worth approximately \$13 million. What led you to make this decision?*

A: Any decision I make takes into account being responsive to our shareholders. As I approached my 20th year as CEO, I simply felt that forgoing this benefit was the right thing to do, particularly given the return we provided our shareholders. I also wanted to send a message to the shareholders that I am in tune with the difficult economic environment we're in.

Q: *How has the evolution of the Aflac brand in the United States and in Japan benefited your business?*

A: Our advertising campaign has had a dramatic impact on our business and our corporate culture. The Aflac Duck has helped make Aflac a household name. But our brand is much more than a bright logo or a catchy slogan, or even a loud duck. Recently, the Reputation Institute named Aflac as the Most Respected Company in the global insurance industry. We don't seek accolades for the sake of getting them, but when I received word that they were recognizing us in this way, I thought about how fortunate we are to be a respected company with brand awareness that tops 93%. We're pleased that Aflac has become both well-known and well-respected.

Q: *What do you see as Aflac's role in the local and global community?*

A: A passion for fighting childhood cancer and supporting cancer research took hold in 1995 when we began our partnership with the Aflac Cancer Center and Blood Disorders Service of Children's Healthcare of Atlanta and has never let up. Since that time, our treasured partnership has grown larger and more meaningful than I could have ever imagined. Not only has this passion literally become ingrained in our corporate culture and been embraced by every level of our sales force and employees, but it has also spanned the globe and has been embraced by Aflac Japan. In 2009, Aflac Japan will open the third Parents House, which is a home away from home for parents of children receiving cancer treatment. Just as we strive to take an active part in philanthropy, we are also committed to the environment. To highlight our continued involvement, our board of directors formed a Green Committee in 2008 to help steer Aflac as a good steward of the resources and materials we use.

Q: *You're one of Aflac's more tenured employees, with 36 years under your belt. How do you see your role at Aflac in the short term and the long term?*

A: Following my 36 years at Aflac, I thought there wasn't much I hadn't come across, but 2008 was certainly a test in that regard. I have to say, I feel seasoned in experience and young at heart as I look forward to many more exciting years. As CEO, one of the responsibilities I've charged each and every officer with is to determine who would be their replacement if something happened to them tomorrow. Every officer has the responsibility to identify who that person would be and



to develop them in that role. This means our management progression is more evolutionary than revolutionary, which is positive from a risk management standpoint. The depth and breadth of experience in Aflac's management and employees has served us well, particularly when we've encountered challenging times.

Aflac Japan

Friends and Aflac Japan colleagues Nao Iijima (left), who works in Claims, and Kanako Iguchi, who works in Underwriting, have a lot in common: They both have worked for Aflac Japan for more than two years and enjoy the opportunity to make a difference each day in the lives of Aflac policyholders. After a long day at work, each has found that a friendly and competitive tennis match helps relieve stress and rejuvenate their spirits. In fact, both women have played tennis for about 14 years (even playing together on the same tennis team in college) and both now play for the tennis club at Aflac Japan, along with about 30 other colleagues who strive each day to make a difference in the lives of policyholders.

Aflac Japan: Remaining Number One

Aflac Japan again retained the distinction of being the number one seller of both cancer and medical insurance policies in Japan, a title we have held for many years. Following two years of discouraging sales growth, we were optimistic for most of the year that Aflac Japan would achieve its sales target for 2008 due in part to new distribution opportunities. Even though our new bank channel sales grew for the first nine months of the year, they were still lower than we expected. And following the emergence of the financial crisis late in the year, bank channel sales fell off sharply as many banks made thousands of customer service calls to those who had purchased annuities from other companies. These service calls greatly reduced the time available for banks to offer our products to their customers. As a result, we did not reach our sales target for the year, although sales were up slightly in 2008 to ¥114.7 billion.



Despite slower new sales growth, Aflac Japan produced solid financial performance. Once again, our stable block of in-force business was marked by strong persistency and improving profitability. The yields we achieved on our sizeable investment cash flows were better than expected, and our overall financial results were consistent with our expectations. Following are some financial highlights from 2008:

- *Premium income rose 3.5% to ¥1.10 trillion, compared with ¥1.06 trillion in 2007.*
- *Total revenues increased 2.8% to ¥1.31 trillion, compared with ¥1.28 trillion a year ago.*
- *Pretax operating earnings rose 8.4% from ¥214.7 billion in 2007 to ¥232.8 billion in 2008.*



The Impact of the Yen/Dollar Exchange Rate

Aflac Japan collects premiums in yen, pays benefits and expenses in yen and primarily holds yen-denominated assets to support yen-denominated liabilities. With the exception of a limited number of transactions, we do not convert yen into dollars. Therefore, currency changes do not have a material effect on Aflac in economic terms. However, for financial reporting purposes, we translate Aflac Japan's income statement from yen into dollars using an



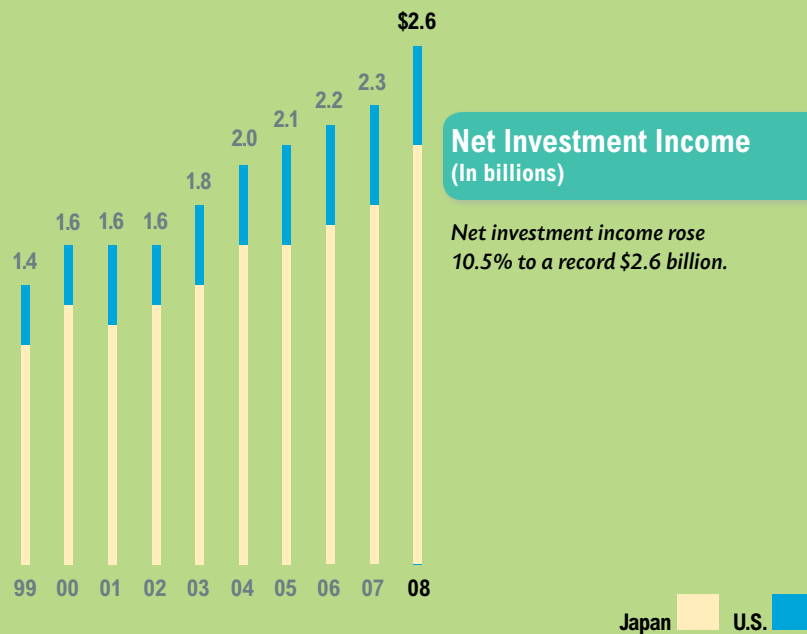
average exchange rate. We translate Aflac Japan's balance sheet using the end-of-period exchange rate. Since Aflac Japan is responsible for the majority of the amounts reported in our consolidated financial statements, fluctuations in the value of the yen can significantly affect our results as reported in dollars.

Translating Aflac Japan's results from yen into dollars means that growth rates are magnified in dollar terms when the yen strengthens against the dollar, compared with the preceding year. Conversely, growth rates in dollar terms are suppressed when the yen weakens against the dollar, compared with the preceding year. In 2008, the yen averaged



Yen/Dollar Exchange Rate (Closing rates)

The average yen/dollar exchange rate strengthened 14.0% in 2008, which magnified Aflac Japan's growth rates in dollar terms.



103.46 to the dollar, or 14.0% stronger than the average of 117.93 in 2007, enhancing our reported results in dollar terms.

- Premium income rose 18.1% to \$10.7 billion, up from \$9.0 billion in 2007.
- Total revenues were up 17.3% to \$12.7 billion, compared with \$10.9 billion in 2007.
- Pretax operating earnings increased 23.6% to \$2.2 billion from \$1.8 billion in 2007.

Aflac Japan's Products: Insightful Solutions, Real Protection

Although Japan has a compulsory and universal health care insurance system, research shows that Japanese consumers view this government-sponsored program as inadequate. Given Japan's aging population, declining birthrate and rising treatment costs, the health care system has been under

increasing financial strain, giving way to copayments that have risen from zero in 1984 to the current level of 30%. As health-related expenditures continue to grow, we believe the number of consumers looking for protection from increased copayments and other out-of-pocket expenses will continue to result in a strong need for Aflac products. Truly protecting our policyholders means we must pursue insights into what they want and need by monitoring changes in health care treatments and costs and developing products that respond with real-time solutions.

Without a doubt, we view Japan as a market with significant potential for our founding product, cancer insurance. Cancer remains the leading cause of death among men and women in Japan, and it is the most expensive illness to treat. Consumers are both wary of

the disease and the cost of its treatment and, therefore, are continually seeking products that will mitigate the financial toll cancer can take. Aflac remains the best-branded company in Japan for cancer insurance and we have a commanding market share for new sales of this product. Our cancer insurance marketing efforts in 2008 centered on Cancer Forte, which we introduced in September 2007. Cancer Forte extended our preceding policy's outpatient benefits from 30 to 60 days. In addition to the traditional upfront first-occurrence benefit, Cancer Forte also pays policyholders a survivor annuity from the second year through the fifth year after diagnosis, and offers counseling and doctor referral services upon their cancer diagnosis. For consumers who had the earlier cancer insurance product, we introduced a special


"Thank you for the cash benefit payment – I was very impressed at how quickly the payment was deposited. I was also relieved, because I had been worrying each day about when I might be able to go back to work."
–Claimant; Osaka, Japan






Naoyuki Miyama is the second of three generations of family members who decided to become firemen. More than thirty years ago, not long after Aflac began operating in Japan in 1974, he followed in the footsteps of his father to become a fireman, and then his son did the same. Having spent well over three decades fighting fires, he has been fortunate enough to have helped many people when they needed it most, making a difference in so many lives. Through his place of employment at the fire station, he purchased an Aflac cancer policy, which provides him with peace of mind for his entire family and financial protection and assistance should anyone in his family ever need it.





Megumi Fukushima (left), a bank employee at the Hyakugo Bank who sells Aflac policies and other products, enjoys making a difference in the lives of her customers. She has worked at this bank for more than 17 years, and specifically at this Kikyogaoka branch in Japan's Mie prefecture for three years. Throughout an average day, she interacts with anywhere from 30 to 50 customers who seek her help in identifying financial solutions that fit their individual needs. Once she establishes what the customers' needs are, she offers them the products that provide solutions for their individual situation. Among the products she offers throughout the day are EVER, the Aflac's medical product, and Cancer Forte, Aflac's cancer policy. Bank customer Sachiko Kita is a Cancer Forte policyholder. She considers this product to be a very valuable product to protect her family financially and to provide peace of mind.



"When I think about what I like most about my job, it is finding out what each consumer needs and then helping them find financial solutions. I am happy when I have the chance to communicate with customers about what might be helpful to their situation. Many customers tend to be in a rush, but Aflac policies are structured in a simple format that is easy to explain so we can make sure that customers completely understand the products when they decide to take out a policy. I am grateful that Aflac's supporting materials assist in letting customers know the benefits of the products."
—Megumi Fukushima, employee at the Hyakugo Bank



“How lucky we were to have Aflac cancer insurance! That is really all I can say. It is because of Aflac that my husband was able to stay in a private room and get more than adequate treatment and care. We are very thankful.”
 —Claimant’s spouse; Kansai area, Japan

bridge policy in 2008 that allows existing policyholders to upgrade their coverage to that of Cancer Forte.

Given the challenges facing Japan’s national health care system, we also believe the fundamental need for supplemental medical products remains strong. Since first launching a stand-alone medical product called EVER in 2002, we have been the number one seller of medical insurance policies in Japan. In the last five years, we have segmented the market by developing variations of EVER that appeal to specific types of Japanese consumers, including our most recent medical product Gentle EVER, which we introduced in August 2007. Gentle EVER provides an affordable

alternative to help consumers who may have a health condition that would exclude them from purchasing other EVER products.

In November 2008, we introduced a new product to the market called Sanjuso. This innovative new offering is a single-premium product that provides lump-sum payments upon the diagnosis of cancer, heart attack or stroke, as well as a death benefit. It was primarily designed for the bank channel. Initial sales of Sanjuso were undoubtedly impacted by the financial crisis. However, we believe it will fit well in bank agents’ product portfolios, particularly those of the mega banks and larger regional banks in Japan.

New Distribution Opportunities Broaden Sales Platform

In terms of distribution, 2008 presented new avenues for selling our products. Japan’s Financial Services Agency (FSA) approved the over-the-counter sale of additional insurance products, including the kind sold by Aflac. Although we have been selling to employees of Japan’s banks since we first entered the market more than 30 years ago, 2008 was the first time we were permitted to sell over the counter to customers of banks. We believe our long-standing and far-reaching relationships within the banking sector have given us an advantage in developing this channel and have been

	Policies and Riders In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Total Number of Agencies
2008	29,020	¥1,161,662	¥114,692	18,882
2007	28,443	1,125,561	114,636	18,461
2006	27,334	1,083,127	117,455	18,432
2005	26,014	1,027,762	128,784	17,960
2004	24,477	961,895	122,525	16,410
2003	23,097	900,251	121,170	14,643
2002	21,867	834,424	108,320	12,056
2001	20,802	782,249	91,865	9,839
2000	19,674	740,445	99,755	8,938
1999	18,510	696,622	87,043	8,283

*In thousands **In millions

Aflac Japan Sales Results

Aflac Japan did not achieve its sales objective, although total new annualized premium sales were up slightly for the year.

strategically preparing us for this opportunity since 2004. By the end of 2008, we had 242 selling agreements with banks, which is a significantly greater number of selling agreements than any of our competitors.

Furthering our reach into the banking channel was the endorsement of Aflac's products by the National Association of Shinkin Banks. This association of about 280 shinkin banks, which are similar to credit unions, chose Aflac as one of only four providers of third sector insurance products to its member banks. Aflac was the only foreign company chosen. In addition, Aflac was the only company selected for both cancer and medical insurance.

We are also excited about Japan Post Network Co., Ltd.'s selection of Aflac to be the provider of cancer insurance for sale through post offices located throughout the country. The Japan Post Network Co., Ltd. manages a network of post offices in Japan,

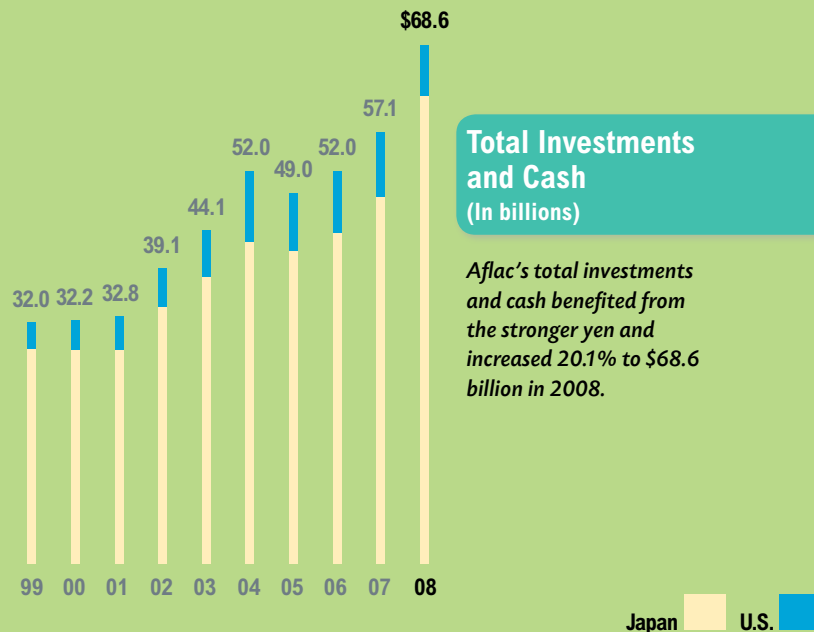
which have long been popular places for consumers to purchase insurance products. October 2008 marked the first time Japanese consumers could purchase Aflac's cancer insurance product at a post office.

At the same time, we are firmly committed to selling through our traditional channels, which allows us to reach consumers through affiliated corporate agencies, independent corporate agencies and individual agencies. In 2008, we recruited approximately 3,900 new sales agencies. At the end of the year, Aflac Japan was represented by more than 18,800 sales agencies, or more than 107,400 licensed sales associates employed by those agencies.

In addition, we continued to utilize New Associates Basic Training to enhance the effectiveness of our newly recruited agencies. New agents who have gone through our new training program have generated better production than those who started before this training program was implemented in

November 2006. In 2008, we launched an advanced training program for agencies who graduated from New Associate Basic Training. This advanced training helps attendees refine and enhance skills that enable them to provide comprehensive consultation based on a customer's lifestyle and existing insurance coverage, so they can propose a plan satisfying customers' needs for not only cancer or medical insurance but also for life insurance.

We also continued to reach consumers through our strategic marketing alliance with Dai-ichi Mutual Life. We believe this alliance has been one of the most successful partnerships in the insurance industry since it was first launched in 2001. In 2008, Dai-ichi Life sold about 190,000 of our market-leading cancer policies, retaining its distinction as the number two seller of cancer insurance behind only Aflac.



"Aflac is insurance for living. That is what I had heard before, and I cannot agree more, especially after having gone through treatments for the recurrence of disease. All the phone calls were handled very pleasantly, and it was always nice and comforting to talk with kind and caring people who were so willing to help."
–Claimant; Kanto area, Japan



Strong Brand Helps Aflac Stand Out

We are not the only company to identify the opportunities for supplemental health, or third sector, products in Japan – we were just the first. Since 2001, we have seen a significant number of competitors enter the cancer and medical insurance markets. Our effective advertising helps Aflac stand out in this crowded market and amplify the message that Aflac has quality and innovative products that protect policyholders. Aflac Japan has forged a strong connection with consumers through Aflac Duck commercials, which are just as popular in Japan as they are in the United States. Based on research by CM Databank, the commercials for our EVER product that feature the Aflac Duck have continued to be consistently rated as either the number one or number two commercial in the life and non-life insurance category since June 2003. We believe advertising and branding reinforces consumers' favorable perceptions of Aflac.

Technology Enables Valuable Efficiencies

Technology has long been the cornerstone of Aflac Japan's most significant competitive strength – administrative efficiency. Our maintenance expenses per policy in force remain significantly lower than every other life insurance company operating in Japan, bringing quality products to consumers at affordable prices while compensating our sales force with competitive commissions. Throughout the years, we have undertaken many initiatives to improve our efficiency, including the development and promotion of Aflac Japan's electronic enrollment software and our net billing system.

We believe we have also benefited from the 2006 consolidation of three different call

centers into the Aflac Contact Center. In the last two years, our consolidated contact center has continued to evolve, and now we consider it a very important venue to serve both our customers and sales agencies. We not only answer inquiries from customers at the contact center, but also send out brochures to prospective customers so we can turn an inbound phone call into a potential sales opportunity. We are also enabling our sales office employees to spend more time on sales-related business activities by centralizing inquiries from our field force to the associate support center, and we have also established exclusive units in the contact center for the bank channel and Japan Post Network Co., Ltd. so we can provide quality services for these channels as well.

Conservative Investment Approach Offers Safety and Protection

Insurance company investment portfolios took center stage in 2008. As investors scrutinized insurers' investment risks, we believe our conservative investment approach once again proved prudent. We strive to maximize investment income growth while mitigating investment risk. As such, we emphasize liquidity, safety and quality when purchasing investments that best match our policy liabilities.

Some Aflac Japan investment highlights for 2008 follow:

- *Investments and cash increased 27.4% to \$61.8 billion at the end of 2008. In yen, investments and cash were up 1.6%.*
- *Net investment income increased 14.0% to \$2.1 billion. In yen, net investment income was unchanged.*
- *The average yield on new investments was 3.43% in 2008, compared with 3.38% in 2007.*

Aflac Japan's overall credit quality remained high. At the end of 2008, 80.9% of our debt securities and perpetual securities were rated A or better on an amortized cost basis. Only 1.9% of Aflac Japan's holdings were rated below investment grade at the end of 2008. We believe that our conservative investment approach serves our customers and shareholders very well.

Opportunities for Future Growth

As we outline our strategies for the future, we believe the competitive strengths that have driven our market leadership will continue to guide our business. As an aging population continues to cope with higher out-of-pocket expenses for medical care, we are convinced Aflac's insurance products will play an important role. To help us reach more potential customers in the Japanese market, we will:

- *Improve upon our product line – We will research and create innovative products and adapt current products to match the evolving needs of Japanese consumers.*
- *Promote our number one brand position – We will capitalize on our market-leading status to attract consumers and distinguish our products while emphasizing the attributes that led us to our number one position.*
- *Expand our reach – We will focus on enhancing the productivity of our sales force, while also developing new channels to better reach new customers.*
- *Advance operational efficiency – We will streamline our business processes to increase our core competitive advantage and provide convenience for policyholders and consumers, while leveraging new technology.*

Aflac U.S.

Aflac U.S.: Progress in a Volatile Market

With each passing month in 2008, the severity of the U.S. economic downturn became increasingly apparent. And it was also abundantly clear that the consumer was caught in the midst of the deteriorating environment. We believe the weak economy impacted consumer demand for the products we sell. Aflac U.S. total new annualized premium sales were \$1.6 billion in 2008, or .4% lower than in 2007. Yet our U.S. operations continued to grow and generate strong financial results. Some highlights for 2008 follow:

- Premium income increased 8.5% to \$4.3 billion, up from \$3.9 billion in 2007.
- Total revenues were up 7.7% to \$4.8 billion, increasing from \$4.4 billion in 2007.

- Pretax operating earnings rose 7.6% to \$745 million, compared with \$692 million in 2007.

Aflac's Products Offer Affordable Protection

Although the U.S. economy posed significant challenges last year, we do not believe there was a fundamental change in the need for our protection-oriented products. Consumers still face rising out-of-pocket expenses when confronting a serious illness or accident, and the risks of personal bankruptcy due to a major health event have increased. We are convinced that Aflac's products remain an affordable means for providing that extra layer of protection and peace of mind.

In a continually evolving health care market, we are always researching and developing new products and product revisions. In

2008, we primarily directed our efforts to helping consumers broaden their coverage by pairing existing policies that complement one another's coverage. This approach was based on 2007 market research that indicated consumers' willingness to buy more than one product at a time when it layers coverage for a spectrum of potential health events. Our research also suggested that many people view life insurance as a completely different purchase decision, yet are often interested in adding life insurance to supplemental health coverage. As such, we launched a product portfolio initiative in 2008 that provided sales associates with the support and enrollment technology to offer defined combinations of products, or "portfolios" that provide breadth and/or depth of coverage for diverse medical health

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Licensed Sales Associates
2008	11,437	\$4,789	\$1,551	74,390
2007	11,116	4,510	1,558	71,258
2006	10,519	4,101	1,423	68,394
2005	9,884	3,711	1,259	63,008
2004	9,341	3,374	1,186	58,992
2003	8,805	3,043	1,128	57,493
2002	8,077	2,674	1,070	53,149
2001	7,031	2,238	919	43,188
2000	6,119	1,861	712	37,509
1999	5,480	1,592	555	30,712

Aflac U.S. Sales Results

Reflecting a challenging economy, Aflac U.S. total new annualized premium sales declined .4% in 2008, although annualized premiums in force increased 6.2% for the year.

*In thousands **In millions



Founded in 1921 in Beaumont, Texas, the Texas Coffee Company is rich in history and at the same time, innovative in the products and packaging they offer their loyal customer base. Since 1999, third-generation entrepreneurs and brothers Joseph Fertitta (left) and Donald Fertitta (right), along with their cousin Carlo Busceme III (not pictured) have led the company in producing quality spices and coffees that are produced and distributed regionally, nationally, and even internationally through texjoy.com. Not only does this company make a difference in their consumers' culinary options, but since 1981, they've also made a difference in the lives of their employees by offering Aflac policies at their worksite.

events. A popular portfolio combination includes pairing our accident product with our personal sickness indemnity product. We are also pairing life products with other supplemental policies we offer. As a result of this approach, life premiums and policies showed double-digit increases for the year.

Aflac's Field Force: A Strong and Growing Team

As the primary point of contact between Aflac and its customers, our sales force has always been our greatest asset. That valuable asset continued to grow in 2008. We recruited more than 25,700 new sales associates last year, which we believe benefited in part from the weakening labor market. At year-end 2008, Aflac U.S. was represented by more than 74,300 licensed sales associates, a 4.4% increase over 2007.

Over the last several years, we've focused a significant amount of time and energy on improving the effectiveness of our sales force through better training. We continue to believe that our enhanced training programs are taking hold and enhancing

the productivity of our sales associates, especially newly recruited agents. We were encouraged that the number of new average weekly producers, or those who are in their first year, increased 8.4% for the year, while the number of total average weekly producers rose 2.6% for the year. Although total new sales declined slightly for the year, production from new associates rose 6.7% over a year ago. In addition, associates in their first year posted a 14.8% increase in new payroll account openings. With total new payroll accounts rising 6.3% in 2008, we believe we have added "shelf space" that will lead to better sales when the economy stabilizes.

In addition to our established training programs, we conducted our first annual Aflac National Training Day in 2008, which was available to all levels of our field force. One of the main objectives of this training day was to convey to our sales force how a weak economy enhances the need for our products and to train them how to better sell in the current economic environment.



Members of Aflac's Texas-East sales force visit the Texas Coffee Company. Jared Jones, state training coordinator (far left); Shane Kirkland, state sales coordinator (third from left); Brenda Ward, district sales coordinator (third from right); and Jill Gaspard, sales associate, (second from right) are all focused on providing everything Joseph Fertitta and Donald Fertitta at the Texas Coffee Company need from Aflac.

Secondarily, we took this opportunity to provide training and support for our product portfolio initiative.

In 2008 we also intensified preparation for our new Aflac for BrokersSM initiative that we expect to kick into high gear in 2009. Insurance brokers have been a historically underleveraged sales channel for Aflac, and we believe we can establish relationships that will complement, not compete with, our traditional distribution system. We have assembled an experienced broker team that will oversee the implementation of Aflac for Brokers. We are also supporting this initiative with streamlined products, specific advertising, and customized enrollment technology.

Aflac's New Brand Initiatives Take Off

The now-legendary Aflac Duck continued to help us propel our brand message in 2008. For the first time, Aflac Duck commercials directly addressed businesses and benefits decision makers in four new Aflac for BusinessSM commercials. These commercials

still engage the consumer, but primarily address business decision-makers to convey that Aflac products are easy to administer, can strengthen their benefits package and, in turn, enable them to more effectively recruit and retain employees at no direct cost to them. We believe the increase in new payroll accounts suggests our message is getting through, even in this challenging environment.

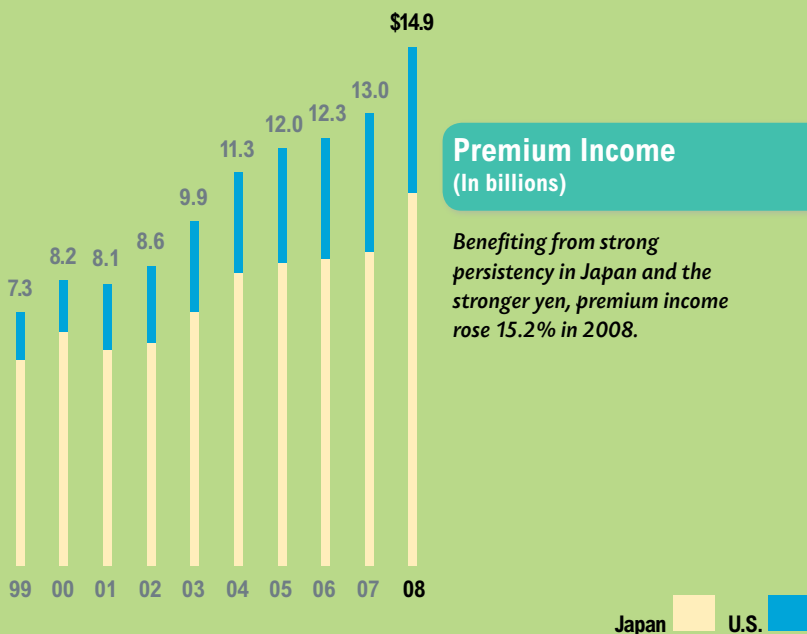
We have integrated other media to convey our message as well, including radio, print and online advertising that disseminate the Aflac message. Our television commercials were played approximately 11,100 times throughout 2008, and we ran more than 3,000 Aflac Trivia features during various sports and news programming.

Building on Aflac's successful 2007 entry into NASCAR, Aflac was a primary or associate sponsor of Carl Edwards and the No. 99 Ford Fusion during the entire 2008 NASCAR Sprint Cup season. During the year, Aflac announced a full-season multiyear primary sponsorship



of Roush Fenway Racing driver Carl Edwards starting in 2009 and running through 2011. Through this sponsorship, we will continue to reach business decision makers and the large and loyal NASCAR fan base to grow our business.

We also sponsored the nation's premier high school baseball game, the sixth annual Aflac All-American High School Baseball Game. Proceeds from this event are donated to children's hospitals and other pediatric cancer research organizations. And we entered into a multiyear title sponsorship of Aflac Iron Girl events. Aflac Iron Girl's mission is to empower





As a member of Carl Edwards' NASCAR pit crew, no one knows better than "Hoss" how a strong team can mean the difference between coming in first place and coming in second place. Growing up in New York and New Jersey, Hoss, whose real name is Joe Karasinski, used to go along with his brother and his father to various races, and he dreamed of working on cars for a NASCAR team. After earning his degree in automotive sciences, Hoss has been with Roush Fenway Racing since the end of 2001, gassing the No. 99 car since 2003. With a history of cancer in his family, Hoss and his wife, Vikki, decided to apply for Aflac's cancer insurance policy on top of the accident policy they already had. And then the news came – in February 2008, he was diagnosed with thyroid cancer. Surgeons at Presbyterian Hospital in Charlotte removed his thyroid along with 63 lymph nodes. Of those, twelve were cancerous – a number no one wants to beat. At this point, teamwork took on a whole new meaning as his support system, including his family, friends, coworkers, surgeons, and even his three dogs – all supported him in various ways. Also supporting Hoss was Aflac, and he found that the Aflac cancer policy provided financial relief and peace of mind when he was unable to work for a couple of months. Hoss is right back where he wants to be – fulfilling his dream of working on Carl Edwards' No. 99 car.

*"I had to rest a lot throughout my recovery, and it was difficult to stay away from the racetrack. Out of work for two months, I missed seven races, and Aflac really came in handy during that pinch. Those benefit checks made a big difference when I was off work. I am back in the thick of NASCAR, on pit road every Sunday—right where I want to be. I really appreciated how easy Aflac made everything."
—Joe "Hoss" Karasinski, Roush Fenway Racing*



women of all ages to lead a healthy and active lifestyle, which fits perfectly with Aflac's interest in health and wellness.

Aflac Cancer Center: Fighting a Heartfelt War Against Childhood Cancer

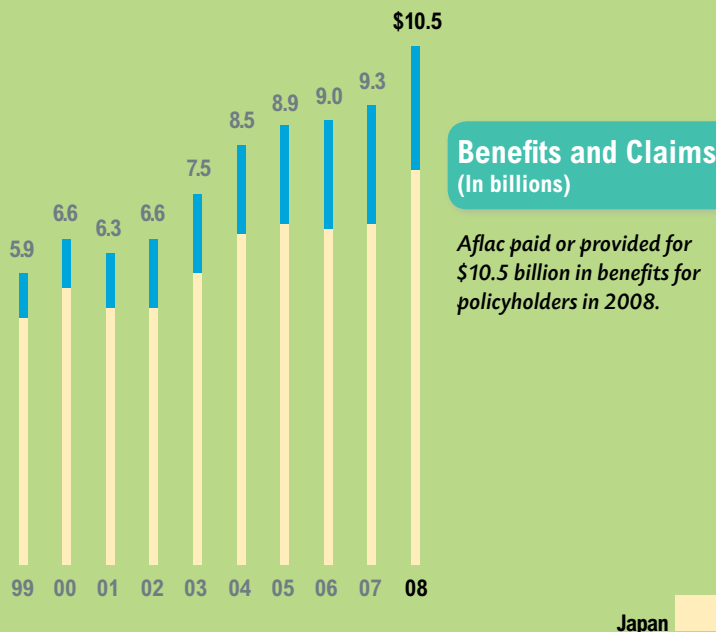
Since 1995, the entire Aflac family combined has given more than \$47 million to the Aflac Cancer Center and Blood Disorders Service of Children's Healthcare of Atlanta. Recognized by *Child* magazine as one of the top five childhood cancer centers in the country for the last three years, the Aflac Cancer Center maintains its strong reputation as a national leader among childhood cancer, hematology, and blood and bone marrow transplant programs. The sale of plush Aflac Ducks also provides ongoing financial resources in the fight against childhood cancer. Since 2000, we have donated proceeds from the sales of plush ducks to the Aflac Cancer Center. We partnered with Macy's department stores for

the eighth consecutive holiday season to sell special limited-edition Aflac Holiday Ducks to raise funds for 35 hospitals around the country since the program began.

Employing Effective Technology for Improved Efficiency

We continually adopt cutting-edge technology solutions to streamline transactions for policyholders and sales associates alike. For the last 15 years, our proprietary, laptop-based enrollment system, has improved our ability to process sales. Our newest version, SmartApp Next Generation™ (SNG), helps further streamline the enrollment process. SNG enabled Aflac to process approximately 67% of policy applications in 2008 without any human intervention. In 2008, 91% of our applications for coverage were electronically submitted using SNG and other Internet-based programs.

We have continued to deliver technologies that improve internal processing and efficiency and provide consumers with choice and convenience. At year-end, more than 126,200 payroll accounts, or approximately 30% of our total accounts, were using our Online Billing system to reconcile their invoices and submit policy service requests, compared with 23% at the end of 2007. In fact, over half of all new accounts are paperless from day one, resulting in more efficient and accurate billing, reconciliation and service to our payroll accounts. For consumers who prefer to handle their service online, we also enhanced our Policyholder Service Center at aflac.com. This improved site enables customers to update personal information, review their policy, check the status of a claim and even initiate a new claim online to expedite the claims process.





The Aflac Cancer Center and Blood Disorders Service of Children's Healthcare of Atlanta provides state-of-the-art care in a very nurturing environment to help children battling cancer and blood disorders in Georgia, the United States and throughout the world. Two-year-old Tristan Anderson (left), one-year-old Maggie Jo Hutchins (center) and four-year-old Landon Nguyen, patients at the Aflac Cancer Center, take time away from treatment to enjoy some playtime with Dr. William G. Woods, medical director of the Aflac Cancer Center. Dr. Woods leads his specialized staff in treating pediatric hematology and oncology patients. Since 1995, the Aflac family has given more than \$47 million to this outstanding facility that is so committed to enhancing and positively impacting the lives of children.

Investments

We have always believed that a conservative investment approach helps ensure that Aflac is well-positioned to fulfill its promises to claimants, policyholders, employees, sales associates and shareholders. In light of the turmoil and uncertainty in global financial markets, we believe our approach proved once again to be prudent and effective.

Some investing highlights from 2008 include:

- *Investments and cash were \$6.4 billion at the end of 2008, down 13.6% from 2007, due to lower market values of the securities we own.*
- *Net investment income rose .9%, from \$500 million in 2007 to \$505 million in 2008.*
- *The average yield on new investments was 7.60% in 2008, up from 6.44% in 2007.*



"We chose Aflac because of its outstanding reputation and because of the product selection. We are competing in tough markets, and we try to be an employer of choice. Aflac makes us more attractive as a company because it strengthens our benefit package, and employees feel people are looking out for them. The service is outstanding, and it's one of our more popular benefits. Also, Aflac is not afraid to pay a claim; you don't have to fight and hassle for the benefit check."

—Julie Davis, Director of Human Resources, The Tharpe Company, Statesville, NC

Corporate debt securities again accounted for the majority of our U.S. investments in 2008. Based on amortized cost, 98.4% of our holdings were investment grade at the end of 2008, and only 1.6% were rated below investment grade.

Outlook for Aflac U.S. – Great Opportunity in a Vast Market

Despite Aflac's growth over many years, the United States remains an underpenetrated market for the protection products we offer. Our more than 427,700 payroll accounts represent just 7% of the approximately six million small businesses in the United States. That equates to tens of millions of consumers who can benefit from our affordable insurance protection, and we're working hard to connect with them. To capitalize on the opportunities we see in the U.S. market, we will:

- **Refine our product line** – We will stay close to consumers' needs and offer solutions with innovative products that provide value with benefits that meet those needs.
- **Grow and develop our distribution system** – Continued expansion, training, support and leadership are essential at all levels to extend our reach to more consumers.
- **Communicate a clear brand message to reach a broad audience** – We will intensify our connections with employers and their employees by maintaining our strong brand recognition while focusing on further defining our brand and adding new ways to reach consumers through print and online advertising.
- **Improve efficiency, mobility and ultimately productivity through cutting-edge technology** – We will continue to adapt and upgrade new technology to improve the services we offer our customers and the flexibility we give sales associates while at the same time controlling operating expenses.

Selected Financial Data

For the Year (In millions, except for share and per-share amounts)	2008	2007	2006	2005	
Revenues:					
Premiums, principally supplemental health insurance	\$ 14,947	\$ 12,973	\$ 12,314	\$ 11,990	
Net investment income	2,578	2,333	2,171	2,071	
Realized investment gains (losses)	(1,007)	28	79	262	
Other income	36	59	52	40	
Total revenues	16,554	15,393	14,616	14,363	
Benefits and expenses:					
Benefits and claims	10,499	9,285	9,016	8,890	
Expenses	4,141	3,609	3,336	3,247	
Total benefits and expenses	14,640	12,894	12,352	12,137	
Pretax earnings	1,914	2,499	2,264	2,226	
Income taxes	660	865	781	743	
Net earnings	\$ 1,254	\$ 1,634	\$ 1,483	\$ 1,483	
Per-Share and Share Amounts					
Net earnings (basic)	\$ 2.65	\$ 3.35	\$ 2.99	\$ 2.96	
Net earnings (diluted)	2.62	3.31	2.95	2.92	
Items impacting net earnings per diluted share, net of tax:					
Realized investment gains (losses)	\$ (1.37)	\$.04	\$.10	\$.33	
Impact from SFAS 133	—	—	—	(.02)	
Nonrecurring items	—	—	—	.07	
Foreign currency translation*	.23	(.02)	(.08)	(.02)	
Cash dividends paid	\$.96	\$.80	\$.55	\$.44	
Shareholders' equity	14.23	18.08	16.93	15.89	
Common shares used to calculate basic EPS (In thousands)	473,405	487,869	495,614	500,939	
Common shares used to calculate diluted EPS (In thousands)	478,815	493,971	501,827	507,704	
At Year-end					
Assets:					
Investments and cash	\$ 68,550	\$ 57,056	\$ 51,972	\$ 48,989	
Other	10,781	8,749	7,833	7,372	
Total assets	\$ 79,331	\$ 65,805	\$ 59,805	\$ 56,361	
Liabilities and shareholders' equity:					
Policy liabilities	\$ 66,219	\$ 50,676	\$ 45,440	\$ 42,329	
Notes payable	1,721	1,465	1,426	1,395	
Income taxes	1,201	2,531	2,462	2,577	
Other liabilities	3,551	2,338	2,136	2,133	
Shareholders' equity	6,639	8,795	8,341	7,927	
Total liabilities and shareholders' equity	\$ 79,331	\$ 65,805	\$ 59,805	\$ 56,361	
Supplemental Data					
Stock price range:	High	\$ 68.81	\$ 63.91	\$ 49.40	\$ 49.65
	Low	29.68	45.18	41.63	35.50
	Close	45.84	62.63	46.00	46.42
Yen/dollar exchange rate at year-end	¥	91.03	¥ 114.15	¥ 119.11	¥ 118.07
Weighted-average yen/dollar exchange rate for the year		103.46	117.93	116.31	109.88

*Translation effect on Aflac Japan segment and Parent Company yen-denominated interest expense
Amounts in 2001 through 2004 have been adjusted for adoption of SFAS 123R on January 1, 2005.

Aflac Incorporated and Subsidiaries

2004	2003	2002	2001	2000	1999	1998
\$ 11,302	\$ 9,921	\$ 8,595	\$ 8,061	\$ 8,222	\$ 7,264	\$ 5,943
1,957	1,787	1,614	1,550	1,550	1,369	1,138
(12)	(301)	(14)	(31)	(102)	(13)	(2)
34	40	62	18	33	20	25
13,281	11,447	10,257	9,598	9,703	8,640	7,104
8,482	7,529	6,589	6,303	6,601	5,885	4,877
3,026	2,720	2,445	2,248	2,090	1,977	1,676
11,508	10,249	9,034	8,551	8,691	7,862	6,553
1,773	1,198	1,223	1,047	1,012	778	551
507	430	438	393	325	207	64
\$ 1,266	\$ 768	\$ 785	\$ 654	\$ 687	\$ 571	\$ 487
\$ 2.49	\$ 1.50	\$ 1.52	\$ 1.25	\$ 1.30	\$ 1.07	\$.91
2.45	1.47	1.49	1.22	1.26	1.04	.88
\$ (.01)	\$ (.37)	\$ (.03)	\$ (.06)	\$ (.12)	\$ (.01)	\$ –
(.03)	–	.07	–	–	–	–
.26	–	(.05)	–	.18	.05	.10
.08	.06	(.02)	(.07)	.02	.06	(.02)
\$.38	\$.30	\$.23	\$.193	\$.167	\$.147	\$.128
15.04	13.04	12.43	10.40	8.87	7.28	7.09
507,333	513,220	517,541	525,098	530,607	531,737	532,609
516,421	522,138	528,326	537,383	544,906	550,845	551,745
\$ 51,955	\$ 44,050	\$ 39,147	\$ 32,792	\$ 32,167	\$ 32,024	\$ 26,994
7,371	6,914	5,911	5,068	5,064	5,017	4,228
\$ 59,326	\$ 50,964	\$ 45,058	\$ 37,860	\$ 37,231	\$ 37,041	\$ 31,222
\$ 43,556	\$ 39,240	\$ 32,726	\$ 27,592	\$ 28,565	\$ 29,604	\$ 24,034
1,429	1,409	1,312	1,207	1,079	1,018	596
2,445	2,187	2,362	2,090	1,894	1,511	1,865
4,320	1,480	2,262	1,545	999	1,040	957
7,576	6,648	6,396	5,426	4,694	3,868	3,770
\$ 59,326	\$ 50,964	\$ 45,058	\$ 37,860	\$ 37,231	\$ 37,041	\$ 31,222
\$ 42.60	\$ 36.91	\$ 33.45	\$ 36.10	\$ 37.47	\$ 28.38	\$ 22.66
33.85	28.00	23.10	23.00	16.78	19.50	11.35
39.84	36.18	30.12	24.56	36.10	23.60	21.94
¥ 104.21	¥ 107.13	¥ 119.90	¥ 131.95	¥ 114.75	¥ 102.40	¥ 115.70
108.26	115.95	125.15	121.54	107.83	113.96	130.89

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 generally
- governmental actions for the purpose of stabilizing the financial markets
- defaults and downgrades in certain securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac's investment in hybrid securities
- differing judgments applied to investment valuations
- subjective determinations of amount of impairments taken on our investments
- realization of unrealized losses
- limited availability of acceptable yen-denominated investments

- concentration of our investments in any particular sector
- concentration of business in Japan
- ongoing changes in our industry
- exposure to significant financial and capital markets risk
- fluctuations in foreign currency exchange rates
- significant changes in investment yield rates
- deviations in actual experience from pricing and reserving assumptions
- subsidiaries' ability to pay dividends to the Parent Company
- changes in regulation by governmental authorities
- ability to attract and retain qualified sales associates and employees
- ability to continue to develop and implement improvements in information technology systems
- changes in U.S. and/or Japanese accounting standards
- decreases in our financial strength or debt ratings
- level and outcome of litigation
- ability to effectively manage key executive succession
- catastrophic events
- failure of internal controls or corporate governance policies and procedures

COMPANY OVERVIEW

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. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-year period ended December 31, 2008. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes. This MD&A is divided into the following sections:

- 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

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). 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 investments, deferred policy acquisition costs and policy liabilities. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 96% of our assets and 86% of our liabilities are reported as of December 31, 2008, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

Investments

Aflac's investments in debt securities, perpetual securities and equity securities include both publicly issued and privately issued securities. For privately issued securities, we receive pricing data from external sources that take into account each security's credit quality and liquidity characteristics. We also routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with applicable accounting guidance. The identification of distressed investments, the determination of fair value if not publicly traded, and the assessment of whether a decline is other than temporary involve significant management judgment and require evaluation of factors, including but not limited to:

- percentage decline in value and the length of time during which the decline has occurred
- recoverability of principal and interest
- market conditions
- our ability to hold the investment to maturity
- review of the issuer's overall operating performance and financial condition
- rating agency opinions and actions regarding the issuer's credit standing
- adverse changes in the issuer's availability of production

- resources, revenue sources and technological conditions
- adverse changes in the issuer's economic, industry, regulatory or political environment

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

Certain costs of acquiring new business are deferred and amortized over the policy's premium payment period in proportion to anticipated premium income. Future amortization of DAC is based upon our estimates of persistency, interest and future premium revenue generally established at the time of policy issuance. However, the unamortized balance of DAC reflects actual persistency. As presented in the following table, the ratio of unamortized DAC to annualized premiums in force increased slightly for Aflac U.S. in 2008, compared with the prior two years, as a result of the introduction of an accelerated commission payment option for new associates and the refinement of our first-year commission deferrals on certain products. The ratio of unamortized DAC to annualized premiums in force has shown a slight upward trend for Aflac Japan for the last three years. This trend is a result of a greater proportion of our annualized premiums being under the alternative commission schedule, which pays a higher commission on first-year premiums and lower commissions on renewal premiums. This schedule is very popular with our new agents as it helps them with cash flow for personal and business needs as they build their business. While this has resulted in a higher unamortized DAC balance, the overall cost to the company has been reduced.

Deferred Policy Acquisition Cost Ratios

(In millions)	Aflac Japan			Aflac U.S.		
	2008	2007	2006	2008	2007	2006
Deferred policy acquisition costs	\$ 5,644	\$ 4,269	\$ 3,857	\$ 2,593	\$ 2,385	\$ 2,168
Annualized premiums in force	12,761	9,860	9,094	4,789	4,510	4,101
Deferred policy acquisition costs as a percentage of annualized premiums in force	44.2%	43.3%	42.4%	54.1%	52.9%	52.9%

Policy Liabilities

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

Policy Liabilities

(In millions)	2008	2007
U.S. segment:		
Future policy benefits	\$ 5,442	\$ 4,958
Unpaid policy claims	933	856
Other policy liabilities	375	165
Total U.S. policy liabilities	\$ 6,750	\$ 5,979
Japan segment:		
Future policy benefits	\$ 53,866	\$ 40,715
Unpaid policy claims	2,184	1,599
Other policy liabilities	3,416	2,380
Total Japan policy liabilities	\$ 59,466	\$ 44,694
Consolidated:		
Future policy benefits	\$ 59,310	\$ 45,675
Unpaid policy claims	3,118	2,455
Other policy liabilities	3,791	2,546
Total consolidated policy liabilities	\$ 66,219	\$ 50,676

Our policy liabilities, which are determined in accordance with applicable guidelines as defined under GAAP and Actuarial Standards of Practice, include two primary components: future policy benefits and unpaid policy claims, which accounted for 90% and 5% of total policy liabilities as of December 31, 2008, respectively.

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

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

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

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

Our fourth quarter 2007 review indicated that we needed to strengthen the liability for two closed blocks of business, primarily due to better-than-expected persistency. In Japan, we strengthened our future policy benefits liability by \$18 million for a closed block of dementia policies. In the United States, we strengthened our future policy benefits liability by \$8 million for a closed block of small-face-amount life insurance coverage.

In 2007, our unpaid policy claims liability for prior years declined by approximately \$400 million. More than 70% of the release of our unpaid policy claims liability resulted from incurred but not reported claims that are estimated using a claim cost and completion factor method. During the first 12 months after a claim is incurred, we estimate the ultimate cost of the claim based on initial expected claim cost factors that reflect our experience in prior periods. In the 13th month after incurral, we change the estimating basis to a completion

factor method because the actual cash payments to date for claims 13 or more months old are deemed to have sufficient credibility on which to base the remaining liability estimate. Prior to the 13th month, the historical claim cost method is deemed to have more credibility. The difference in estimate between the two methods is routinely recognized in our financial statements in the 13th month after a claim is incurred.

For the past several years, we have experienced a downward trend in our current period hospitalization claim costs, primarily in Japan. For this reason, our claim cost estimate as of December 31, 2006, was high. Redundancy or insufficiency is initially recognized when the claims reach the thirteenth month after incurral. More than 75% of the 2007 release of prior period claim liability was related to claims incurred in 2006. The remainder was related to claims incurred prior to 2006.

In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2008, to changes in severity and frequency of claims. For the years 2006 through 2008, our assumptions changed on average by approximately 1% in total, and we believe that a variation in assumptions in a range of plus or minus 1% in total is reasonably likely to occur.

Sensitivity of Unpaid Policy Claims Liability

(In millions)	Total Severity				
	Decrease by 2%	Decrease by 1%	Unchanged	Increase by 1%	Increase by 2%
Total Frequency					
Increase by 2%	\$ –	\$ 19	\$ 39	\$ 59	\$ 79
Increase by 1%	(19)	–	20	39	59
Unchanged	(38)	(19)	–	20	39
Decrease by 1%	(57)	(38)	(19)	–	19
Decrease by 2%	(76)	(57)	(38)	(19)	–

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

Future Policy Benefits

(In millions of dollars and billions of yen)	2008	2007	2006
Aflac U.S.	\$ 5,442	\$ 4,958	\$ 4,391
Growth rate	9.8%	12.9%	16.2%
Aflac Japan	\$ 53,866	\$ 40,715	\$ 36,447
Growth rate	32.3%	11.7%	7.0%
Consolidated	\$ 59,310	\$ 45,675	\$ 40,841
Growth rate	29.9%	11.8%	7.9%
Yen/dollar exchange rate (end of period)	91.03	114.15	119.11
Aflac Japan	¥ 4,903	¥ 4,648	¥ 4,341
Growth rate	5.5%	7.1%	7.9%

The growth of the future policy benefits liability in dollars is primarily due to the aging of our in-force block of business and the addition of new business, as well as the strengthening of the yen against the U.S. dollar.

New Accounting Pronouncements

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. 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 table is a presentation of items impacting net earnings and net earnings per diluted share for the years ended December 31.

Items Impacting Net Earnings

	In Millions			Per Diluted Share		
	2008	2007	2006	2008	2007	2006
Net earnings	\$1,254	\$1,634	\$1,483	\$2.62	\$3.31	\$2.95
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	(655)	19	51	(1.37)	.04	.10
Impact from SFAS 133	(3)	2	–	–	–	–

Realized Investment Gains and Losses

Our investment strategy is to invest in investment-grade fixed-income securities to provide a reliable stream of investment income, which is one of the drivers of the Company's profitability. This investment strategy aligns our assets with our liability structure, which our assets support. We do not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio maintenance and rebalancing. The realization of investment gains and losses is independent

of the underwriting and administration of our insurance products, which are the principal drivers of our profitability.

In 2008, we realized total pretax investment losses of \$1,007 million (after-tax, \$655 million, or \$1.37 per diluted share), primarily a result of the sale of securities and the recognition of other-than-temporary impairments. The sale of our investments in Lehman Brothers and Washington Mutual and other smaller securities transactions represented \$254 million (\$166 million after-tax) of the total realized investment losses. Other-than-temporary impairment losses during the year consisted of \$294 million (\$191 million after-tax) recognized on certain of our perpetual security investments; \$213 million (\$139 million after-tax) recognized on certain of our CDO investments; \$180 million (\$117 million after-tax) recognized on our investments in three Icelandic banks; and \$65 million (\$42 million after-tax) recognized on our investment in Ford Motor Company. See further discussion below regarding the other-than-temporary impairment losses on our perpetual securities, CDO investments and Icelandic bank investments.

In 2007, we realized pretax investment gains of \$28 million (after-tax, \$19 million, or \$.04 per diluted share) primarily as a result of securities sold or redeemed in the normal course of business. In 2006, we realized pretax gains of \$79 million (after-tax, \$51 million, or \$.10 per diluted share) primarily as a result of bond swaps and the liquidation of equity securities held by Aflac U.S. We began a bond-swap program in the second half of 2005 and concluded it in the first half of 2006. These bond swaps took advantage of tax loss carryforwards and also resulted in an improvement in overall portfolio credit quality and investment income.

We maintain investments in subordinated financial instruments, or so-called "hybrid securities." Within this class of investments, we own perpetual Upper Tier II and Tier I securities, which are subordinated to other debt obligations of the issuer, but rank higher than the issuers' equity securities. Perpetual securities have characteristics of both debt and equity investments. Although these securities generally have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term rate of interest of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance. We believe this interest step-up penalty has the effect of creating an economic maturity date of the perpetual securities. Since first purchasing these securities in the early 1990's, and until the third quarter of 2008, we accounted for and reported perpetual securities as debt securities and classified them as both available-for-sale and held-to-maturity securities.

In light of the unprecedented volatility in the debt and equity markets, we concluded in the third quarter of 2008 that all

of our perpetual securities should be classified as available-for-sale securities for periods ending June 30, 2008 and prior. We also concluded that our perpetual securities should be evaluated for other-than-temporary impairments using an equity security impairment model as opposed to our previous policy of using a debt security impairment model.

In the third quarter of 2008, we recognized an other-than-temporary impairment charge of \$191 million, after-tax, which reflects the impact of applying our equity security impairment policy to this asset class through June 30, 2008. The June 30 measurement date was used following the SEC's October 14, 2008 letter to the FASB on the topic of the appropriate impairment model to apply to perpetual securities. Included in this impairment charge is \$40 million, \$53 million, \$50 million, and \$38 million, net of tax, that relate to the years ended December 31, 2007, 2006, 2005 and 2004, respectively; and, \$10 million, net of tax, that relates to the quarter ended June 30, 2008. There were no impairment charges related to perpetual securities in the first quarter of 2008. The impact of classifying all of our perpetual securities as available-for-sale securities and assessing them for other-than-temporary impairments under our equity security impairment model through June 30, 2008, was determined to be immaterial to our results of operations and financial position for any previously reported period.

In a letter to the FASB dated October 14, 2008, the SEC stated that, given the debt characteristics of perpetual securities, a debt impairment model could be used for filings subsequent to its letter, until the FASB further addresses the appropriate impairment approach. Consistent with the guidance in the SEC's letter, we have applied a debt security impairment model to our perpetual securities subsequent to the quarter ended June 30, 2008, and will continue with that approach pending further guidance from the FASB.

As of December 31, 2008, approximately 92% of our perpetual securities portfolio was rated A or better, and the fair value of our perpetual security portfolio was approximately 89% and 84% of amortized cost and par value, respectively.

As a part of our credit review process, we concluded that it had become unlikely that we would recover our investment in certain of our CDO investments as a result of continued significant declines in the credit markets during the fourth quarter of 2008. In accordance with our investment policy, we recorded an impairment charge of \$164 million (\$106 million after-tax) in connection with the other-than-temporary impairment of these CDOs during the fourth quarter of 2008. During the third quarter of 2008, Lehman Brothers Special Financing Inc. (LBSF), the swap counterparty under four of our CDO debt securities, filed for bankruptcy protection along with certain of its affiliates (including Lehman Brothers

Holdings Inc., the guarantor of LBSF's obligations relating to the CDOs). We transferred these CDOs from held to maturity to available for sale as a result of the default by LBSF under the swaps. We have taken steps to cause these CDO securities to be redeemed. However, there is a significant risk that delays and/or litigation associated with these redemptions may arise out of the ongoing bankruptcy proceedings involving LBSF and its affiliates.

We hold investments in three Icelandic banks, Glitnir, Landsbanki and Kaupthing, in the form of junior subordinated debt, some of which include perpetual securities. During the fourth quarter of 2008, the Icelandic government passed legislation that allowed certain distressed Icelandic financial institutions to be placed into receivership under the control of the Icelandic government. Following the passage of this legislation, the above noted Icelandic banks were placed into receivership and are now being operated by the Icelandic government, which is also in financial distress. Subsequent to these actions, we learned that it was unlikely that the banks or the Icelandic government have any intent to honor the banks' obligations beyond their domestic depositors. As a result, we recognized an other-than-temporary impairment loss of \$180 million (\$117 million after-tax) in the fourth quarter of 2008 to reflect the other-than-temporary impairment of our total investment in these securities. At December 31, 2008, we classified our investments in Glitnir, Landsbanki and Kaupthing as below investment grade.

For additional information regarding realized investment gains and losses, please see Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements.

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior notes, which mature in April 2009, into a yen-denominated obligation (see Notes 4 and 7 of the Notes to the Consolidated Financial Statements). We have designated the foreign currency component of these cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. The effect of issuing fixed-rate, dollar-denominated debt and swapping it into fixed-rate, yen-denominated debt has the same economic impact on Aflac as if we had issued yen-denominated debt of a like amount. However, the accounting treatment for cross-currency swaps is different from issuing yen-denominated Samurai and Uridashi notes. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended" (SFAS 133), requires that the change in the fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, be reflected in net earnings. This change in fair value is determined by relative dollar and yen interest rates and has no cash impact on our

results of operations. At maturity, the fair value will equal initial contract fair value, and the cumulative impact of gains and losses from the changes in fair value of the interest component will be zero. We have the ability and intent to retain the cross-currency swaps until they expire in April 2009. The impact from SFAS 133 includes the change in fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, and is included in other income.

We have also issued yen-denominated Samurai and Uridashi notes. We have designated these notes as a hedge of our investment in Aflac Japan. If the value of these yen-denominated notes and the notional amounts of the cross-currency swaps exceed our investment in Aflac Japan, we would be required to recognize the foreign currency effect on the excess, or ineffective portion, in net earnings. The ineffective portion would be included in the impact from SFAS 133. These hedges were effective during the three-year period ended December 31, 2008; therefore, there was no impact on net earnings.

We have interest-rate swap agreements related to the ¥20 billion variable interest rate Uridashi notes and have designated the swap agreements as a hedge of the variability of the debt cash flows. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. SFAS 133 requires that the change in the fair value of the swap contracts be recorded in other comprehensive income so long as the hedge is deemed effective. Any ineffectiveness would be recognized in net earnings (other income) and would be included in the impact from SFAS 133. These hedges were effective during the three-year period ended December 31, 2008; therefore, there was no impact on net earnings. See Notes 1, 4 and 7 of the Notes to the Consolidated Financial Statements for additional information.

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 primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate Aflac Japan's yen-denominated income statement into dollars using an average exchange rate for the reporting period, and we translate its yen-denominated balance sheet using the exchange rate at the end of the period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange

rate can have a significant effect on our reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current year results in relation to the prior year, while yen strengthening has the effect of magnifying current year results in relation to the prior year. 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 34.5% in 2008, 34.6% in 2007 and 34.5% in 2006. Total income taxes were \$660 million in 2008, compared with \$865 million in 2007 and \$781 million in 2006. Japanese income taxes on Aflac Japan's results account for most of our consolidated income tax expense. See Note 8 of the Notes to the Consolidated Financial Statements for additional information.

INSURANCE OPERATIONS

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

We measure and evaluate our insurance segments' financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our operations before realized investment gains and losses, the impact from SFAS 133, and nonrecurring items. We believe that an analysis of segment pretax operating earnings is vitally important to an understanding of the underlying profitability drivers and trends of our insurance business. Furthermore, because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

We evaluate our sales efforts using new annualized premium sales, an industry operating measure. Total new annualized

premium sales, which include 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, total new annualized premium sales are determined by applications written during the reporting period. For Aflac U.S., total new annualized premium sales are determined by applications that are accepted 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

(In millions)	2008	2007	2006
Premium income	\$ 10,674	\$ 9,037	\$ 8,762
Net investment income:			
Yen-denominated investment income	1,312	1,102	1,064
Dollar-denominated investment income	741	699	624
Net investment income	2,053	1,801	1,688
Other income	15	27	25
Total operating revenues	12,742	10,865	10,475
Benefits and claims	7,972	6,935	6,847
Operating expenses:			
Amortization of deferred policy acquisition costs	405	318	285
Insurance commissions	970	850	859
Insurance and other expenses	1,145	941	832
Total operating expenses	2,520	2,109	1,976
Total benefits and expenses	10,492	9,044	8,823
Pretax operating earnings*	\$ 2,250	\$ 1,821	\$ 1,652
Weighted-average yen/dollar exchange rate	103.46	117.93	116.31

Percentage change over previous year:	In Dollars			In Yen		
	2008	2007	2006	2008	2007	2006
Premium income	18.1%	3.1%	.2%	3.5%	4.3%	5.9%
Net investment income	14.0	6.7	3.2	—	8.0	9.0
Total operating revenues	17.3	3.7	.6	2.8	4.9	6.3
Pretax operating earnings*	23.6	10.2	9.1	8.4	11.8	15.4

*See our definition of segment operating earnings at left.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 3.2% in 2008, 3.9% in 2007 and 5.4% in 2006 reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized

premiums in force at December 31, 2008, were ¥1.16 trillion, compared with ¥1.13 trillion in 2007 and ¥1.08 trillion in 2006. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were \$12.8 billion in 2008, \$9.9 billion in 2007, and \$9.1 billion in 2006.

Aflac Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 36% of Aflac Japan's investment income in 2008, compared with 39% in 2007 and 37% in 2006. In years when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. On a constant currency basis, dollar-denominated investment income accounted for approximately 39% of Aflac Japan's investment income during 2008, compared with 39% in 2007 and 36% in 2006. The following table illustrates the effect of translating Aflac Japan's dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the prior year.

Aflac Japan Percentage Changes Over Prior Year

(Yen Operating Results)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes**		
	2008	2007	2006	2008	2007	2006
Net investment income	–%	8.0%	9.0%	5.0%	7.4%	6.8%
Total operating revenues	2.8	4.9	6.3	3.8	4.9	6.0
Pretax operating earnings*	8.4	11.8	15.4	13.8	11.3	13.3

*See Page 30 for our definition of segment operating earnings.

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

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

Ratios to total revenues:	2008	2007	2006
Benefits and claims	62.5%	63.8%	65.4%
Operating expenses:			
Amortization of deferred policy acquisition costs	3.2	2.9	2.7
Insurance commissions	7.6	7.8	8.2
Insurance and other expenses	9.0	8.7	7.9
Total operating expenses	19.8	19.4	18.8
Pretax operating earnings*	17.7	16.8	15.8

*See Page 30 for our definition of segment operating earnings.

The benefit ratio has declined over the past several years, reflecting the impact of newer products and riders with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the improvement in the benefit ratio to continue as we shift to newer products and riders and benefit from the impact of favorable claim trends. However, this improvement is partially offset by the effect of low investment yields, which impacts our profit margin by reducing the spread between investment yields and required interest on policy reserves (see table and discussion in the Interest Rate Risk section of this MD&A). The operating expense ratio increased modestly in 2008 in line with our expectations and primarily reflects the increased costs associated with IT infrastructure changes and our preparation for sales through the bank channel. We expect the operating expense ratio to increase slightly in 2009. Due to continued improvement in the benefit ratio, the pretax operating profit margin expanded in 2008. We expect continued expansion in the profit margin in 2009.

Aflac Japan Sales

Our stated objective for 2008 was to increase sales 3% to 7%. We had anticipated growth from new sales distribution opportunities; however, our new bank channel sales were lower than expected and were negatively affected by the emergence of the financial crisis late in the year. Despite sales increasing slightly to ¥114.7 billion, we did not reach our sales target for 2008. The following table presents Aflac Japan's total new annualized premium sales for the years ended December 31.

(In millions of dollars and billions of yen)	In Dollars			In Yen		
	2008	2007	2006	2008	2007	2006
Total new annualized premium sales	\$ 1,115	\$ 974	\$ 1,010	¥114.7	¥ 114.6	¥ 117.5
Percentage change over prior year	14.4%	(3.5)%	(13.5)%	–%	(2.4)%	(8.8)%

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

	2008	2007	2006
Medical policies	34%	33%	33%
Cancer	34	33	28
Ordinary life	23	22	23
Rider MAX	5	7	10
Other	4	5	6
Total	100%	100%	100%

Cancer insurance was our top-selling product category for Aflac Japan in 2008 with sales rising 3.6% over 2007. Aflac remains the best branded company in Japan for cancer insurance.

Our cancer insurance marketing efforts in 2008 centered on Cancer Forte, which we introduced in September 2007. Cancer Forte offers increased outpatient benefits compared to the preceding version of this policy. In addition to our traditional first-occurrence benefit, this product also pays an annuity to a newly diagnosed patient from the second year through the fifth year following diagnosis. It also assists policyholders with counseling and doctor referral services through a third party upon diagnosis of the disease. For consumers who had the earlier cancer insurance product, we introduced a special bridge policy in 2008 that allows existing policyholders to upgrade their coverage to that of Cancer Forte.

As previously disclosed, Japan Post Network Co., Ltd., selected Aflac Japan in November 2007 as its provider of cancer insurance to be sold through post offices. Japan Post Network Co., Ltd. has historically been a popular place for consumers to purchase insurance products. We began selling cancer insurance through the Japan Post Network Co., Ltd. in October 2008, with our product being offered through 300 post offices.

Our cancer policies are also marketed through a strategic alliance with Dai-ichi Mutual Life. In 2008, Dai-ichi Life sold nearly 190,000 of our market-leading cancer policies, retaining its distinction as the number two seller of cancer insurance behind only Aflac Japan. We are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

Medical sales increased 2.8% in 2008, compared with prior year. Since first launching a stand-alone medical product called EVER in 2002, we have been the number one seller of medical insurance policies in Japan. We believe that our number one position benefits us in the marketplace. As a result, we continue to believe that the medical category will be an important part of our product portfolio. In the last five years, we have segmented the market by developing variations of EVER that appeal to specific types of Japanese consumers. Gentle EVER, introduced in 2007, provides an affordable alternative to help consumers who may have a health problem that would exclude them from purchasing other EVER products. With continued cost pressure on Japan's health care system, we expect the need for medical products will continue to rise in the future, and we remain encouraged about the outlook for the medical insurance market.

We continue to believe that sales of cancer and medical insurance will benefit from the recently opened bank channel. By the end of 2008, we had agreements with 242 banks to sell our products in their branches. We have significantly more selling agreements than any of our competitors. We believe our longstanding relationships within the Japan banking

sector have given us an advantage in developing this channel. Furthering our reach into the banking channel was the endorsement of Aflac's products by the National Association of Shinkin Banks. This association of about 280 shinkin banks, which are similar to credit unions, chose Aflac as one of only four providers of third sector insurance products to its member banks. Aflac was the only foreign company chosen. In addition, Aflac was the only company selected for both cancer and medical insurance. We believe we are well-positioned to see continued improvement in bank channel sales.

In November 2008, we introduced a new product to the market called Sanjuso. This innovative new offering is a single-premium product that provides lump-sum payments upon the diagnosis of cancer, heart attack or stroke, as well as a death benefit. It was primarily designed for the bank channel. Initial sales of Sanjuso were negatively impacted by the financial crisis. However, we believe it will fit well in our bank agents' product portfolios, particularly those of the mega banks and larger regional banks in Japan.

We remain committed to selling through our traditional channels, which allows us to reach consumers through affiliated corporate agencies, independent corporate agencies and individual agencies. In 2008, we recruited approximately 3,950 new sales agencies. At the end of the year, Aflac Japan was represented by more than 18,800 sales agencies, or more than 107,400 licensed sales associates employed by those agencies.

We believe that there is still a strong need for our products in Japan. Although we have a cautious outlook for sales in 2009 due to the current global economic uncertainty, our objective is for sales to be flat to up 5% in Japan, including continued growth in contributions from our new distribution channels (see the Japanese Regulatory Environment section of this MD&A for further discussion regarding these distribution channels). Our sales objective could change if the Japanese economy experiences further deterioration.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, timing of and yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has invested in privately issued securities to secure higher yields than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards for credit quality. All of our privately issued securities are rated investment grade at the time of purchase. These securities are generally issued with documentation consistent with standard medium-term note programs. In addition, many of these investments have protective covenants appropriate to the specific issuer, industry and country. These covenants often

require the issuer to adhere to specific financial ratios and give priority to repayment of our investment under certain circumstances.

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

	2008	2007	2006
New money yield - yen only	3.20%	3.05%	3.10%
New money yield - blended	3.43	3.38	3.33
Return on average invested assets, net of investment expenses	3.82	4.06	4.11

At December 31, 2008, the yield on Aflac Japan's investment portfolio, including dollar-denominated investments, was 3.90%, compared with 4.02% a year ago. The overall credit quality of Aflac Japan's investments remained high. At the end of 2008, 80.9% of our debt and perpetual securities were rated A or better on an amortized cost basis. Only 1.9% of Aflac Japan's holdings were rated below investment grade at the end of 2008. See the Credit Risk section of this MD&A for additional information.

Japanese Economy

The Bank of Japan's January 2009 Monthly Report of Recent Economic and Financial Developments stated that Japan's economic conditions have been deteriorating significantly. Private consumption has weakened as a result of decreased household income and increased unemployment. Exports have decreased due to a slowdown in overseas economies and the appreciation of the yen. The report projected that Japan's economic conditions are expected to continue to deteriorate. A broad economic stimulus plan has been proposed in Japan that would hopefully increase public spending. We believe that the Japanese economic situation is uncertain and that growth may not return until confidence is restored to the global financial markets.

Japan's system of compulsory public health care insurance provides medical coverage to every Japanese citizen. These public medical expenditures are covered by a combination of premiums paid by insureds and their employers, taxes and copayments from the people who receive medical service. However, given Japan's aging population, the resources available to these publicly funded social insurance programs have come under increasing pressure. As a result, copayments and other out-of-pocket expenses have been rising and affecting more people. We believe higher out-of-pocket expenses will lead consumers to purchase more supplemental medical insurance. Many insurance companies have recognized the opportunities for selling supplemental medical insurance in Japan and have launched new products in recent years.

However, we believe our favorable cost structure compared with other insurers makes us a very effective competitor. In addition, we believe our brand, customer service and financial strength also benefit our market position.

Japanese Regulatory Environment

Japan's Financial Services Agency (FSA) adopted new mortality tables for reserving newly underwritten policies effective April 2007. These new tables reflect recent improvements in survival rates in Japan and have generally resulted in a decrease in policy premiums for death benefit products and an increase in premium rates for third sector (health) products and annuities. We reflected the impact of the new mortality table in our product pricing for the first sector (life) products effective April 2007. For the third sector, the revised tables were reflected in our product pricing effective September 2007.

Additionally, the FSA has implemented a new rule for third sector product reserving for our FSA-based financial statements, effective April 1, 2007. Under the new rule, we are required to conduct stress testing of our reserves using a prescribed method that incorporates actual morbidity. The results of the tests and their relation to our reserves determine whether reserve strengthening is required. This new reserve requirement will not impact our GAAP financial statements. Adoption of this requirement did not have a material impact on our FSA-based financial statements for the year ended March 31, 2008, or on our product pricing going forward.

We expect that our distribution system will continue to evolve in Japan. Regulatory changes that took effect in December 2007 enable banks to sell our third sector products to their customers. Our strong brand as the leading seller of cancer and medical insurance products in Japan and our many long-term relationships within the Japan banking sector place us in a strong position to sell through this new channel. By the end of 2008, we had agreements with 242 banks to market Aflac's products.

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)	2008	2007	2006
Premium income	\$4,272	\$ 3,936	\$ 3,552
Net investment income	505	500	465
Other income	10	10	10
Total operating revenues	4,787	4,446	4,027
Benefits and claims	2,527	2,350	2,169
Operating expenses:			
Amortization of deferred policy acquisition costs	370	323	290
Insurance commissions	488	481	444
Insurance and other expenses	657	600	539
Total operating expenses	1,515	1,404	1,273
Total benefits and expenses	4,042	3,754	3,442
Pretax operating earnings*	\$ 745	\$ 692	\$ 585

Percentage change over previous year:

Premium income	8.5%	10.8%	9.5%
Net investment income	.9	7.5	10.4
Total operating revenues	7.7	10.4	9.5
Pretax operating earnings*	7.6	18.3	11.4

*See Page 30 for our definition of segment operating earnings.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 6.2% in 2008, 10.0% in 2007 and 10.5% in 2006 were favorably affected by sales at the worksite and a slight improvement in the persistency of several products. Annualized premiums in force at December 31 were \$4.8 billion in 2008, compared with \$4.5 billion in 2007 and \$4.1 billion in 2006. Net investment income was relatively flat during 2008, primarily as a result of funds utilized in our accelerated share repurchase programs in the first and third quarters of 2008. For further information, see the Capital Resources and Liquidity section of this MD&A and Note 9 of the Notes to the Consolidated Financial Statements.

The table at the top of the next column presents a summary of operating ratios for Aflac U.S.

The benefit ratio, operating expense ratio and pretax operating profit margin for 2008 were relatively stable, compared with 2007. We expect the benefit ratio to decline modestly and the operating expense ratio and pretax operating profit margin to increase slightly in 2009.

Ratios to total revenues:	2008	2007	2006
Benefits and claims	52.8%	52.9%	53.9%
Operating expenses:			
Amortization of deferred policy acquisition costs	7.7	7.3	7.2
Insurance commissions	10.2	10.8	11.0
Insurance and other expenses	13.7	13.4	13.4
Total operating expenses	31.6	31.5	31.6
Pretax operating earnings*	15.6	15.6	14.5

*See Page 30 for our definition of segment operating earnings.

Aflac U.S. Sales

In 2008, we believe the weak economy had a negative effect on the demand for the products we sell, resulting in a slight decrease in new annualized premium sales. The following table presents Aflac's U.S. total new annualized premium sales for the years ended December 31.

(In millions)	2008	2007	2006
Total new annualized premium sales	\$ 1,551	\$ 1,558	\$ 1,423
Increase (decrease) over prior year	(.4)%	9.5%	13.1%

Although we have a cautious outlook for sales in 2009 due to the current global economic uncertainty, our objective is for total new annualized premium sales to be flat to up 5% in the U.S. Our sales objective could change if the U.S. economy experiences further deterioration.

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

	2008	2007	2006
Accident/disability coverage	49%	51%	52%
Cancer expense insurance	19	18	17
Hospital indemnity products	16	14	12
Fixed-benefit dental coverage	5	6	6
Other	11	11	13
Total	100%	100%	100%

Total new annualized premium sales for accident/disability, our leading product category, decreased 4.8% in 2008, while cancer expense insurance increased 4.2% and our hospital indemnity category increased 13.6%, compared with 2007.

One aspect of our growth strategy is the continued enhancement of our product line. In 2008, we primarily directed our efforts to helping consumers broaden their coverage by pairing existing policies that complement one another's coverage. We launched a product portfolio initiative in 2008 that provided sales associates with the support and enrollment technology to offer defined combinations of products, or "portfolios," that provide breadth and/or depth

of coverage for diverse medical health events. A popular portfolio combination includes pairing our accident product in conjunction with our personal sickness indemnity product. We are also pairing life products with any other supplemental policy we offer. As a result of this approach, life premiums and policies showed double-digit increases for the year.

Another aspect of our growth strategy is our focus on growing and improving our U.S. sales force. We remain satisfied with our progress in the ongoing expansion of our U.S. sales force. We recruited more than 25,700 new sales associates in 2008, resulting in more than 74,300 licensed sales associates at December 31, 2008, a 4.4% increase compared with 2007. On a weekly basis, the average number of U.S. associates actively producing business rose 2.6% to more than 11,200 in 2008. We believe that the average weekly producing sales associates metric allows our sales management to actively monitor progress and needs on a real-time basis. Furthermore, we believe the increase in producing sales associates reflects the success of the training programs we implemented over the last few years. With total new payroll accounts rising 6.3% in 2008, we believe we have added “shelf space” that will lead to better sales when the economy stabilizes.

In 2008, we intensified preparation for our new Aflac for Brokers initiative that we expect to implement in 2009. Insurance brokers have been a historically underleveraged sales channel for Aflac, and we believe we can establish relationships that will complement, not compete with, our traditional distribution system. We have assembled an experienced broker team, and we are supporting this initiative with streamlined products, specific advertising, and customized enrollment technology. Additionally, a new level of management has been introduced in 2009 to deliver this initiative. Broker Development Coordinators have been hired in most of our state operations to initiate contact with new brokers as well as develop relationships with our current brokers. These coordinators will be assisted by a team of certified case managers whose purpose will be to coordinate the enrollments created by our Broker Development Coordinators.

U.S. Economy

Operating in the U.S. economy was a challenge in 2008. The weak economic environment has likely had an impact on some of our policyholders, potential customers and sales associates, and the recent stock market turmoil has added to consumer unease. In addition, Hurricane Ike severely disrupted sales activities in Texas, our largest state in terms of new sales. Although we believe that the weakened U.S. economy has been a contributing factor to slower sales growth, we also believe our products remain affordable to the average American consumer. Consumers’ underlying need for our U.S.

product line has not changed, and we believe that the United States remains a sizeable and attractive market.

Aflac U.S. Investments

The following table presents the results of Aflac’s U.S. investment activities.

	2008	2007	2006
New money yield	7.60%	6.44%	6.44%
Return on average invested assets, net of investment expenses	6.77	6.79	6.86

The increase in the U.S. new money yield reflects widening credit spreads globally. At December 31, 2008, the portfolio yield on Aflac’s U.S. portfolio was 7.10%, compared with 7.00% a year ago. During the second quarter of 2008, we purchased \$200 million of variable interest rate CDOs that support \$200 million of variable interest rate funding agreements issued by Aflac U.S. Because these CDOs do not support our core policyholder benefit obligations, the yield on these CDOs is not included in the Aflac U.S. portfolio yield or in the yields listed in the above table.

The overall credit quality of Aflac U.S. investments remained high. Based on amortized cost, 98.4% of our holdings were rated investment grade at the end of 2008, and only 1.6% were rated below investment grade.

See Note 3 of the Notes to the Consolidated Financial Statements and the Credit Risk section of this MD&A for additional information.

OTHER OPERATIONS

Corporate operating expenses consist primarily of personnel compensation, benefits and facilities expenses. Corporate expenses, excluding investment income, were \$61 million in 2008, \$56 million in 2007 and \$57 million in 2006. Investment income included in reported corporate expenses was \$20 million in 2008, \$31 million in 2007 and \$16 million in 2006.

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 table at the top of the following page demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at December 31, 2008, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2007.

Foreign Exchange Effected Balance Sheet Items

(In millions)	As Reported	Exchange Effect	Net of Exchange Effect
Yen/dollar exchange rate*	91.03		114.15
Investments and cash	\$ 68,550	\$ 11,856	\$ 56,694
Deferred policy acquisition costs	8,237	1,143	7,094
Total assets	79,331	13,312	66,020
Policy liabilities	66,219	12,044	54,174
Total liabilities	72,692	13,180	59,512

*The exchange rate at December 31, 2008, was 91.03 yen to one dollar, or 25.4% stronger than the December 31, 2007, exchange rate of 114.15.

Market Risks of Financial Instruments

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

The following table details investment securities by segment as of December 31.

Investment Securities by Segment

(In millions)	Aflac Japan		Aflac U.S.	
	2008	2007	2008	2007
Securities available for sale, at fair value:				
Fixed maturities	\$ 29,140	\$ 23,532	\$ 5,772*	\$ 6,874*
Perpetual securities	7,843	3,758	204	331
Equity securities	27	28	—	—
Total available for sale	37,010	27,318	5,976	7,205
Securities held to maturity, at amortized cost:				
Fixed maturities	24,236	16,799	200	20
Perpetual securities	—	3,985	—	—
Total held to maturity	24,236	20,784	200	20
Total investment securities	\$ 61,246	\$ 48,102	\$ 6,176	\$ 7,225

*Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of \$100 in 2008 and \$105 in 2007.

During the third quarter of 2008, we reclassified our held-to-maturity perpetual securities to available for sale. These securities have characteristics of both debt and equity investments. Since first purchasing these securities in the early 1990's, we have accounted for and reported perpetual securities as both available-for-sale and held-to-maturity securities. However, in light of the recent unprecedented volatility in the debt and equity markets, we have concluded that all of our perpetual securities should be classified

as available for sale. See Notes 1 and 3 of the Notes to the Consolidated Financial Statements and the Realized Investment Gains and Losses section of this MD&A for additional information.

During the second quarter of 2008, Aflac U.S. used the proceeds from the issuance of \$200 million of variable interest rate funding agreements to third party investors to purchase a corresponding amount of variable interest rate CDOs. These CDOs were purchased exclusively to support our obligation under the funding agreements and are classified as fixed maturities in the Aflac U.S. held-to-maturity portfolio. See Note 3 of the Notes to the Consolidated Financial Statements for additional information.

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 operation is the Japanese yen. All of Aflac Japan's premiums, claims and commissions are received or paid in yen, as are most of its investment income and other expenses. Furthermore, most of Aflac Japan's investments, cash and liabilities are yen-denominated. When yen-denominated securities mature or are sold, the proceeds are generally reinvested in yen-denominated securities. Aflac Japan holds these yen-denominated assets to fund its yen-denominated policy obligations. In addition, Aflac Incorporated has yen-denominated notes payable and cross-currency swaps related to its dollar-denominated senior notes.

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

On a consolidated basis, we attempt to minimize the exposure of shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan's investment portfolio in dollar-denominated securities, by the Parent Company's issuance of yen-denominated debt and by the use of cross-currency swaps (for additional information, see the discussion under Hedging Activities as follows in this section of MD&A). As a result, the effect of currency fluctuations on our net assets is reduced. The dollar values of our yen-denominated net assets, which are subject to foreign currency translation fluctuations for financial reporting purposes, are summarized as follows (translated at end-of-period exchange rates) for the years ended December 31:

(In millions)	2008	2007
Aflac Japan yen-denominated net assets	\$ 2,528	\$ 2,415
Parent Company yen-denominated net liabilities	(1,876)	(1,496)
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	\$ 652	\$ 919

The decrease in our yen-denominated net asset position resulted from the continuing decline in the market value of our yen-denominated available-for-sale investment securities as a result of widening credit spreads globally.

The table to the right 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 as of December 31.

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

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 use a modified duration analysis modeling approach, which measures price percentage volatility, to estimate the sensitivity of the fair values of our investments to interest rate changes on the debt and perpetual securities we own. For example, if the current duration of a debt security or perpetual security is 10, then the fair value of that security will increase by approximately 10% if market interest rates decrease by 100 basis points, assuming all other factors remain constant. Likewise, the fair value of the debt security or perpetual security will decrease by approximately 10% if market interest rates increase by 100 basis points, assuming all other factors remain constant. We believe a principal cause of the increase in gross unrealized losses on securities available for sale is the effect of widening credit spreads on Aflac Japan's long-duration invested assets.

The estimated effect of potential increases in interest rates on the fair values of debt and perpetual securities we own, notes payable, cross-currency and interest-rate swaps and our obligation to the Japanese policyholder protection corporation as of December 31 is shown to the right:

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

(In millions)	December 31, 2008			December 31, 2007		
Yen/dollar exchange rates	76.03	91.03*	106.03	99.15	114.15*	129.15
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	\$ 31,145	\$ 26,013	\$ 22,333	\$ 23,190	\$ 20,143	\$ 17,803
Perpetual securities	9,343	7,804	6,700	4,211	3,658	3,233
Equity securities	26	22	19	32	28	25
Securities held to maturity:						
Fixed maturities	29,018	24,236	20,808	19,341	16,799	14,848
Perpetual securities	—	—	—	4,588	3,985	3,522
Cash and cash equivalents	456	381	327	369	321	284
Other financial instruments	97	80	69	60	52	46
Subtotal	70,085	58,536	50,256	51,791	44,986	39,761
Liabilities:						
Notes payable	1,522	1,271	1,091	1,169	1,015	898
Cross-currency swaps	731	610	524	560	487	430
Japanese policyholder protection corporation	192	161	138	174	151	133
Subtotal	2,445	2,042	1,753	1,903	1,653	1,461
Net yen-denominated financial instruments	67,640	56,494	48,503	49,888	43,333	38,300
Other yen-denominated assets	8,605	7,187	6,170	6,310	5,480	4,844
Other yen-denominated liabilities	75,465	63,029	54,113	55,140	47,894	42,331
Consolidated yen-denominated net assets subject to foreign currency fluctuation	\$ 780	\$ 652	\$ 560	\$ 1,058	\$ 919	\$ 813

*Actual year-end exchange rate

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(In millions)	2008		2007	
	Fair Value	+100 Basis Points	Fair Value	+100 Basis Points
Debt and perpetual securities:				
Fixed-maturity securities:				
Yen-denominated	\$ 49,047	\$ 43,556	\$ 36,314	\$ 32,151
Dollar-denominated	9,048	8,246	10,388	9,505
Perpetual securities:				
Yen-denominated	7,804	7,103	7,598	6,889
Dollar-denominated	244	225	431	395
Total debt and perpetual securities	\$ 66,143	\$ 59,130	\$ 54,731	\$ 48,940
Notes payable*	\$ 1,713	\$ 1,530	\$ 1,452	\$ 1,415
Cross-currency and interest-rate swap liabilities	\$ 158	\$ 151	\$ 35	\$ 27
Japanese policyholder protection corporation	\$ 161	\$ 161	\$ 151	\$ 151

*Excludes capitalized lease obligations

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. Changes in the interest rate environment 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 have the intent and ability to hold such securities until a recovery of value, which may be maturity. For additional information on unrealized losses on debt and perpetual securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. The following table presents the approximate duration of our yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2008	2007
Yen-denominated debt securities	12	13
Policy benefits and related expenses to be paid in future years	14	14
Premiums to be received in future years on policies in force	10	10

The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

Comparison of Interest Rates for Future Policy Benefits and Investment Yields

(Net of Investment Expenses)

	2008		2007		2006	
	U.S.	Japan*	U.S.	Japan*	U.S.	Japan*
Policies issued during year:						
Required interest on policy reserves	5.50%	2.74%	5.50%	2.74%	5.50%	2.77%
New money yield on investments	7.56	3.27	6.40	3.11	6.40	3.12
Policies in force during year:						
Required interest on policy reserves	6.12	4.55	6.20	4.63	6.28	4.71
Return on average invested assets	6.77	3.82	6.79	3.83	6.86	3.88

*Represents yen-denominated investments for Aflac Japan that support policy obligations and therefore excludes Aflac Japan's annuities, and dollar-denominated investments and related investment income

We continue to monitor the spread between our new money yield and the required interest assumption for newly issued products in both the United States and Japan and will re-evaluate those assumptions as necessary.

Over the next two years, we have yen-denominated securities that will mature with yields in excess of Aflac Japan's current net investment yield of 3.61%. These securities total \$2.0 billion at amortized cost and have an average yield of 5.74%. 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 profits that have emerged from changes in the mix of business and favorable experience from mortality, morbidity and expenses.

We have entered into interest-rate swap agreements related to our ¥20 billion variable interest rate Uridashi notes. These agreements effectively swap the variable interest rate Uridashi notes to fixed rate notes to mitigate our exposure to interest rate risk. For further information, see Notes 4 and 7 of the Notes to the Consolidated Financial Statements.

Credit Risk

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

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

Subordination Distribution of Debt and Perpetual Securities

(In millions)	2008		2007	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
Senior notes	\$51,091	73.5%	\$ 38,483	70.6%
Subordinated securities:				
Fixed maturities				
(stated maturity date):				
Lower Tier II	7,777	11.2	6,277	11.5
Upper Tier II	340	.5	296	.6
Tier I*	750	1.1	582	1.0
Surplus Notes	374	.5	375	.7
Trust Preferred - Non-banks	86	.1	154	.3
Other Subordinated - Non-banks	52	.1	52	.1
Total fixed maturities	9,379	13.5	7,736	14.2
Perpetual securities				
(economic maturity date):				
Upper Tier II	6,532	9.4	5,812	10.7
Tier I	2,542	3.6	2,439	4.5
Total perpetual securities	9,074	13.0	8,251	15.2
Total	\$69,544	100.0%	\$ 54,470	100.0%

*Includes Trust Preferred securities

The majority, or 73.5%, of our total investments in debt and perpetual securities was senior debt, as of December 31, 2008, as shown in the table above. We maintained investments in subordinated financial instruments, that comprised 26.5% of our total investments in debt and perpetual securities at December 31, 2008. These investments primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities. The Lower Tier II securities are debt instruments with fixed maturities. Our Upper Tier II 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. Perpetual securities comprise 95% and 77% of our total Upper Tier II and Tier I investments, respectively as of December 31, 2008.

The amortized cost for our investments in debt and perpetual securities, the cost for equity securities and the fair values of these investments at December 31 are shown in the following tables.

(In millions)	2008				2007			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 11,153	\$ 988	\$ 16	\$ 12,125	\$ 8,438	\$ 621	\$ 36	\$ 9,023
Mortgage- and asset-backed securities	491	8	–	499	272	6	–	278
Public utilities	2,282	188	17	2,453	1,741	162	31	1,872
Collateralized debt obligations	253	6	–	259	–	–	–	–
Sovereign and supranational	943	37	126	854	751	54	31	774
Banks/financial institutions	4,667	81	686	4,062	3,814	228	112	3,930
Other corporate	6,183	155	576	5,762	4,406	131	271	4,266
Total yen-denominated	25,972	1,463	1,421	26,014	19,422	1,202	481	20,143
Dollar-denominated:								
Government and guaranteed	266	6	1	271	376	7	1	382
Municipalities	119	1	14	106	128	3	5	126
Mortgage- and asset-backed securities	738	7	189	556	502	6	14	494
Collateralized debt obligations	53	–	37	16	92	–	16	76
Public utilities	1,337	34	165	1,206	1,007	73	13	1,067
Sovereign and supranational	366	44	9	401	424	80	2	502
Banks/financial institutions	2,910	107	529	2,488	3,157	165	106	3,216
Other corporate	4,273	182	501	3,954	4,291	302	88	4,505
Total dollar-denominated	10,062	381	1,445	8,998	9,977	636	245	10,368
Total fixed maturities	36,034	1,844	2,866	35,012	29,399	1,838	726	30,511
Perpetual securities:								
Yen-denominated:								
Banks/financial institutions	8,400	187	1,091	7,496	3,549	123	253	3,419
Other corporate	294	13	–	307	263	–	18	245
Dollar-denominated:								
Banks/financial institutions	380	–	136	244	455	8	38	425
Total perpetual securities	9,074	200	1,227	8,047	4,267	131	309	4,089
Equity securities	24	5	2	27	21	8	1	28
Total securities available for sale	\$ 45,132	\$ 2,049	\$ 4,095	\$ 43,086	\$ 33,687	\$ 1,977	\$ 1,036	\$ 34,628
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 220	\$ 17	\$ –	\$ 237	\$ 175	\$ –	\$ 1	\$ 174
Mortgage- and asset-backed securities	75	1	1	75	43	–	–	43
Collateralized debt obligations	403	–	295	108	403	–	79	324
Public utilities	3,951	168	66	4,053	1,937	18	66	1,889
Sovereign and supranational	3,582	93	132	3,543	3,069	78	69	3,078
Banks/financial institutions	12,291	147	1,195	11,243	8,976	85	644	8,417
Other corporate	3,714	145	84	3,775	2,196	92	42	2,246
Total yen-denominated	24,236	571	1,773	23,034	16,799	273	901	16,171
Dollar-denominated:								
Collateralized debt obligations	200	–	150	50	–	–	–	–
Government	–	–	–	–	20	–	–	20
Total dollar-denominated	200	–	150	50	20	–	–	20
Total fixed maturities	24,436	571	1,923	23,084	16,819	273	901	16,191
Perpetual securities:								
Yen-denominated:								
Banks/financial institutions	–	–	–	–	3,985	135	186	3,934
Total perpetual securities	–	–	–	–	3,985	135	186	3,934
Total securities held to maturity	\$ 24,436	\$ 571	\$ 1,923	\$ 23,084	\$ 20,804	\$ 408	\$ 1,087	\$ 20,125

The methods of determining the fair values of our investments in debt securities, perpetual securities and equity securities are described in Note 4 of the Notes to the Consolidated Financial Statements.

Our investment discipline begins with a top-down approach for each investment opportunity we consider. Consistent with that approach, we first approve each country in which we invest. In our approach to sovereign analysis, we consider the political, legal and financial context of the sovereign entity in which an issuer is domiciled and operates. Next we approve the issuer's industry sector, including such factors as the stability of results and the importance of the sector to the overall economy. Specific credit names within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. Structures in which we invest are chosen for specific portfolio management purposes, including asset/liability management, portfolio diversification and net investment income.

Our largest investment industry sector concentration is banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The banks and financial institutions sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the banks and financial institutions sector through a geographically diverse universe of credit exposures. Within this sector, the more significant concentration of our credit risk by geographic region or country of issuer at December 31, 2008, based on amortized cost, was: Europe (48%); United States (20%); United Kingdom (9%); and Japan (9%).

Our total investments in the banks and financial institutions sector, including those classified as perpetual securities, as of December 31 were as follows:

	2008		2007	
	Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio
Debt securities:				
Amortized cost	\$ 19,868	28%	\$ 15,948	29%
Fair value	17,793	27	15,563	28
Perpetual securities:				
Upper Tier II:				
Amortized cost	\$ 6,238	9%	\$ 5,549	10%
Fair value	5,960	9	5,732	11
Tier I:				
Amortized cost	2,542	4	2,439	5
Fair value	1,780	3	2,047	4
Total:				
Amortized cost	\$ 28,648	41%	\$ 23,936	44%
Fair value	25,533	39	23,342	43

Our 30 largest global investment exposures as of December 31, 2008, were as follows:

(In millions)	Amortized Cost	Percent of Total Debt Securities	Moody's Rating	S&P Rating	Fitch Rating
Government of Japan*	\$ 10,604	15.3%	Aa3	AA	-
Israel Electric Corp Ltd.	901	1.3	Baa2	BBB+	-
Republic of Tunisia	879	1.3	Baa2	BBB	BBB
HSBC Holdings PLC	856	1.2	Aa2	AA-	AA
HBOS PLC	686	1.0	Aa2	A+	AA
Republic of South Africa	674	1.0	Baa1	BBB+	BBB+
Takefuji Corp	616	.9	Baa1	BBB-	-
Kingdom of Belgium (includes Fortis)	583	.8	Aa1	AA+	AA+
Mizuho Financial Group Inc.	570	.8	-	A	A+
Unicredit SPA	558	.8	Aa3	A+	A+
Bank Austria Creditanstalt AG	-	-	Aa2	A+	A
Hypovereinsbank	-	-	A1	A+	A
Sumitomo Mitsui Financial Group Inc.	549	.8	-	A	A+
Commonwealth Bank of Australia	538	.8	Aa1	AA	AA
Dresdner Bank AG (An Allianz AG Member)	524	.8	Aa3	A	A+
Dexia SA	511	.7	-	-	AA-
Bank of Tokyo-Mitsubishi UFJ Ltd.	494	.7	Aa2	A+	A+
Erste Group Bank AG	471	.7	Aa3	A	A
Metlife Inc.	470	.7	A2	A	A
Mexico (United Mexican States)	455	.7	Baa1	BBB+	BBB+
Investcorp SA	451	.7	Baa3	BBB	BBB
Citigroup Inc.	444	.6	A2	A	A+
J.P. Morgan Chase & Co. (includes Bear Stearns)	442	.6	Aa2	A+	AA-
BMW AG	439	.6	A2	A	-
National Grid PLC	439	.6	Baa1	A-	BBB+
Telecom Italia SPA	439	.6	Baa2	BBB	BBB
Barclays Bank PLC	432	.6	Aa1	AA-	AA
Credit Suisse Group	422	.6	Aa2	A	AA-
Hutchison Whampoa Ltd. (CKI Holdings Ltd.)	421	.6	A3	A-	A-
Swedbank AB	410	.6	Aa3	A	A+
Unique Zurich Airport	406	.6	-	BBB+	-
Irish Life and Permanent PLC	406	.6	Aa3	A-	-

*JGBs or JGB-backed securities

As previously disclosed, we own long-dated debt instruments in support of the long-dated obligations they support. Included in our top 30 holdings are legacy issues that date back many years. Additionally, the concentration of certain of our holdings of individual credit exposures has grown over time through merger and consolidation activity. Beginning in 2005, we have, as a general rule, limited our investment exposures to issuers to no more than 5% of total adjusted capital (TAC) on a statutory basis with the exception of obligations of the Japan and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this rule was adopted or exposures that may exceed this threshold from time to time through merger and consolidation activity are not automatically reduced through sales of the issuers' securities but rather are reduced over time consistent with our investment policy. As a significant amount of these securities are yen-denominated, the size of the position was also magnified in dollar terms as the yen

strengthened 25.4% relative to the U.S. dollar from the end of 2007 to the end of 2008.

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

The following table details investment securities by type of issuance as of December 31.

Investment Securities by Type of Issuance

(In millions)	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	\$ 19,292	\$ 19,525	\$ 15,986	\$ 16,919
Perpetual securities	156	104	173	157
Equity securities	15	18	13	19
Total publicly issued	19,463	19,647	16,172	17,095
Privately issued securities:				
Fixed maturities	41,178	38,571	30,232	29,783
Perpetual securities	8,918	7,943	8,079	7,866
Equity securities	9	9	8	9
Total privately issued	50,105	46,523	38,319	37,658
Total investment securities	\$ 69,568	\$ 66,170	\$ 54,491	\$ 54,753

The following table details our privately issued investment securities as of December 31.

Privately Issued Securities

(Amortized cost, in millions)	2008	2007
Privately issued securities as a percentage of total debt and perpetual securities	72.0%	70.3%
Privately issued securities held by Aflac Japan	\$ 47,516	\$ 35,973
Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities	68.3%	66.0%
Privately issued reverse-dual currency securities*	\$ 14,678	\$ 11,185
Reverse-dual currency securities* as a percentage of total privately issued securities	29.3%	29.2%

*Principal payments in yen and interest payment in dollars

Aflac Japan has invested in privately issued securities to secure higher yields than those available on Japanese government or other public corporate bonds. Aflac Japan's investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers and have longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities are issued under medium-term note programs and have standard documentation commensurate with credit

ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. The distributions by credit rating of our purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

	2008	2007	2006
AAA	9.9%	18.4%	10.6%
AA	36.4	44.1	48.9
A	42.0	30.2	35.1
BBB	11.7	7.3	5.4
Total	100.0%	100.0%	100.0%

The percentage increase of debt securities purchased in the BBB rated category during the year was due to the attractive relative value these securities presented while still meeting our investment policy guidelines for liquidity, safety and quality. The increased percentage of debt securities purchased in the AAA rated category in 2007 primarily reflects the purchase of U.S. Treasury bills by Aflac Japan prior to repatriating profits to Aflac U.S. in the third quarter of 2007. We did not purchase any perpetual securities during the periods presented in the table above.

The distributions of debt and perpetual securities we own, by credit rating, as of December 31 were as follows:

Composition by Credit Rating

	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	5.7%	5.8%	6.3%	6.2%
AA	39.8	42.2	44.3	45.3
A	34.1	33.2	30.7	30.4
BBB	18.6	17.6	16.8	16.6
BB or lower	1.8	1.2	1.9	1.5
Total	100.0%	100.0%	100.0%	100.0%

Although our investment portfolio continues to be of high credit quality, many downgrades occurred during 2008, causing a shift in composition by credit rating. The percentage of AA rated securities decreased primarily as a result of downgrades of certain banks and financial institutions investments and CDO investments. The percentage of A rated securities increased principally due to purchases and downgrades of

higher rated securities. BBB rated securities increased primarily due to purchases and downgrades of higher rated securities.

The fair value of our debt and perpetual security investments fluctuates based on changes in credit spreads in the global financial markets. Credit spreads are most impacted by market rates of interest, the credit environment and market liquidity globally. We believe that fluctuations in the fair value of our investment securities related to changes in credit spreads have little bearing on whether our investment is ultimately recoverable. Therefore, we consider such declines in fair value to be temporary even in situations where the specific decline of an investment's fair value below its cost exceeds a year or more.

We do not automatically recognize an impairment if a security's amortized cost exceeds its fair value. Instead, we consistently apply our impairment policy to determine if an impairment charge is warranted. Once we designate a debt security as below investment grade, our investment management intensifies its monitoring of the issuer. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the issuer. We then obtain fair value information from independent pricing sources. Upon determining the fair value, we move our focus to an analysis of whether or not the decline in fair value of the debt security, if any, is other than temporary. Investment management then reviews the issue based on our debt impairment policy, which includes, but is not limited to, an evaluation of our ability and intent to hold the investment until a full recovery of fair value, which may be maturity, to determine if the investment should be impaired and/or liquidated. For securities evaluated under an equity impairment model, investment management reviews the length of time of the decline in fair value below cost or amortized cost and the severity of the decline to determine if the investment should be impaired and/or liquidated.

In the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment's fair value, to the extent below the investment's cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its recoverable value, which is normally its fair value. The determination of whether an impairment is other than temporary is subjective and involves the consideration of various factors and circumstances. These factors include more significantly:

- the severity of the decline in fair value
- the length of time the fair value is below cost

- issuer financial condition, including profitability and cash flows
- credit status of the issuer
- the issuer's specific and general competitive environment
- published reports
- general economic environment
- regulatory and legislative environment
- other factors as may become available from time to time

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

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model, which is used for statutory accounting and, subject to certain exceptions, GAAP focuses on the ultimate collection of the cash flows from our investment as well as our ability and intent to hold the security until a recovery of value, which may be maturity. However, under GAAP a limited number of our investments are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model considers the same factors as our debt model but puts a primary focus on the severity of a security's decline in fair value coupled with the length of time the security's value has been impaired.

The final assessment of whether a decline in fair value of any of our securities is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section of this MD&A and in Note 3 of the Notes to the Consolidated Financial Statements.

In the event of a credit rating downgrade to below-investment-grade status, we do not automatically liquidate our position. However, if the security is in the held-to-maturity portfolio, we immediately transfer it to the available-for-sale portfolio so that the security's fair value and its unrealized gain or loss are reflected on the balance sheet.

Debt and perpetual securities classified as below investment grade at December 31, 2008 and 2007 were all reported as available for sale and carried at fair value. The below-investment-grade securities at December 31 were as follows:

Below-Investment-Grade Securities

(In millions)	2008			2007		
	Par Value	Amortized Cost	Fair Value	Par Value	Amortized Cost	Fair Value
Ford Motor Credit	\$ 329	\$ 329	\$ 143	\$ 263	\$ 263	\$ 215
Ahold	*	*	*	310	311	272
CSAV	264	264	157	210	210	143
BAWAG***	154	133	88	123	123	90
IKB Deutsche Industriebank	143	143	47	*	*	*
Beryl Finance Limited 2008-7****	110	110	116	*	*	*
Ford Motor Company	111	57	31	111	122	93
Glitnir Bank HF	95 ⁽¹⁾	-	-	*	*	*
Beryl Finance Limited 2007-14****	82	53	53	*	*	*
Beryl Finance Limited 2006-15****	55	43	43	*	*	*
Beryl Finance Limited 2007-5****	55	44	44	*	*	*
Morgan Stanley Aces 2007-21****	55	3	3	*	*	*
Landsbanki Islands HF	55	-	-	*	*	*
Rinker Materials Corp.	43	42	23	*	*	*
Morgan Stanley Aces 2007-19****	30	4	4	*	*	*
Kaupthing Bank***	30	-	-	*	*	*
Sprint Capital	22	24	16	*	*	*
Academica Charter Schools Finance LLC	22	24	17	*	*	*
International Securities Trading Corp.	18	-	-	20	-	-
Tiers Georgia****	11	1	1	*	*	*
Patrick Family Housing (Patrick AFB)	**	**	**	4	1	1
Aloha Utilities Inc.	**	**	**	2	2	1
Total	\$1,684	\$1,274	\$786	\$1,043	\$1,032	\$815

* Investment grade at respective reporting date
 ** Sold during 2008
 *** Perpetual security
 **** CDO security
 (1) Includes \$55 million for a perpetual security

Occasionally, a debt or perpetual security will be split rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. Our policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the issuer's credit position as well as current market pricing and other factors, such as the issuer's or security's inclusion on a

credit rating downgrade watch list. As of December 31, 2008, none of our perpetual securities or CDOs were split rated. Split-rated debt securities as of December 31, 2008, were as follows:

Split-Rated Securities*

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	Fitch Rating	Investment-Grade Status
Signum (Ahold)	\$ 352	Baa3	BB+	BBB-	Investment Grade
UPM-Kymmene	339	Baa3	BBB-	BB+	Investment Grade
Kommunalkredit Austria AG	110	A2	N/A	CCC+	Investment Grade
Rinker Materials Corp.	42	Ba3	BBB-	BB+	Below Investment Grade
MEAD Corp.	36	Ba1	BBB	N/A	Investment Grade
Tennessee Gas Pipeline	31	Baa3	BB	BBB-	Investment Grade
American General Capital II	19	Baa1	B	A-	Investment Grade
RFMSI 2007-S6 2A4**	24	Ba1	AAA	AAA	Investment Grade
MBIA INC	17	Ba1	A-	N/A	Investment Grade
Peco Energy Capital Trust IV	17	Baa1	BB+	BBB+	Investment Grade
Ahold Finance USA Inc.	15	Baa3	BB+	BBB-	Investment Grade
Union Carbide Corp.	15	Ba2	BBB-	BBB	Investment Grade
RAST 2005-A10 A5**	10	N/A	AAA	BB	Investment Grade
Bell Canada	9	Baa1	BB+	BB-	Investment Grade
WFMSB 2007-8 1A4**	5	Ba3	AAA	AAA	Investment Grade
LMT 2006-3 1A5**	4	Aa2	A	CCC	Investment Grade
WFMSB 2007-10 1A7**	4	Ba2	N/A	AAA	Investment Grade

* Split-rated securities represented 1.5% of total debt securities and perpetual securities at amortized cost at December 31, 2008.

** Collateralized mortgage obligations

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 December 31, 2008.

(In millions)	Total Amortized Cost	Total Fair Value	Percent of Total Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available-for-sale securities:					
Investment-grade securities	\$43,834	\$ 42,273	63.9%	\$ 2,038	\$ 3,599
Below-investment-grade securities	1,274	786	1.2	6	494
Held-to-maturity securities:					
Investment-grade securities	24,436	23,084	34.9	571	1,923
Total	\$69,544	\$ 66,143	100.0%	\$ 2,615	\$ 6,016

The following table presents an aging of securities in an unrealized loss position as of December 31, 2008.

Aging of Unrealized Losses

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than Six Months		Six Months to 12 Months		12 Months or Greater	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	\$ 20,620	\$ 3,599	\$ 3,554	\$ 356	\$ 2,977	\$ 618	\$ 14,089	\$ 2,625
Below-investment-grade securities	1,016	494	99	45	–	–	917	449
Held-to-maturity securities:								
Investment-grade securities	14,009	1,923	1,551	157	934	233	11,524	1,533
Total	\$ 35,645	\$ 6,016	\$ 5,204	\$ 558	\$ 3,911	\$ 851	\$ 26,530	\$ 4,607

The following table presents a distribution of unrealized losses by magnitude as of December 31, 2008.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than 20%		20% to 50%		Greater Than 50%	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	\$ 20,620	\$ 3,599	\$ 13,197	\$ 1,150	\$ 6,729	\$ 2,029	\$ 694	\$ 420
Below-investment-grade securities	1,016	494	–	–	543	211	473	283
Held-to-maturity securities:								
Investment-grade securities	14,009	1,923	12,133	966	951	290	925	667
Total	\$ 35,645	\$ 6,016	\$ 25,330	\$ 2,116	\$ 8,223	\$ 2,530	\$ 2,092	\$ 1,370

The following table presents the 10 largest unrealized loss positions in our portfolio as of December 31, 2008.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
SLM Corp.	BBB	\$ 361	\$ 125	\$ 236
Ford Motor Credit	CCC	329	143	186
Takefuji	BBB	617	444	173
Unicredito Italiano	A	558	405	153
Morgan Stanley Aces 2008-6*	BBB	200	50	150
Sultanate of Oman	A	384	260	124
UPM-Kymmene	BBB	339	222	117
Banco Espirito Santo	A	330	220	110
CSAV	BB	264	157	107
Nordea Bank	AA	393	287	106

*CDO Security

Declines in fair value noted above resulted from changes in interest rates and credit spreads, yen/dollar exchange rates, and issuer credit status. However, we believe it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary. Based on our evaluation and analysis of specific issuers in accordance with our impairment policy, we recognized the impairment charges in each of the years ended December 31 as shown in the table at the top of the following page:

(In millions)	2008	2007	2006
Debt securities	\$ 373	\$ 22	\$ –
Perpetual securities	379	–	–
Equity securities	1	1	1
Total	\$ 753	\$ 23	\$ 1

Gross realized pretax investment losses on debt and perpetual securities, as a result of sales and impairment charges, were as follows for the year ended December 31, 2008:

Gross Realized Losses on Debt and Perpetual Securities

(In millions)	Sales		Total Realized	
	Proceeds	Losses	Impairments	Losses
Investment-grade securities, length of consecutive unrealized loss:				
Less than six months	\$ 258	\$ 50	\$ –	\$ 50
Six months to 12 months	67	38	15	53
Over 12 months	79	186	358	544
Below-investment-grade securities, length of consecutive unrealized loss:				
Less than six months	90	1	29	30
Six months to 12 months	–	–	40	40
Over 12 months	1	–	310	310
Total	\$ 495	\$ 275	\$ 752	\$ 1,027

See Notes 1 and 3 of the Notes to the Consolidated Financial Statements and the Realized Investment Gains and Losses section of this MD&A for additional information.

Investment Valuation and Cash

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market. The vast majority of our financial instruments subject to the classification provisions of SFAS 157 relate to our investment securities classified as securities available for sale in our investment portfolio. We determine the fair value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities.

For securities categorized as Level 1, we obtain quoted market prices for identical securities traded in active markets that are readily and regularly available to us.

For securities categorized as Level 2, we determine the fair value using three techniques, depending on the source and

availability of market inputs. Of these securities, approximately 36% are valued by obtaining quoted prices from our custodian. The custodian obtains price quotes from various pricing services who estimate their fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 59% of our Level 2 securities is determined using discounted cash flow (DCF) pricing models that employ observable and corroborated market inputs from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads are derived based on pricing data obtained from investment brokers and take into account the current yield curve, time to maturity and subordination levels for similar securities or classes of securities. We validate the reliability of the DCF pricing models periodically by using the models to price investments for which there are quoted market prices from active markets or, in the alternative, are quoted by our custodian. For the remaining Level 2 securities that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from up to three brokers and use the average of the three quotes to estimate the fair value of the securities.

The fair value of our securities classified as Level 3 is estimated by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market flows. We consider these inputs unobservable.

As a result of the continued contraction of observable valuation inputs, we transferred investments totaling \$2.7 billion into Level 3 during the fourth quarter of 2008. Included in these transfers were our below-investment-grade investments, callable reverse-dual currency (RDC) investments and certain of our private placement securities. Transfers into Level 3 prior to the fourth quarter totaled \$245 million and consisted of various other hard-to-value investment securities.

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

Some of these securities require the calculation of a theoretical forward exchange rate which is developed by using yen swap rates, U.S. dollar swap rates, interest rate volatilities, and spot exchange rates. The forward exchange rate is then

used to convert all future dollar cash flows of the bond, where applicable, into yen cash flows. Additionally, credit spreads for the individual issuers are key valuation inputs for these securities. Finally, in pricing securities with a call option, the assumptions regarding interest rates in the U.S. and Japan are considered to be significant valuation inputs. Collectively, these valuation inputs, are used to estimate the fair values of these securities at each reporting date.

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

We estimate the fair values of our securities available for sale on a monthly basis. We monitor the estimated fair values from each of the sources described above for consistency from month to month and based on current market conditions. We also periodically discuss with our custodian and pricing brokers the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. See Note 4 of the Notes to the Consolidated Financial Statements for the classification of our securities available for sale under the provisions of SFAS 157 as of December 31, 2008.

Cash, cash equivalents and short-term investments totaled \$9 billion, or 1.4% of total investments and cash, as of December 31, 2008, compared with \$1.6 billion, or 2.7%, at December 31, 2007. For a discussion of the factors causing the change in our cash balance, see the Operating Activities, Investing Activities and Financing Activities sections of this MD&A.

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

Deferred Policy Acquisition Costs

The following table presents deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	2008	2007	% change
Aflac Japan	\$ 5,644	\$ 4,269	32.2%*
Aflac U.S.	2,593	2,385	8.7
Total	\$ 8,237	\$ 6,654	23.8%

*Aflac Japan's deferred policy acquisition costs increased 5.4% in yen during the year ended December 31, 2008.

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

Policy Liabilities

The following table presents policy liabilities by segment for the years ending December 31.

(In millions)	2008	2007	% change
Aflac Japan	\$ 59,466	\$ 44,694	33.1%*
Aflac U.S.	6,750	5,979	12.9
Other	3	3	—
Total	\$ 66,219	\$ 50,676	30.7%

*Aflac Japan's policy liabilities increased 6.1% in yen during the year ended December 31, 2008.

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

Notes Payable

Notes payable totaled \$1.7 billion at December 31, 2008, compared with \$1.5 billion at December 31, 2007. Except for our senior notes, our debt is primarily yen-denominated. The increase in notes payable is due to the strengthening of the yen against the U.S. dollar. There were no new borrowings or loan repayments in 2008. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 18.0% as of December 31, 2008, compared with 15.6% a year ago. See Note 7 of the Notes to the Consolidated Financial Statements for additional information.

Benefit Plans

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 12 of the Notes to the Consolidated Financial Statements.

Policyholder Protection Corporation

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

On October 10, 2008, a small life insurance company, Yamato Life Insurance filed for bankruptcy. The bankruptcy may result in additional assessments to the industry. Although the likelihood and timing of any future assessments cannot be determined at this time, we believe the bankruptcy will not have a material adverse effect on our financial position or results of operations.

Hedging Activities

Aflac has limited hedging activities. Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this

exposure, we have taken the following courses of action. First, Aflac Japan maintains a portfolio of dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. Second, we have designated the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes payable and cross-currency swaps) as a hedge of our investment in Aflac Japan. If the total of these yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the hedge that exceeds our investment in Aflac Japan would be deemed ineffective. As required by SFAS 133, we would then recognize the foreign exchange effect on the ineffective portion in net earnings (other income). We estimate that if the ineffective portion was ¥10 billion, we would report a foreign exchange gain/loss of approximately \$1 million for every one yen weakening/strengthening in the end-of-period yen/dollar exchange rate. At December 31, 2008, our hedge was effective with yen-denominated assets exceeding yen-denominated liabilities by ¥59.6 billion, compared with ¥105.2 billion at December 31, 2007. The decrease in our yen-denominated net asset position resulted from the continuing decline in the market value of our yen-denominated available-for-sale investment securities as a result of widening credit spreads globally.

We have interest-rate swap agreements related to the ¥20 billion variable interest rate Uridashi notes. By entering into these contracts, we have been able to lock in our interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. SFAS 133 requires that the change in the fair value of the swap contracts be recorded in other comprehensive income so long as the hedge is deemed effective. Any ineffectiveness is recognized in net earnings (other income). These hedges were effective during the three-year period ended December 31, 2008; therefore, there was no impact on net earnings. See Note 4 of the Notes to the Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

As of December 31, 2008, we had no material unconditional purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following presents the amounts provided for the years ended December 31:

Liquidity Provided by Aflac to Parent Company

(In millions)	2008	2007	2006
Dividends declared or paid by Aflac	\$ 1,062	\$ 1,362	\$ 665
Management fees paid by Aflac	71	80	68

The primary uses of cash by the Parent Company were shareholder dividends, the repurchase of its common shares 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 section of this MD&A.

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

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

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

The table at the top of the following page presents the estimated payments by period of our major contractual obligations as of December 31, 2008. We translated our yen-denominated obligations using the December 31, 2008, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

The distribution of payments for future policy benefits is an estimate of all future benefit payments for policies in force as of December 31, 2008. These projected values contain

Distribution of Payments by Period

(In millions)	Total Liability*	Total Payments	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Future policy benefits liability	\$59,310	\$283,242	\$ 8,808	\$ 17,103	\$16,724	\$ 240,607
Unpaid policy claims liability	3,118	3,118	2,318	422	188	190
Long-term debt – principal	1,713	1,713	450	824	329	110
Long-term debt – interest	6	64	21	29	7	7
Policyholder protection corporation	161	161	31	69	61	–
Operating service agreements	N/A**	674	127	223	174	150
Operating lease obligations	N/A**	173	63	45	24	41
Capitalized lease obligations	8	8	3	4	1	–
Marketing commitments	N/A**	84	26	58	–	–
Total contractual obligations	\$64,316	\$289,237	\$11,847	\$18,777	\$17,508	\$241,105

* Liability amounts are those reported on the consolidated balance sheet as of December 31, 2008.

** Not applicable

Liabilities for unrecognized tax benefits in the amount of \$37 million have been excluded from the tabular disclosure above because the timing of cash payment is not reasonably estimable.

assumptions for future policy persistency, mortality and morbidity. The distribution of payments for unpaid policy claims includes assumptions as to the timing of policyholders reporting claims for prior periods and the amount of those claims. Actual amounts and timing of both future policy benefits and unpaid policy claims payments may differ significantly from the estimates above. We anticipate that the future policy benefit liability of \$59.3 billion at December 31, 2008, along with future net premiums and investment income, will be sufficient to fund future policy benefit payments.

The distribution of payments due in less than one year for long-term debt consists of \$450 million for our senior notes that are due in April 2009. We plan to either refinance, subject to market conditions, or use existing cash to pay off the aforementioned senior notes. The cross-currency interest-rate swaps related to our senior notes will expire in April 2009 and as of December 31, 2008, would have required a payment of \$155 million to the swap counterparties. See Notes 4 and 7 of the Notes to the Consolidated Financial Statements for more information.

Consolidated Cash Flows

We translate cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In years 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 years ended December 31.

Consolidated Cash Flows by Activity

(In millions)	2008	2007	2006
Operating activities	\$ 4,965	\$ 4,656	\$ 4,397
Investing activities	(4,283)	(3,654)	(4,057)
Financing activities	(1,383)	(655)	(434)
Exchange effect on cash and cash equivalents	79	13	–
Net change in cash and cash equivalents	\$ (622)	\$ 360	\$ (94)

Operating Activities

The following table summarizes operating cash flows by source for the years ended December 31.

Net Cash Provided by Operating Activities

(In millions)	2008	2007	2006
Aflac Japan	\$ 4,225	\$ 3,573	\$ 3,437
Aflac U.S. and other operations	740	1,083	960
Total	\$ 4,965	\$ 4,656	\$ 4,397

The increase in Aflac Japan operating cash flows during 2008 was due primarily to the strengthening of the yen against the U.S. dollar. The decrease in Aflac U.S. operating cash flows was due primarily to increased U.S. federal tax payments. Cash tax payments increased in 2008 because we have fully utilized our remaining tax credit carryforwards. Cash provided by operating activities was also reduced by the payout of lump-sum return-of-premium benefits to policyholders on a closed block of U.S. cancer insurance business. The majority of these benefit payouts began in 2008 and will conclude in 2012. We paid out \$63 million in 2008, and we anticipate paying out an additional \$360 million over the next four years.

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 years ended December 31.

Net Cash Used by Investing Activities

(In millions)	2008	2007	2006
Aflac Japan	\$ (3,874)	\$ (3,231)	\$ (3,372)
Aflac U.S. and other operations	(409)	(423)	(685)
Total	\$ (4,283)	\$ (3,654)	\$ (4,057)

The increase in Aflac Japan cash used by investing activities during 2008 was due primarily to the strengthening of the yen against the U.S. dollar.

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when our debt and perpetual securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt and perpetual securities that are available for sale to improve the duration matching of our assets and liabilities, improve future investment yields, and/or rebalance our portfolio. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 4% of the annual average investment portfolio of debt and perpetual securities available for sale during the years ended December 31, 2008 and 2007 and 7% during the year ended December 31, 2006. Dispositions before maturity in 2006 were impacted by the bond swaps we executed in the first half of 2006.

Financing Activities

Consolidated cash used by financing activities was \$1.4 billion in 2008, \$655 million in 2007 and \$434 million in 2006. In June 2007, we received \$242 million in connection with the Parent Company's issuance of yen-denominated Samurai notes, and we paid \$242 million in connection with the maturity of the 2002 Samurai notes. In June 2006, the Parent Company paid \$355 million in connection with the maturity of the 2001 Samurai notes. In September 2006, the Parent Company received \$382 million from its issuance of yen-denominated Uridashi notes. Cash returned to shareholders through treasury stock purchases and dividends was \$1.9 billion in 2008, compared with \$979 million in 2007 and \$728 million in 2006.

In April 2009, our \$450 million senior notes will mature. We plan to either refinance, subject to market conditions, or use existing cash to pay off the aforementioned senior notes.

We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of our notes payable at December 31, 2008.

The following tables present a summary of treasury stock activity during the years ended December 31.

Treasury Stock Purchased

(In millions of dollars and thousands of shares)	2008	2007	2006
Treasury stock purchases	\$ 1,490	\$ 606	\$ 470
Shares purchased:			
Open market	23,201	11,073	10,265
Other	146	559	55
Total shares purchased	23,347	11,632	10,320

Treasury Stock Issued

(In millions of dollars and thousands of shares)	2008	2007	2006
Stock issued from treasury	\$ 32	\$ 47	\$ 42
Shares issued	2,001	2,723	2,783

Under share repurchase authorizations from our board of directors, we purchased 23.2 million shares of our common stock in 2008, funded with internal capital. The total 23.2 million shares comprised 12.5 million shares purchased through an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) and 10.7 million shares purchased through Goldman, Sachs & Co. (GS&Co.).

On February 4, 2008, we entered into an agreement for an accelerated share repurchase (ASR) program with Merrill Lynch. Under the agreement, we purchased 12.5 million shares of our outstanding common stock at \$60.61 per share for an initial purchase price of \$758 million. The shares were acquired as a part of previously announced share repurchase authorizations by our board of directors and are held in treasury. The ASR program was settled during the second quarter of 2008, resulting in a purchase price adjustment of \$40 million, or \$3.22 per share, paid to Merrill Lynch based upon the volume-weighted average price of our common stock during the ASR program period. The total purchase price for the 12.5 million shares was \$798 million, or \$63.83 per share.

On August 26, 2008, we entered into an agreement for a share repurchase program with GS&Co. Under the agreement, which had an original termination date of February 18, 2009, we paid \$825 million to GS&Co. for the repurchase of a variable number of shares of our outstanding common stock over the stated contract period. On October 2, 2008, due to market conditions, we took early delivery of 10.7 million shares, which we hold in treasury, at a total purchase price of \$683 million, or \$63.87 per share. We also received unused funds of \$142 million from GS&Co.

As of December 31, 2008, a remaining balance of 32.4 million shares were available for purchase; 2.4 million shares are the remainder from a board authorization in 2006 and 30.0 million shares were authorized by the board of directors for purchase in January 2008. We do not plan to purchase any shares of our common stock during the first half of 2009; however, we will evaluate the market and our capital position to determine if we will purchase any shares in the second half of the year.

Cash dividends paid in 2008 of \$.96 per share increased 20.0% over 2007. The 2007 dividend paid of \$.80 per share increased 45.5% over 2006. The table at the top of the following page presents the sources of dividends to shareholders for the years ended December 31.

(In millions)	2008	2007	2006
Dividends paid in cash	\$ 434	\$ 373	\$ 258
Dividends declared but not paid	131	(91)	91
Dividends through issuance of treasury shares	20	19	15
Total dividends to shareholders	\$ 585	\$ 301	\$ 364

In October 2008, the board of directors declared the first quarter 2009 cash dividend of \$.28 per share. The dividend is payable on March 2, 2009, to shareholders of record at the close of business on February 18, 2009.

Regulatory Restrictions

Aflac is domiciled in Nebraska and is subject to its regulations. The Nebraska insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. These regulatory limitations are not expected to affect the level of management fees or dividends paid by Aflac to the Parent Company. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency.

The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. Aflac's company action level RBC ratio was 476.5% as of December 31, 2008. Our RBC ratio remains high and reflects a strong capital and surplus position. As of December 31, 2008, our total adjusted capital exceeded the amounts to achieve a company action level RBC of 400% and 350% by \$742 million and \$1.2 billion, respectively. We consider these amounts to be excess capital. Currently, the

NAIC has ongoing regulatory initiatives relating to revisions to the RBC formula as well as numerous initiatives covering insurance products, investments, and other actuarial and accounting matters.

In addition to limitations and restrictions imposed by U.S. insurance regulators, Japan's FSA may not allow profit repatriations or other transfers from Aflac Japan if they would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard. As of December 31, 2008, Aflac Japan's solvency margin ratio was 880.5%, which significantly exceeds regulatory minimums.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following details Aflac Japan remittances for the years ended December 31.

Aflac Japan Remittances

(In millions of dollars and billions of yen)	2008	2007	2006
Aflac Japan management fees paid to Parent Company	\$ 26	\$ 32	\$ 25
Expenses allocated to Aflac Japan	36	33	32
Aflac Japan profit remittances to Aflac U.S. in dollars	598	567	442
Aflac Japan profit remittances to Aflac U.S. in yen	¥ 64.1	¥ 67.8	¥ 50.0

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 11 of the Notes to the Consolidated Financial Statements.

Rating Agencies

Aflac is rated AA by Fitch Ratings and Aa2 (Excellent) by Moody's for financial strength. A.M. Best rates Aflac as A+ (Superior) for financial strength and operating performance. Aflac Incorporated's senior debt, Samurai notes, and Uridashi notes are rated A+ by Fitch Ratings and A2 by Moody's.

As of December 31, 2008, Standard & Poor's (S&P) rated Aflac AA for financial strength and rated Aflac Incorporated's debt as A. In January 2009, S&P lowered each of these ratings one notch to AA- and A-, respectively, due to their concerns about the continued deterioration in global financial markets and our investment exposure to global financial institutions. Additionally, S&P, Moody's, Fitch and A.M. Best have changed Aflac's credit outlook to negative from stable.

Other

For information regarding commitments and contingent liabilities, see Note 13 of the Notes to the Consolidated Financial Statements.

Consolidated Statements of Earnings

Aflac Incorporated and Subsidiaries

(In millions, except for share and per-share amounts) Years Ended December 31,

	2008	2007	2006
Revenues:			
Premiums, principally supplemental health insurance	\$ 14,947	\$12,973	\$12,314
Net investment income	2,578	2,333	2,171
Realized investment gains (losses)	(1,007)	28	79
Other income	36	59	52
Total revenues	16,554	15,393	14,616
Benefits and expenses:			
Benefits and claims	10,499	9,285	9,016
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	775	640	574
Insurance commissions	1,460	1,331	1,303
Insurance expenses	1,743	1,491	1,337
Interest expense	29	27	19
Other operating expenses	134	120	103
Total acquisition and operating expenses	4,141	3,609	3,336
Total benefits and expenses	14,640	12,894	12,352
Earnings before income taxes	1,914	2,499	2,264
Income tax expense:			
Current	636	548	419
Deferred	24	317	362
Total income taxes	660	865	781
Net earnings	\$ 1,254	\$ 1,634	\$ 1,483
Net earnings per share:			
Basic	\$ 2.65	\$ 3.35	\$ 2.99
Diluted	2.62	3.31	2.95
Weighted-average outstanding common shares used in computing earnings per share (In thousands):			
Basic	473,405	487,869	495,614
Diluted	478,815	493,971	501,827

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

Aflac Incorporated and Subsidiaries

(In millions, except for share and per-share amounts) December 31,

	2008	2007
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost \$36,034 in 2008 and \$29,399 in 2007)	\$ 35,012	\$ 30,511
Perpetual securities (amortized cost \$9,074 in 2008 and \$4,267 in 2007)	8,047	4,089
Equity securities (cost \$24 in 2008 and \$21 in 2007)	27	28
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value \$23,084 in 2008 and \$16,191 in 2007)	24,436	16,819
Perpetual securities (fair value \$3,934 in 2007)	—	3,985
Other investments	87	61
Cash and cash equivalents	941	1,563
Total investments and cash	68,550	57,056
Receivables, primarily premiums	920	732
Accrued investment income	650	561
Deferred policy acquisition costs	8,237	6,654
Property and equipment, at cost less accumulated depreciation	597	496
Other	377	306
Total assets	\$ 79,331	\$ 65,805
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	\$ 59,310	\$ 45,675
Unpaid policy claims	3,118	2,455
Unearned premiums	874	693
Other policyholders' funds	2,917	1,853
Total policy liabilities	66,219	50,676
Notes payable	1,721	1,465
Income taxes	1,201	2,531
Payables for return of cash collateral on loaned securities	1,733	808
Other	1,818	1,530
Commitments and contingent liabilities (Note 13)		
Total liabilities	72,692	57,010
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2008 and 1,000,000 shares in 2007; issued 660,035 shares in 2008 and 658,604 shares in 2007	66	66
Additional paid-in capital	1,184	1,054
Retained earnings	11,306	10,637
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	750	129
Unrealized gains (losses) on investment securities	(1,211)	874
Pension liability adjustment	(121)	(69)
Treasury stock, at average cost	(5,335)	(3,896)
Total shareholders' equity	6,639	8,795
Total liabilities and shareholders' equity	\$ 79,331	\$ 65,805

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Aflac Incorporated and Subsidiaries

(In millions, except for per-share amounts) Years Ended December 31,

	2008	2007	2006
Common stock:			
Balance, beginning of year	\$ 66	\$ 66	\$ 65
Exercise of stock options	—	—	1
Balance, end of year	66	66	66
Additional paid-in capital:			
Balance, beginning of year	1,054	895	791
Exercise of stock options, including income tax benefits	44	74	32
Share-based compensation	40	39	34
Gain on treasury stock reissued	46	46	38
Balance, end of year	1,184	1,054	895
Retained earnings:			
Balance, beginning of year	10,637	9,304	8,048
Cumulative effect of change - adoption of SAB 108	—	—	139
Cumulative effect of change in accounting principle	—	—	(2)
Net earnings	1,254	1,634	1,483
Dividends to shareholders (\$1.24 per share in 2008, \$0.615 per share in 2007, and \$0.735 per share in 2006)	(585)	(301)	(364)
Balance, end of year	11,306	10,637	9,304
Accumulated other comprehensive income:			
Balance, beginning of year	934	1,426	1,957
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	621	75	(23)
Change in unrealized gains (losses) on investment securities during year, net of income taxes	(2,085)	(576)	(467)
Pension liability adjustment during year, net of income taxes	(52)	9	3
Adoption of SFAS 158, net of income taxes	—	—	(44)
Balance, end of year	(582)	934	1,426
Treasury stock:			
Balance, beginning of year	(3,896)	(3,350)	(2,934)
Purchases of treasury stock	(1,490)	(606)	(470)
Cost of shares issued	51	60	54
Balance, end of year	(5,335)	(3,896)	(3,350)
Total shareholders' equity	\$ 6,639	\$ 8,795	\$ 8,341

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Aflac Incorporated and Subsidiaries

(In millions) Years Ended December 31,

	2008	2007	2006
Cash flows from operating activities:			
Net earnings	\$ 1,254	\$ 1,634	\$ 1,483
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	(10)	(176)	(41)
Increase in deferred policy acquisition costs	(462)	(454)	(474)
Increase in policy liabilities	3,235	3,194	3,304
Change in income tax liabilities	(271)	421	180
Realized investment (gains) losses	1,007	(28)	(79)
Other, net	212	65	24
Net cash provided by operating activities	4,965	4,656	4,397
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	897	1,261	2,358
Fixed maturities matured or called	1,496	1,552	553
Perpetual securities sold	484	194	1
Equity securities sold	—	—	57
Securities held to maturity:			
Fixed maturities matured or called	247	45	172
Perpetual securities matured or called	—	140	—
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(4,042)	(3,848)	(4,402)
Securities held to maturity:			
Fixed maturities	(3,973)	(2,920)	(2,963)
Cash received as collateral on loaned securities, net	670	(23)	193
Additions to property and equipment, net	(49)	(46)	(23)
Other, net	(13)	(9)	(3)
Net cash used by investing activities	(4,283)	(3,654)	(4,057)
Cash flows from financing activities:			
Purchases of treasury stock	(1,490)	(606)	(470)
Proceeds from borrowings	—	242	382
Principal payments under debt obligations	(5)	(247)	(377)
Dividends paid to shareholders	(434)	(373)	(258)
Change in investment-type contracts, net	471	210	217
Treasury stock reissued	32	47	42
Other, net	43	72	30
Net cash used by financing activities	(1,383)	(655)	(434)
Effect of exchange rate changes on cash and cash equivalents	79	13	—
Net change in cash and cash equivalents	(622)	360	(94)
Cash and cash equivalents, beginning of year	1,563	1,203	1,297
Cash and cash equivalents, end of year	\$ 941	\$ 1,563	\$ 1,203

Supplemental disclosures of cash flow information - See Note 14

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Aflac Incorporated and Subsidiaries

(In millions) Years Ended December 31,	2008	2007	2006
Net earnings	\$ 1,254	\$ 1,634	\$ 1,483
Other comprehensive income (loss) before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	164	(8)	(12)
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) during year	(4,078)	(848)	(642)
Reclassification adjustment for realized (gains) losses included in net earnings	926	(28)	(79)
Unrealized gains (losses) on derivatives:			
Unrealized holding gains (losses) during year	(2)	(1)	—
Pension liability adjustment during year	(81)	14	5
Total other comprehensive income (loss) before income taxes	(3,071)	(871)	(728)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(1,555)	(379)	(241)
Other comprehensive income (loss), net of income taxes	(1,516)	(492)	(487)
Total comprehensive income (loss)	\$ (262)	\$ 1,142	\$ 996

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Aflac Incorporated (the Parent Company) and its subsidiaries (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. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan accounted for 72% of the Company's total revenues in 2008, 71% in 2007 and 72% in 2006, and 87% and 82% of total assets at December 31, 2008 and 2007, respectively.

Basis of Presentation: We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). 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, and liabilities for future policy benefits and unpaid policy claims. 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 consolidated financial statements include the accounts of the Parent Company, its majority-owned subsidiaries and those entities required to be consolidated under applicable accounting standards. All material intercompany accounts and transactions have been eliminated.

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

losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period ended December 31, 2008.

Aflac Japan maintains an investment portfolio of dollar-denominated securities on behalf of Aflac U.S. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars.

We have designated the yen-denominated Uridashi and Samurai notes issued by the Parent Company and the cross-currency swaps as a hedge of our investment in Aflac Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are recorded through other comprehensive income and are included in accumulated other comprehensive income.

Insurance Revenue and Expense Recognition: The supplemental health and life insurance policies we issue are classified as long-duration contracts. The contract provisions generally cannot be changed or canceled during the contract period; however, we may adjust premiums for supplemental health policies issued in the United States within prescribed guidelines and with the approval of state insurance regulatory authorities.

Insurance premiums for health and life policies are recognized ratably as earned income over the premium payment periods of the policies. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized in proportion to premium revenues during the period the policies are expected to remain in force. This association is accomplished by means of annual additions to the liability for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

The calculation of deferred policy acquisition costs and the liability for future policy benefits requires the use of estimates based on sound actuarial valuation techniques. For new policy issues, we review our actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, we evaluate deferred policy acquisition costs by major product groupings to determine that they are recoverable from future revenues. Any resulting adjustment is charged against net earnings.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased.

Investments: Our debt securities consist of fixed-maturity securities, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other fixed-maturity debt securities, our perpetual securities and our equity securities are classified as available for sale and are carried at fair value. If the fair value is higher than the amortized cost for debt and perpetual securities, or the purchase cost for equity securities, the excess is an unrealized gain, and if lower than cost, the difference is an unrealized loss.

The net unrealized gains and losses on securities available for sale, plus the unamortized unrealized gains and losses on debt securities transferred to the held-to-maturity portfolio, less related deferred income taxes, are recorded through other comprehensive income and included in accumulated other comprehensive income.

Amortized cost of debt and perpetual securities is based on our purchase price adjusted for accrual of discount, or amortization of premium. The amortized cost of debt and perpetual securities we purchase at a discount will equal the face or par value at maturity. Debt and perpetual securities that we purchase at a premium will have an amortized cost equal to face or par value at maturity or the call date, if applicable. Interest is reported as income when earned and is adjusted for amortization of any premium or discount.

Our investments in qualifying special purpose entities (QSPEs) are accounted for as fixed-maturity or perpetual securities. All of our investments in QSPEs are held in our available-for-sale portfolio.

For the collateralized mortgage obligations (CMOs) held in our fixed-maturity securities portfolio, we recognize income using a constant effective yield, which is based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in CMO securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

We use the specific identification method to determine the gain or loss from securities transactions and report the realized gain or loss in the consolidated statements of earnings.

Our credit analysts/research personnel routinely monitor and evaluate the difference between the amortized cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in fair

value is other than temporary. For investments with a fair value below amortized cost, the process includes evaluating the length of time and the extent to which amortized cost exceeds fair value and the financial condition, operations, credit and liquidity posture, and future prospects of the issuer, among other factors, in determining the potential recovery in fair value or principal. This process is not exact and requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's amortized cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If, after monitoring and analyses, management believes that a decline in fair value is other than temporary, we adjust the amortized cost of the security to fair value and report a realized loss in the consolidated statements of earnings.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the terms of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans collateralized by securities, the collateral is not reported as an asset or liability.

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

Policy Liabilities: Future policy benefits represent claims that are expected to occur in the future and are computed by a net level premium method using estimated future investment yields, persistency and recognized morbidity and mortality tables modified to reflect our experience, including a provision for adverse deviation. These assumptions are generally established at the time a policy is issued.

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions. The ultimate liability may vary significantly

from such estimates. We regularly adjust these estimates as new claims experience emerges and reflect the changes in operating results in the year such adjustments are made.

Income Taxes: Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse.

Derivatives: We have limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions. At December 31, 2008, our only outstanding derivative contracts were interest-rate swaps related to our ¥20 billion variable interest rate Uridashi notes and cross-currency swaps related to our \$450 million senior notes (see Notes 4 and 7).

We document all relationships between hedging instruments and hedged items, as well as our risk-management objectives for undertaking various hedge transactions. This process includes linking derivatives and nonderivatives that are designated as hedges to specific assets or liabilities on the balance sheet. We also assess, both at inception and on an ongoing basis, whether the derivatives and nonderivatives used in hedging activities are highly effective in offsetting changes in fair values or cash flows of the hedged items. The assessment of hedge effectiveness determines the accounting treatment of noncash changes in fair value.

We have designated our cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. We include the fair value of the cross-currency swaps in either other assets or other liabilities on the balance sheet. We report the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component are reflected in other income in the consolidated statements of earnings.

We have designated our interest-rate swaps as a hedge of the variability of the interest cash flows associated with the variable interest rate Uridashi notes. We include the fair value of the interest rate swaps in either other assets or other liabilities on the balance sheet. We report the changes in fair value of the interest-rate swaps in other comprehensive income as long as they are deemed effective. Should any portion of the swap be deemed ineffective, that value would be reported in other income in the consolidated statements of earnings.

Policyholder Protection Corporation and State Guaranty

Association Assessments: In Japan, the government has required the insurance industry to contribute to a policyholder protection corporation. We recognize a charge for our estimated share of the industry's obligation once it is determinable. We review the estimated liability for policyholder protection corporation contributions on an annual basis and report any adjustments in Aflac Japan's expenses.

In the United States, each state has a guaranty association that supports insolvent insurers operating in those states. To date, our state guaranty association assessments have not been material.

Treasury Stock: Treasury stock is reflected as a reduction of shareholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued. We include any gains and losses in additional paid-in capital when treasury stock is reissued.

Earnings Per Share: We compute basic earnings per share (EPS) by dividing net earnings by the weighted-average number of unrestricted shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of share-based awards.

New Accounting Pronouncements: In January 2009, the FASB issued FASB Staff Position (FSP) EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20." This FSP affects all entities with certain beneficial interests in securitized financial assets within the scope of EITF Issue No. 99-20. In determining other-than-temporary-impairment, Issue 99-20 requires reliance on market participant assumptions about future cash flows. While Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) uses these same assumptions, it permits the use of reasonable management judgment on the probability that the holder will be unable to collect all amounts due. This FSP brings the impairment model on beneficial interest held by a transferor in securitized financial assets, to be similar to the impairment model of SFAS 115. The FSP is effective for interim and annual reporting periods ending after December 15, 2008. The adoption of this standard did not have a material impact on our financial position or results of operations.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest

Entities" (FSP FAS 140-4 and FIN 46(R)-8). This disclosure-only FSP improves the transparency of transfers of financial assets and an enterprise's involvement with variable interest entities (VIEs), including qualifying special-purpose entities (QSPEs). The additional required disclosures related to asset transfers primarily focus on the transferor's continuing involvement with transferred financial assets and the related risks retained. This FSP also requires additional disclosures that focus on a company's involvement with VIEs and its judgments about the accounting for them. In addition, the FSP requires certain nontransferor public enterprises to disclose details about QSPEs with which they are involved. We adopted the provisions of FSP FAS 140-4 and FIN 46(R)-8 as of December 31, 2008. The adoption of this standard did not have an impact on our financial position or results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets." This FSP amends SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits – An Amendment of FASB Statements No. 87, 88, and 106" to require more detailed disclosures about plan assets of a defined benefit pension or other postretirement plan, including investment strategies; major categories of plan assets; concentrations of risk within plan assets; inputs and valuation techniques used to measure the fair value of plan assets; and the effect of fair-value measurements using significant unobservable inputs on changes in plan assets for the period. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009, with earlier application permitted. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

In October 2008, the FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). This FSP provides additional guidance regarding the application of SFAS No. 157, "Fair Value Measurements," in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. FSP FAS 157-3 is effective immediately upon issuance and applies to prior periods for which financial statements have not been issued. We adopted the provisions of FSP FAS 157-3 as of September 30, 2008. The adoption of this standard did not have an impact on our financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162

is effective as of November 15, 2008. The adoption of this standard did not have an effect on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161). FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This statement amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. To meet those objectives, this statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160). The purpose of SFAS 160 is to improve relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, with earlier adoption prohibited. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 allows entities to choose to measure many financial instruments and certain other items at fair value. The majority of the provisions of this standard apply only to entities that elect the fair value option (FVO). The FVO may be applied to eligible items on an instrument-by-instrument basis; is irrevocable unless a new election date occurs; and may only be applied to an entire financial instrument, and not

portions thereof. This standard requires a business enterprise to report unrealized gains and losses on items for which the FVO has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier application permitted under limited circumstances. In connection with our adoption of SFAS 159 as of January 1, 2008, we did not elect the FVO for any of our financial assets and liabilities. Accordingly, the adoption of this standard did not have an impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). We adopted the recognition and measurement date provisions of this standard effective December 31, 2006. In the consolidated statements of shareholders' equity for the year ended December 31, 2006, we included in 2006 other comprehensive income a cumulative transition adjustment, net of income taxes, of \$44 million from the adoption of SFAS 158. This cumulative effect adjustment was properly included in the rollforward of accumulated other comprehensive income for the year, but it should not have been included in other comprehensive income for the year. Total comprehensive income for the year, not including the transition adjustment for SFAS 158, was \$996 million. Management concluded that the transition adjustment was not material to the financial statements taken as a whole. We have adjusted other comprehensive income for the year ended December 31, 2006, to properly reflect the transition adjustment as a direct charge to accumulated other comprehensive income. The effect of recording the transition adjustment through other comprehensive income and the subsequent adjustment to reflect the amounts as a direct charge to accumulated other comprehensive income did not have any impact on the consolidated statements of earnings, the consolidated balance sheets, the consolidated statements of shareholders' equity or the consolidated statements of cash flows for any periods presented.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, expands disclosures about fair value measurements and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data corroborated by independent sources while unobservable inputs reflect market assumptions that are not observable in an active market or are developed internally. These two types of inputs create three valuation hierarchy levels. Level 1

valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market.

This standard applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. Where applicable, this standard codifies related guidance within GAAP. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We adopted the provisions of SFAS 157 as of January 1, 2008. The adoption of this standard did not have an impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. The provisions of FIN 48 clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. Under the first step, the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities. The second step is measurement, whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted the provisions of this standard effective January 1, 2007. The adoption of this standard did not have any impact on our financial position or results of operations (see Note 8).

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred

Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1). SOP 05-1 provides accounting guidance on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. Retrospective application of this SOP to previously issued financial statements is not permitted. We adopted the provisions of this statement effective January 1, 2007. We have determined that certain of our policy modifications in both the United States and Japan that were previously accounted for as a continuation of existing coverage will be considered internal replacements that are substantially changed as contemplated by SOP 05-1 and will be accounted for as the extinguishment of the affected policies and the issuance of new contracts. The adoption of this statement increased net earnings in 2007 by \$6 million, or \$.01 per diluted share, and was insignificant to our financial position and results of operations.

Securities and Exchange Commission (SEC) Guidance:

On October 14, 2008, the SEC issued a letter to the FASB addressing recent questions raised by various interested parties regarding declines in the fair value of perpetual preferred securities, or so-called "hybrid securities," which have both debt and equity characteristics and the assessment of those declines under existing accounting guidelines for other-than-temporary impairments. In its letter, the SEC recognized that hybrid securities are often structured in equity form but generally possess significant debt-like characteristics. The SEC also recognized that existing accounting guidance does not specifically address the impact, if any, of the debt-like characteristics of these hybrid securities on the assessment of other-than-temporary impairments.

After consultation with and concurrence of the FASB staff, the SEC concluded that it will not object to the use of an other-than-temporary impairment model that considers the debt-like characteristics of hybrid securities (including the anticipated recovery period), provided there has been no evidence of a deterioration in credit of the issuer (for example, a decline in the cash flows from holding the investment or a downgrade of the rating of the security below investment grade), in filings after the date of its letter until the matter can be addressed further by the FASB.

We maintain investments in subordinated financial instruments, or so-called "hybrid securities." Within this class of investments, we own perpetual securities. These perpetual

securities are subordinated to other debt obligations of the issuer, but rank higher than the issuers' equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates of the securities. Although these 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 rate of interest of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance. We believe this interest step-up penalty has the effect of creating an economic maturity date of the perpetual securities. Since first purchasing these securities in 1993, and until the third quarter of 2008, we accounted for and reported perpetual securities as debt securities and classified them as both available-for-sale and held-to-maturity securities.

In light of the recent unprecedented volatility in the debt and equity markets, we concluded in the third quarter of 2008 that all of our investments in perpetual securities should be classified as available-for-sale securities. We have also concluded that our perpetual securities should be evaluated for other-than-temporary impairments using an equity security impairment model as opposed to our previous policy of using a debt security impairment model. We recognized realized investment losses of \$294 million (\$191 million after-tax) in 2008 as a result of applying our equity impairment model to this class of securities through June 30, 2008. Included in the \$191 million other-than-temporary impairment charge is \$40 million, \$53 million, \$50 million, and \$38 million, net of tax, that relate to the years ended December 31, 2007, 2006, 2005 and 2004, respectively; and, \$10 million, net of tax, that relates to the quarter ended June 30, 2008. There were no impairment charges related to the perpetual securities in the first quarter of 2008. The impact of classifying all of our perpetual securities as available-for-sale securities and assessing them for other-than-temporary impairments under our equity impairment model was determined to be immaterial to our results of operations and financial position for any previously reported period. In response to the SEC letter mentioned above regarding the appropriate impairment model for hybrid securities, we applied our debt security impairment model to our perpetual securities in the third and fourth quarters of 2008 and will continue with that approach pending further guidance from the SEC or the FASB.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of uncorrected errors from prior years must be considered in quantifying misstatements in current year financial statements. Under

the provisions of SAB 108, a reporting entity must quantify and evaluate errors using a balance sheet approach and an income statement approach. After considering all relevant quantitative and qualitative factors, if either approach results in a misstatement that is material, a reporting entity's financial statements must be adjusted. SAB 108 applies to SEC registrants and is effective for fiscal years ending after November 15, 2006. In the course of evaluating balance sheet amounts in accordance with the provisions of SAB 108, we identified the following amounts that we adjusted for as of January 1, 2006: a tax liability in the amount of \$87 million related to deferred tax asset valuation allowances that were not utilized; a tax liability in the amount of \$45 million related to various provisions for taxes that were not utilized; and a litigation liability in the amount of \$11 million related to provisions for various pending lawsuits that were not utilized. These liabilities were recorded in immaterial amounts prior to 2004 over a period ranging from 10 to 15 years. However, using the dual evaluation approach prescribed by SAB 108, correction of the above amounts would be material to 2006 earnings. In accordance with the provisions of SAB 108, the following amounts, net of tax where applicable, have been reflected as an opening adjustment to retained earnings as of January 1, 2006: a reduction of tax liabilities in the amount of \$132 million; a reduction of litigation reserves in the amount of \$11 million; and a reduction in deferred tax assets in the amount of \$4 million. These three adjustments resulted in a net addition to retained earnings in the amount of \$139 million.

Recent accounting guidance not discussed above is not applicable to our business.

2. BUSINESS SEGMENT AND FOREIGN INFORMATION

The Company consists of two reportable insurance business segments: Aflac Japan and Aflac U.S., both of which sell individual supplemental health and life insurance.

Operating business segments that are not individually reportable are included in the "Other business segments" category. We do not allocate corporate overhead expenses to business segments. We evaluate and manage our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings excludes the following items from net earnings on an after-tax basis: realized investment gains/losses, the impact from SFAS 133, and nonrecurring items. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment for the years ended December 31 follows:

(In millions)	2008	2007	2006
Revenues:			
Aflac Japan:			
Earned premiums:			
Cancer	\$ 5,718	\$ 4,937	\$ 4,923
Other accident and health	3,547	2,928	2,755
Life insurance	1,409	1,172	1,084
Net investment income	2,053	1,801	1,688
Other income	15	27	25
Total Aflac Japan	12,742	10,865	10,475
Aflac U.S.:			
Earned premiums:			
Accident/disability	1,941	1,785	1,580
Cancer expense	1,197	1,114	1,041
Other health	958	885	801
Life insurance	176	152	130
Net investment income	505	500	465
Other income	10	10	10
Total Aflac U.S.	4,787	4,446	4,027
Other business segments	38	37	42
Total business segments	17,567	15,348	14,544
Realized investment gains (losses)	(1,007)	28	79
Corporate	85	116	87
Intercompany eliminations	(91)	(99)	(94)
Total revenues	\$ 16,554	\$ 15,393	\$ 14,616

(In millions)	2008	2007	2006
Pretax Earnings:			
Aflac Japan	\$ 2,250	\$ 1,821	\$ 1,652
Aflac U.S.	745	692	585
Other business segments	(1)	-	5
Total business segments	2,994	2,513	2,242
Interest expense, noninsurance operations	(26)	(21)	(17)
Corporate and eliminations	(42)	(25)	(40)
Pretax operating earnings	2,926	2,467	2,185
Realized investment gains (losses)	(1,007)	28	79
Impact from SFAS 133	(5)	4	-
Total earnings before income taxes	\$ 1,914	\$ 2,499	\$ 2,264
Income taxes applicable to pretax operating earnings	\$ 1,015	\$ 854	\$ 753
Effect of foreign currency translation on operating earnings	111	(11)	(39)

Assets as of December 31 were as follows:

(In millions)	2008	2007
Assets:		
Aflac Japan	\$ 69,141	\$ 54,153
Aflac U.S.	9,679	10,415
Other business segments	166	117
Total business segments	78,986	64,685
Corporate	8,716	10,364
Intercompany eliminations	(8,371)	(9,244)
Total assets	\$ 79,331	\$ 65,805

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for or during the periods ended December 31. Exchange effects were calculated using

the same yen/dollar exchange rate for the current year as for each respective prior year.

	2008	2007	2006
Statements of Earnings:			
Weighted-average yen/dollar exchange rate	103.46	117.93	116.31
Yen percent strengthening (weakening)	14.0%	(1.4)%	(5.5)%
Exchange effect on net earnings (millions)	\$ 55	\$ (10)	\$ (41)
	2008	2007	
Balance Sheets:			
Yen/dollar exchange rate at December 31	91.03	114.15	
Yen percent strengthening (weakening)	25.4%	4.3%	
Exchange effect on total assets (millions)	\$ 13,312	\$ 2,102	
Exchange effect on total liabilities (millions)	13,180	2,063	

Aflac Japan maintains a portfolio of dollar-denominated securities, which serves as an economic currency hedge of a portion of our investment in Aflac Japan. We have designated the Parent Company's yen-denominated notes payable and cross-currency swaps as a hedge of our investment in Aflac Japan. The dollar values of our yen-denominated net assets, which are subject to foreign currency translation fluctuations for financial reporting purposes, are summarized as follows at December 31 (translated at end-of-period exchange rates):

(In millions)	2008	2007
Aflac Japan net assets	\$ 5,944	\$ 6,087
Aflac Japan dollar-denominated net assets	(3,416)	(3,672)
Aflac Japan yen-denominated net assets	2,528	2,415
Parent Company yen-denominated net liabilities	(1,876)	(1,496)
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	\$ 652	\$ 919

Transfers of funds from Aflac Japan: Aflac Japan makes payments to the Parent Company for management fees and to Aflac U.S. for allocated expenses and profit repatriations. Information on transfers for each of the years ended December 31 is shown below. See Note 11 for information concerning restrictions on transfers from Aflac Japan.

(In millions)	2008	2007	2006
Management fees	\$ 26	\$ 32	\$ 25
Allocated expenses	36	33	32
Profit repatriation	598	567	442
Total transfers from Aflac Japan	\$ 660	\$ 632	\$ 499

Policyholder Protection Corporation: The total liability accrued for our obligations to the Japanese Life Insurance Policyholder Protection Corporation (LIPPC) was \$161 million (¥14.6 billion) at December 31, 2008, compared with \$151 million (¥17.2 billion) a year ago. The obligation is payable in semi-annual installments through 2013.

Property and Equipment: The costs of buildings, furniture and equipment are depreciated principally on a straight-line basis over their estimated useful lives (maximum of 45 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are expensed as incurred; expenditures for betterments are capitalized and depreciated. Classes of property and equipment as of December 31 were as follows:

(In millions)	2008	2007	2006
Property and equipment:			
Land	\$ 146	\$ 120	\$ 118
Buildings	505	403	379
Equipment	265	244	224
Total property and equipment	916	767	721
Less accumulated depreciation	319	271	263
Net property and equipment	\$ 597	\$ 496	\$ 458

Receivables: Receivables consist primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2008, \$527 million, or 57.3% of total receivables, were related to Aflac Japan's operations, compared with \$395 million, or 53.9%, at December 31, 2007.

3. INVESTMENTS

The components of net investment income for the years ended December 31 were as follows:

(In millions)	2008	2007	2006
Fixed-maturity securities	\$ 2,204	\$ 1,936	\$ 1,782
Perpetual securities	375	372	387
Equity securities and other	3	2	2
Short-term investments and cash equivalents	22	45	20
Gross investment income	2,604	2,355	2,191
Less investment expenses	26	22	20
Net investment income	\$ 2,578	\$ 2,333	\$ 2,171

The amortized cost for our investments in debt and perpetual securities, the cost for equity securities and the fair values of these investments at December 31 are shown in the following tables.

(In millions)	2008				2007			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 11,153	\$ 988	\$ 16	\$ 12,125	\$ 8,438	\$ 621	\$ 36	\$ 9,023
Mortgage- and asset-backed securities	491	8	–	499	272	6	–	278
Public utilities	2,282	188	17	2,453	1,741	162	31	1,872
Collateralized debt obligations	253	6	–	259	–	–	–	–
Sovereign and supranational	943	37	126	854	751	54	31	774
Banks/financial institutions	4,667	81	686	4,062	3,814	228	112	3,930
Other corporate	6,183	155	576	5,762	4,406	131	271	4,266
Total yen-denominated	25,972	1,463	1,421	26,014	19,422	1,202	481	20,143
Dollar-denominated:								
Government and guaranteed	266	6	1	271	376	7	1	382
Municipalities	119	1	14	106	128	3	5	126
Mortgage- and asset-backed securities	738	7	189	556	502	6	14	494
Collateralized debt obligations	53	–	37	16	92	–	16	76
Public utilities	1,337	34	165	1,206	1,007	73	13	1,067
Sovereign and supranational	366	44	9	401	424	80	2	502
Banks/financial institutions	2,910	107	529	2,488	3,157	165	106	3,216
Other corporate	4,273	182	501	3,954	4,291	302	88	4,505
Total dollar-denominated	10,062	381	1,445	8,998	9,977	636	245	10,368
Total fixed maturities	36,034	1,844	2,866	35,012	29,399	1,838	726	30,511
Perpetual securities:								
Yen-denominated:								
Banks/financial institutions	8,400	187	1,091	7,496	3,549	123	253	3,419
Other corporate	294	13	–	307	263	–	18	245
Dollar-denominated:								
Banks/financial institutions	380	–	136	244	455	8	38	425
Total perpetual securities	9,074	200	1,227	8,047	4,267	131	309	4,089
Equity securities	24	5	2	27	21	8	1	28
Total securities available for sale	\$ 45,132	\$ 2,049	\$ 4,095	\$ 43,086	\$ 33,687	\$ 1,977	\$ 1,036	\$ 34,628
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 220	\$ 17	\$ –	\$ 237	\$ 175	\$ –	\$ 1	\$ 174
Mortgage- and asset-backed securities	75	1	1	75	43	–	–	43
Collateralized debt obligations	403	–	295	108	403	–	79	324
Public utilities	3,951	168	66	4,053	1,937	18	66	1,889
Sovereign and supranational	3,582	93	132	3,543	3,069	78	69	3,078
Banks/financial institutions	12,291	147	1,195	11,243	8,976	85	644	8,417
Other corporate	3,714	145	84	3,775	2,196	92	42	2,246
Total yen-denominated	24,236	571	1,773	23,034	16,799	273	901	16,171
Dollar-denominated:								
Collateralized debt obligations	200	–	150	50	–	–	–	–
Government	–	–	–	–	20	–	–	20
Total dollar-denominated	200	–	150	50	20	–	–	20
Total fixed maturities	24,436	571	1,923	23,084	16,819	273	901	16,191
Perpetual securities:								
Yen-denominated:								
Banks/financial institutions	–	–	–	–	3,985	135	186	3,934
Total perpetual securities	–	–	–	–	3,985	135	186	3,934
Total securities held to maturity	\$ 24,436	\$ 571	\$ 1,923	\$ 23,084	\$ 20,804	\$ 408	\$ 1,087	\$ 20,125

As more fully described under the heading "Securities and Exchange Commission (SEC) Guidance" in Note 1, we concluded, in light of the recent unprecedented volatility in the debt and equity markets in the third quarter of 2008 that all of our perpetual securities should be classified as available-for-sale securities. Accordingly, all of our perpetual security investments are classified as available for sale as of December 31, 2008.

The methods of determining the fair values of our investments in debt securities, perpetual securities and equity securities are described in Note 4.

The distributions of debt and perpetual securities we own, by credit rating, as of December 31 were as follows:

Composition by Credit Rating

	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	5.7%	5.8%	6.3%	6.2%
AA	39.8	42.2	44.3	45.3
A	34.1	33.2	30.7	30.4
BBB	18.6	17.6	16.8	16.6
BB or lower	1.8	1.2	1.9	1.5
Total	100.0%	100.0%	100.0%	100.0%

Although our investment portfolio continues to be of high credit quality, many downgrades occurred during 2008 to cause a shift in composition by credit rating. The percentage of AA rated securities decreased as a result of downgrades of banks and financial institutions investments and CDO investments. The percentage of A rated securities increased due to purchases and downgrades of higher rated securities. BBB rated securities increased due to purchases and downgrades of higher rated securities.

Investment exposures, which individually exceeded 10% of shareholders' equity as of December 31, were as follows:

(In millions)	2008			2007		
	Credit Rating	Amortized Cost	Fair Value	Credit Rating	Amortized Cost	Fair Value
Japan National Government	AA	\$ 10,604	\$ 11,533	AA	\$ 8,000	\$ 8,583
Israel Electric Corp.	BBB	902	902	*	*	*
Republic of Tunisia	BBB	880	909	*	*	*
HSBC Holdings PLC **	AA	856	860	*	*	*
HBOS PLC**	AA	686	611	*	*	*
Republic of South Africa	BBB	674	727	*	*	*

* Less than 10% of shareholders' equity at reporting date

** For this issuer, we own more than one security with different ratings.

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

Subordination Distribution of Debt and Perpetual Securities

(In millions)	2008		2007	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
Senior notes	\$51,091	73.5%	\$ 38,483	70.6%
Subordinated securities:				
Fixed maturities (stated maturity date):				
Lower Tier II	7,777	11.2	6,277	11.5
Upper Tier II	340	.5	296	.6
Tier I*	750	1.1	582	1.0
Surplus Notes	374	.5	375	.7
Trust Preferred - Non-banks	86	.1	154	.3
Other Subordinated - Non-banks	52	.1	52	.1
Total fixed maturities	9,379	13.5	7,736	14.2
Perpetual securities (economic maturity date):				
Upper Tier II	6,532	9.4	5,812	10.7
Tier I	2,542	3.6	2,439	4.5
Total perpetual securities	9,074	13.0	8,251	15.2
Total	\$69,544	100.0%	\$ 54,470	100.0%

*Includes Trust Preferred securities

The majority, or 73.5%, of our total investments in debt and perpetual securities was senior debt as of December 31, 2008, as shown in the table above. We maintained investments in subordinated financial instruments, that comprised 26.5% of our total investments in debt and perpetual securities. These investments primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities. The Lower Tier II securities are debt instruments with fixed maturities. Our Upper Tier II 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. Perpetual securities comprised 95% and 77% of our total Upper Tier II and Tier I investments, respectively, as of December 31, 2008.

Privately issued securities as of December 31 were as follows:

Privately Issued Securities

(Amortized cost, in millions)	2008	2007
Privately issued securities as percentage of total debt and perpetual securities	72.0%	70.3%
Privately issued securities held by Aflac Japan	\$ 47,516	\$ 35,973
Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities	68.3%	66.0%
Privately issued reverse-dual currency securities*	\$ 14,678	\$ 11,185
Reverse-dual currency securities* as a percentage of total privately issued securities	29.3%	29.2%

*Principal payments in yen and interest payments in dollars

Our investment discipline begins with a top-down approach for each investment opportunity we consider. Consistent with that approach, we first approve each country in which we invest. In our approach to sovereign analysis, we consider the political, legal and financial context of the sovereign entity in which an issuer is domiciled and operates. Next we approve the issuer's industry sector, including such factors as the stability of results and the importance of the sector to the overall economy. Specific credit names within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. Structures in which we invest are chosen for specific portfolio management purposes, including asset/liability management, portfolio diversification and net investment income.

Our largest investment industry sector concentration is banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The banks and financial institutions sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the banks and financial institutions sector through a geographically diverse universe of credit exposures. Within this sector, the more significant concentration of our credit risk by geographic region or country of issuer at December 31, 2008, based on amortized cost, was: Europe (48%); United States (20%); United Kingdom (9%); and Japan (9%).

Our total investments in the banks and financial institutions sector, including those classified as perpetual securities, as of December 31 were as follows:

	2008		2007	
	Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio	Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio
Debt securities:				
Amortized cost	\$ 19,868	28%	\$ 15,948	29%
Fair value	17,793	27	15,563	28
Perpetual securities:				
Upper Tier II:				
Amortized cost	\$ 6,238	9%	\$ 5,549	10%
Fair value	5,960	9	5,732	11
Tier I:				
Amortized cost	2,542	4	2,439	5
Fair value	1,780	3	2,047	4
Total:				
Amortized cost	\$ 28,648	41%	\$ 23,936	44%
Fair value	25,533	39	23,342	43

At December 31, 2008, we owned below-investment-grade debt and perpetual securities in the amount of \$1.3 billion at amortized cost (\$786 million at fair value), or 1.8% of total debt and perpetual securities, compared with \$1.0 billion at amortized cost (\$815 million at fair value), or 1.9% of total debt and perpetual securities a year ago. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. These securities are held in the available-for-sale portfolio.

Debt and perpetual securities classified as below investment grade as of December 31 were as follows:

Below-Investment-Grade Securities

(In millions)	2008			2007		
	Par Value	Amortized Cost	Fair Value	Par Value	Amortized Cost	Fair Value
Ford Motor Credit Ahold	\$ 329	\$ 329	\$ 143	\$ 263	\$ 263	\$ 215
CSAV	264	264	157	210	210	143
BAWAG***	154	133	88	123	123	90
IKB Deutsche Industriebank	143	143	47	*	*	*
Beryl Finance Limited 2008-7****	110	110	116	*	*	*
Ford Motor Company	111	57	31	111	122	93
Glitnir Bank HF	95 ⁽¹⁾	—	—	*	*	*
Beryl Finance Limited 2007-14****	82	53	53	*	*	*
Beryl Finance Limited 2006-15****	55	43	43	*	*	*
Beryl Finance Limited 2007-5****	55	44	44	*	*	*
Morgan Stanley Aces 2007-21****	55	3	3	*	*	*
Landsbanki Islands HF	55	—	—	*	*	*
Rinker Materials Corp.	43	42	23	*	*	*
Morgan Stanley Aces 2007-19****	30	4	4	*	*	*
Kaupthing Bank***	30	—	—	*	*	*
Sprint Capital	22	24	16	*	*	*
Academica Charter Schools Finance LLC	22	24	17	*	*	*
International Securities Trading Corp.	18	—	—	20	—	—
Tiers Georgia****	11	1	1	*	*	*
Patrick Family Housing (Patrick AFB)	**	**	**	4	1	1
Aloha Utilities Inc.	**	**	**	2	2	1
Total	\$ 1,684	\$ 1,274	\$ 786	\$ 1,043	\$ 1,032	\$ 815

* Investment grade at respective reporting date

** Sold during 2008

*** Perpetual security

**** CDO security

⁽¹⁾ Includes \$55 million for a perpetual security

Information regarding realized and unrealized gains and losses from investments for the years ended December 31 appears in the table at the top of the following page:

(In millions)	2008	2007	2006
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	\$ 10	\$ 40	\$ 67
Gross losses from sales	(265)	(6)	(34)
Net gains (losses) from redemptions	3	17	4
Impairment losses	(298)	(22)	–
Held to maturity:			
Impairment losses	(75)	–	–
Total debt securities	(625)	29	37
Perpetual securities:			
Available for sale:			
Impairment losses	(379)	–	–
Held to maturity:			
Gross gains from sales	5	–	–
Total perpetual securities	(374)	–	–
Equity securities:			
Gross gains from sales	–	–	43
Impairment losses	(1)	(1)	(1)
Total equity securities	(1)	(1)	42
Other long-term assets	(7)	–	–
Total realized investment gains (losses)	\$ (1,007)	\$ 28	\$ 79
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	\$ (2,134)	\$ (838)	\$ (624)
Transferred to held to maturity	(165)	(35)	(52)
Perpetual securities:			
Available for sale	(850)	–	–
Equity securities	(3)	(3)	(45)
Change in unrealized gains (losses)	\$ (3,152)	\$ (876)	\$ (721)

In 2008, we realized total pretax investment losses of \$1,007 million (after-tax, \$655 million, or \$1.37 per diluted share), primarily a result of the sale of securities and the recognition of other-than-temporary impairments.

The sale of our investments in Lehman Brothers and Washington Mutual and other smaller securities transactions represented \$254 million (\$166 million after-tax, or \$.35 per diluted share) of the total realized investment losses in 2008.

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

However, in the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual

issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment's fair value, to the extent below the investment's cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its recoverable value which is normally its fair value at the time it is written down. The determination of whether an impairment is other than temporary is subjective and involves the consideration of various factors and circumstances. These factors include more significantly:

- the severity of the decline in fair value
- the length of time the fair value is below cost
- issuer financial condition, including profitability and cash flows
- credit status of the issuer
- the issuer's specific and general competitive environment
- published reports
- general economic environment
- regulatory and legislative environment
- other factors as may become available from time to time

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

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investment as well as our ability and intent to hold the security until a recovery of value, which may be maturity. However, a limited number of our investments are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model considers the same factors as our debt model but puts a primary focus on the severity of a security's decline in fair value coupled with the length of time the security's value has been impaired.

In 2008, realized investment losses as a result of other-than-temporary impairments of securities totaled \$753 million (\$489 million net of tax, or \$1.02 per diluted share).

These other-than-temporary impairment losses primarily consisted of \$294 million (\$191 million after-tax) recognized on certain of our perpetual security investments; \$213 million (\$139 million after-tax) recognized on certain of our CDO investments; \$180 million (\$117 million after-tax) recognized on our investments in three Icelandic banks; and \$65 million (\$42 million after-tax) recognized on our investment in Ford Motor Company.

In connection with our decision to reclassify all of our perpetual securities to available for sale, we also concluded that our perpetual securities should be evaluated for other-than-temporary impairments using an equity security impairment model as opposed to our previous policy of using a debt security impairment model for periods ending on and before June 30, 2008. In connection with this decision, we recognized an impairment charge of \$294 million (\$191 million after-tax) in the third quarter of 2008 from the application of our equity security impairment policy to this asset class through June 30, 2008. As more fully described in the SEC Guidance section of Note 1, the June 30 valuation date was used following the SEC's letter to the FASB on the topic of the appropriate impairment model to apply to perpetual securities. In response to the SEC's letter, we applied our debt security impairment model to our perpetual securities in the third and fourth quarters of 2008 and will continue with that approach pending further guidance from the SEC or the FASB.

During 2009, the outlook for the financial markets has continued to deteriorate globally. In connection with this downward trend, certain of the investment securities we own have been downgraded by various rating agencies since year end.

We apply the debt security impairment model to our perpetual securities provided there has been no evidence of deterioration in credit of the issuer, such as a downgrade of the rating of a perpetual security to below investment grade. Subsequent to December 31, 2008, and through the date of this report, the outlook for the financial markets has continued to deteriorate globally. In connection with this downward trend, certain of the perpetual securities we own have been downgraded to below investment grade subsequent to December 31, 2008. As a result of these downgrades, we are required to evaluate the securities for other-than-temporary impairment using the equity security impairment model rather than the debt security impairment model. Use of the equity security model limits the forecasted recovery period that can be used in the impairment evaluation and, accordingly, affects both the recognition and measurement of other-than-temporary impairment losses. As a result of market conditions and the extent of changes in ratings on our perpetual securities, we will incur additional other-than-temporary impairment losses beginning in 2009, which could materially affect our results of operations for a particular fiscal quarter or year.

It's no mystery how Aflac makes a difference.

As a part of our credit review process, we concluded that it had become unlikely that we would recover our full investment in certain of our CDO investments as a result of continued significant declines in the credit markets during the fourth quarter of 2008. In accordance with our investment policy, we recorded an impairment charge of \$164 million (\$106 million after-tax) in connection with the other-than-temporary impairment of these CDOs during the fourth quarter of 2008. We also recorded other-than-temporary impairment charges of \$49 million (\$32 million after-tax) during the second half of 2008 in connection with CDO investments transferred to available for sale as a result of a default by the related swap counterparty, Lehman Brothers Special Financing Inc. (LBSF).

We hold investments in three Icelandic banks, Glitnir, Landsbanki and Kaupthing, in the form of junior subordinated debt, some of which include perpetual securities. During the fourth quarter of 2008, the Icelandic government passed legislation that allowed certain distressed Icelandic financial institutions to be placed into receivership under the control of the Icelandic government. Following the passage of this legislation, the above noted Icelandic banks were placed into receivership and are now being operated by the Icelandic government, which is also in financial distress. Subsequent to these actions, we learned that it was unlikely that the banks or the Icelandic government have any intent to honor the banks' obligations beyond their domestic depositors. As a result, we recognized a loss of \$180 million (\$117 million after-tax) in the fourth quarter of 2008 to reflect the other-than-temporary impairment of our total investment in these securities. Our investments in Glitnir, Landsbanki and Kaupthing were classified as below investment grade as of December 31, 2008.

In 2007, we realized pretax investment gains of \$28 million (after-tax, \$19 million, or \$.04 per diluted share) primarily as a result of securities sold or redeemed in the normal course of business. In 2006, we realized pretax gains of \$79 million (after-tax, \$51 million, or \$.10 per diluted share) primarily as a result of bond swaps and the liquidation of equity securities held by Aflac U.S. We began a bond-swap program in the second half of 2005 and concluded it in the first half of 2006. These bond swaps took advantage of tax loss carryforwards and also resulted in an improvement in overall portfolio credit quality and investment income.

The table on the following page shows the gross unrealized losses and fair values of our investments with unrealized losses that we consider to be temporary, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31.

As of December 31, 2008, 96% of our investments in the banks and financial institutions sector in an unrealized loss position was investment grade, compared with 100%

a year ago. We have determined that the majority of the unrealized losses on the investments in this sector were caused by widening credit spreads globally and, to a lesser extent, changes in foreign exchange rates. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Included in the unrealized losses on the banks and financial institutions sector was an unrealized loss of \$236 million on Aflac's investment of \$361 million in SLM Corporation (SLM). Included in our investment in SLM is Aflac Japan's yen-denominated investment in SLM totaling \$331 million (¥30.1 billion). The unrealized loss on SLM increased \$92 million during the year ended December 31, 2008. Our investment in SLM is senior unsecured obligations. SLM, more commonly known as Sallie Mae, is the largest originator,

servicer, and collector of student loans in the United States, a majority of which are guaranteed by the U.S. government.

The increase in the unrealized loss for SLM related to foreign currency translation was \$45 million. We believe that the remaining increase in the unrealized loss on SLM was related to the funding pressures related to the company's constrained ability to raise debt in both the secured and unsecured markets. The U.S. Department of Education has provided some funding relief to student lenders by agreeing to purchase existing and newly originated FFELP (Federal Family Education Loan Program) student loans, which has benefited SLM by allowing them to make profitable loans. While SLM has focused on building its private loan portfolio, the company has maintained a high quality book of loans, and a vast majority of SLM's loans carry an explicit government guarantee. Considering this environment and its government backing, SLM has demonstrated an adequate liquidity profile. As of December 31, 2008, SLM was rated Baa2, BBB-, and BBB by Moody's, S&P, and Fitch, respectively.

We have considered the factors impacting the fair value of SLM as of December 31, 2008, and based on our credit

(In millions)	2008						2007					
	Total		Less than 12 months		12 months or longer		Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:												
Government and guaranteed:												
Dollar-denominated	\$ 77	\$ 1	\$ 76	\$ 1	\$ 1	\$ -	\$ 77	\$ 1	\$ 20	\$ -	\$ 57	\$ 1
Yen-denominated	803	16	309	5	494	11	1,752	37	458	2	1,294	35
Municipalities:												
Dollar-denominated	69	14	28	1	41	13	62	5	50	5	12	-
Mortgage- and asset-backed securities:												
Dollar-denominated	406	189	284	138	122	51	297	14	181	7	116	7
Yen-denominated	26	1	-	-	26	1	30	-	-	-	30	-
Collateralized debt obligations:												
Dollar-denominated	60	188	56	162	4	26	76	16	68	14	8	2
Yen-denominated	101	295	75	145	26	150	324	79	214	49	110	30
Public utilities:												
Dollar-denominated	812	165	566	106	246	59	283	13	115	4	168	9
Yen-denominated	2,376	83	184	2	2,192	81	1,314	97	379	15	935	82
Sovereign and supranational:												
Dollar-denominated	106	9	101	9	5	-	28	2	28	2	-	-
Yen-denominated	1,780	257	571	71	1,209	186	1,884	100	974	17	910	83
Banks/financial institutions:												
Dollar-denominated	1,528	529	830	212	698	317	1,220	106	796	68	424	38
Yen-denominated	10,458	1,881	2,128	152	8,330	1,729	8,588	756	3,408	155	5,180	601
Other corporate:												
Dollar-denominated	2,166	501	1,178	241	988	260	1,402	88	819	27	583	61
Yen-denominated	4,342	660	420	29	3,922	631	3,294	313	1,528	67	1,766	246
Perpetual securities:												
Dollar-denominated	235	136	70	46	165	90	295	38	125	16	170	22
Yen-denominated	4,284	1,091	830	89	3,454	1,002	3,463	457	609	39	2,854	418
Total debt and perpetual securities	29,629	6,016	7,706	1,409	21,923	4,607	24,389	2,122	9,772	487	14,617	1,635
Equity securities	8	2	5	1	3	1	5	1	4	1	1	-
Total temporarily impaired securities	\$29,637	\$6,018	\$7,711	\$1,410	\$21,926	\$4,608	\$24,394	\$2,123	\$9,776	\$488	\$14,618	\$1,635

analysis, we believe that SLM's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in SLM would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

Also included in the unrealized losses on the banks and financial institutions sector was an unrealized loss of \$173 million on Aflac Japan's investments of \$617 million (¥50.0 billion) in Takefuji Corporation (Takefuji). The unrealized loss on Takefuji increased \$186 million during the year ended December 31, 2008. Takefuji is one of four major consumer finance companies operating in Japan. In contrast to its peers, which have moved into other lending sectors including real estate. Takefuji has focused on small unsecured consumer loans contributing to Takefuji's stable operating assets. Takefuji has a broad business network, including distribution alliances with regional banks throughout Japan. Despite fourth quarter 2008 charges, Takefuji has maintained an adequate capital position throughout 2008.

The increase in the unrealized loss for Takefuji related to foreign currency translation was \$34 million. We believe that the remaining increase in the unrealized loss on Takefuji was related to widening credit spreads on Takefuji as a result of the deteriorating economic environment in Japan, especially in the consumer lending markets. Takefuji, along with other Japanese consumer finance companies, has experienced decreased loan volume and profit reductions resulting from new legislation in Japan that virtually eliminates consumer loan activity with interest rates above 20% and lending greater than one third of a customer's annual income. Takefuji has also taken measures strengthen its lending standards. Partly as a result of its efforts, Takefuji's loan charge-off rates saw a decline through the first half of 2008. Our reviews of Takefuji reflect adequate near-term liquidity and cash resources to meet its principal and interest obligations for the next 24 months. During the fourth quarter of 2008, Takefuji redeemed one of its debt issuances to Aflac totaling ¥20 billion at 100% of its original par value.

We have considered the factors impacting the fair value of Takefuji as of December 31, 2008, and based on our credit analysis, we believe that Takefuji's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost of the

investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in Takefuji would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

An additional amount included in the unrealized losses in the banks and financial institutions sector was an unrealized loss of \$110 million on Aflac Japan's investment of \$330 million (¥30.0 billion) in bonds issued by Banco Espirito Santo, S.A. (BES). The unrealized loss on BES increased \$94 million during the year ended December 31, 2008 as compared with the prior year end. BES is a leading commercial bank in Portugal. BES provides commercial and investment banking services, and has leading market positions in Portugal in trade finance and pension plan asset management and has expanded its operations abroad to Brazil, Angola and Spain.

The increase in the unrealized loss for BES related to foreign currency translation was \$22 million. We believe that the remaining increase in the unrealized loss on BES was related to the current economic pressures on Portuguese banks' profitability, liquidity and capital amid the weakened credit environment and within the context of the global economic downturn. Although BES maintains adequate regulatory capital levels, its capital margins are relatively tight in light of its business profile, the declining operating environment for BES and new guidance from the Bank of Portugal regarding the need for higher capitalization. To maintain stability and regular funding in the Portuguese financial system, Portugal created a State Guarantee regime, under which BES announced its intention to issue additional in debt benefiting from this guarantee. This new guaranteed debt will likely ease the refinancing requirements at BES through the next three years and substantially improve its liquidity. On November 21, 2008 Fitch affirmed BES' subordinated debt rating at A, citing the strength of BES' banking operations in a difficult economy while also noting the low deposit ratio to total loans and relatively low capital levels. BES subordinated debt also carries ratings of A1 and A- by Moody's and Standard & Poor's, respectively.

We have considered the factors impacting the fair value of BES as of December 31, 2008, and based on our credit analysis, we believe that BES' ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer or its parent to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that

our investment in BES would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

Another component of the unrealized losses in the banks and financial institutions sector as of December 31, 2008, was an unrealized loss totaling \$153 million related to Aflac's \$558 million investment in UniCredit S.p.A.'s German subsidiary Bayerische Hypo-und Vereinsbank AG (HVB). Aflac's HVB investments include both yen-and dollar-denominated Tier I and Tier II hybrid instruments that are subordinated fixed maturity securities. The yen-denominated portion of these subordinated fixed maturity securities totaled \$494 million (¥45 billion) with an unrealized loss of \$119 million while the dollar-denominated portion of these securities totaled \$53 million with an unrealized loss of \$38 million at year end. The increase in the unrealized loss on our investment in HVB totaled \$124 million during 2008. UniCredit, the parent company of HVB is a financial services holding company based in Italy where it enjoys a strong franchise with a significant presence in Germany, Austria, Poland and Central Eastern Europe. HVB is a key part of UniCredit with well-positioned retail and corporate banking franchises in the South and North of Germany. HVB also houses the Markets and Investment Banking Division of UniCredit.

The portion of the unrealized losses on our investment in HVB related to foreign currency translation was \$24 million. We believe that the fair value of our investment in HVB is negatively impacted by the downturn in the economic environment in the European economies, particularly Germany, HVB's key market. Also negatively impacting HVB's fair value is its parent company's marginal capital levels in 2008. In contrast however, HVB reported much stronger capital levels than its parent company at the end of September 30, 2008. Additionally, during 2008 HVB has improved the quality of its loan portfolio by reducing its exposure to real estate. Although HVB incurred fairly significant asset write-downs related to structured credit losses in 2008, its strong capital levels allowed HVB to absorb these losses without any rating downgrades. As of December 31, 2008, all of our investments in our HVB investments carried ratings in the A categories by Moody's, S&P and Fitch.

As a class of securities, hybrid securities, and particularly perpetual securities, have also suffered price erosion in the fourth quarter of 2008 due to the financial crisis and perceived higher deferral and extension risk. We have considered risks common to perpetual securities, including deferral, extension and loss absorption, in light of HVB's strong competitive position within the UniCredit franchise, HVB's well-positioned retail and corporate banking franchises in the South and North of Germany, and HVB's high capital ratios.

Based on our credit analysis, we believe that HVB's ability to service its obligation to Aflac is currently not impaired. Accordingly, we believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

The following table shows the composition of our investments in an unrealized loss position in the banks and financial institutions sectors by fixed maturity securities and perpetual securities. The table reflects those securities in that sector that are in an unrealized loss position as a percentage of our total investment portfolio in an unrealized loss position and their respective unrealized losses as a percentage of total unrealized losses as of December 31.

	2008		2007	
	Percentage of Total Investments in an Unrealized Loss Position	Percentage of Total Unrealized Losses	Percentage of Total Investments in an Unrealized Loss Position	Percentage of Total Unrealized Losses
Fixed maturities	41%	40%	40%	41%
Perpetual securities:				
Upper Tier II	9	8	6	3
Tier I	6	12	8	19
Total perpetual securities	15	20	14	22
Total	56%	60%	54%	63%

The valuation and pricing pressures from certain structured investment securities throughout 2008, more notably the banks and financial institutions sector's exposure to the well publicized structured investment vehicles (SIVs), coupled with their exposure to the continued weakness in the housing sector, in the UK, Europe and the United States, has led to significant write-downs of asset values and capital pressure at banks and financial institutions globally. National governments in these regions have provided support in various forms, ranging from guarantees on new and existing debt to significant injections of capital. As the market continues to deteriorate, more of these banks and financial institutions may need various forms of government support before the current economic downturn begins to ease. While it does not appear to be a preferred solution, some troubled banks and financial institutions may be nationalized. Very few nationalizations have occurred to date, and in each instance, the governments are standing behind the classes of investments that we own.

All of the investments in the government and guaranteed sector in an unrealized loss position were investment grade at December 31, 2008 and 2007. The unrealized losses on

our investments in this sector, which include U.S. Treasury obligations, direct obligations of U.S. government agencies, Japan government bonds, and direct obligations of Japan government agencies were caused by changes in interest rates and/or foreign exchange rates. The contractual cash flows of these investments are guaranteed by either the U.S. or Japanese governments. Furthermore, the contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Unrealized gains and losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. As the investments near maturity the unrealized gains or losses can be expected to diminish. Because the unrealized losses in this sector are considered to be interest rate driven and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

As of December 31, 2008 and 2007, all of our fixed maturity investments in an unrealized loss position in the mortgage- and asset-backed securities and sovereign and supranational sectors were investment grade. At December 31, 2008, 53% of securities in the municipalities sector and 100% of securities in the public utilities sector in an unrealized loss position were investment grade, compared with 100% and 99.7%, respectively, at the end of 2007. We have determined that the majority of the unrealized losses on the investments in these sectors were caused by widening credit spreads globally and to a lesser extent, changes in foreign exchange rates. Due to the liquidity contraction experienced in the capital markets during 2008, credit spreads continued to widen sharply throughout the year causing the increase in the unrealized losses in these sectors as of December 31, 2008, compared with prior year. However, we have determined that the ability of the issuers to service our investments has not been compromised by these factors. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit related factors develop, as investments near maturity the unrealized gains or losses can be expected to diminish. Because the unrealized losses in these sectors are considered to be principally the result of widening credit spreads and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other than temporarily impaired at December 31, 2008.

We have determined that the unrealized losses in our collateralized debt obligation (CDO) portfolio were primarily the result of widening credit spreads globally. The widening credit spreads in the CDO sector has been fueled by continued deterioration of the credit worthiness of the credit default swap (CDS) reference credit entities underlying the

CDO contracts and an overall contraction of market liquidity for CDO investments in all capital markets. As of December 31, 2008 and 2007, 100% of our CDO investments in an unrealized loss position were investment grade. As more fully described in our discussion regarding our investment in variable interest entities below, we only have the senior tranches of the CDOs that we own. The subordinated tranches of our CDOs absorb the majority of the losses, if any, arising from the CDS contracts underlying our CDOs. As a part of our credit analysis process, we obtain CDS default and default recovery probability statistics from published market sources. We use these default and default recovery statistics to project the number of defaults our CDOs can withstand before our CDO investment would be impaired. In addition to our review of default and default recovery statistics, we also assess the credit quality of the collateral underlying our CDOs.

Based on these reviews, we determined that the declines in value of certain of our CDO investments below their carrying value were considered to be other than temporary and wrote down our investment in these CDOs to their estimated fair value through a charge to earnings in 2008 as disclosed in our realized investment gains and losses analysis above.

Our credit analyses of the CDO issues we own indicate that the remaining number of defaults that can be sustained in our existing CDOs, other than as disclosed in the preceding paragraph, is sufficient to withstand any further near-term credit deterioration without impairing the value of our investments. In addition, the credit quality of the collateral underlying these CDOs remains investment grade.

Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these CDO investments to be other-than-temporarily impaired at December 31, 2008.

Included in the unrealized losses in the CDO sector was an unrealized loss of \$150 million on Aflac's investment of \$200 million in notes issued by Morgan Stanley ACES SPC Series 2008-6 (ACES 2008-6). The unrealized loss on ACES 2008-6 increased \$150 million during the year ended December 31, 2008. The ACES 2008-6 note is a floating rate debt instrument whose coupon is tied to the three-month US dollar LIBOR plus a spread. We believe the decline in the value of ACES 2008-6 was principally due to widening credit spreads globally, which were notably impacted or worsened by the lack of market liquidity and demand in the market environment for CDO securities as a whole. We also believe that the biggest risk to our investment in ACES 2008-6 is the potential for additional defaults on the underlying CDS reference entity portfolio as a result of weakening global economic conditions. We analyzed the number of defaults and declines in recovery values ACES 2008-6 could withstand until its maturity without experiencing

a loss of principal. We have also considered all other available factors related to our investment in ACES 2008-6 including, but not limited to, the rating of our tranche, our review of the underlying collateral, the number of below investment grade reference entities in the portfolio, the current level of CDS spreads for entities in the reference portfolio and the probability of default implied by those market levels as well as various other qualitative analyses. Additionally, the collateral underlying ACES 2008-6 are Bank of America Credit Card Trust 2007-A5 credit card ABS, currently rated Aaa, AAA, and AAA by Moody's, S&P, and Fitch, respectively.

Based on the evaluation of these factors, the outlook for projected future defaults and recoveries on the underlying CDS reference entities coupled with our review of the underlying collateral of ACES 2008-6, we concluded that the CDO continues to demonstrate a strong capability to service its debt for the foreseeable future. The ACES 2008-6 is rated BBB- by S&P. The contractual terms of this investment do not permit the issuing trust to settle the security at a price less than the amortized cost of the investment unless actual defaults, less actual recovery rates, exceed the remaining subordination in ACES 2008-6 which we believe is unlikely.

We have considered the factors impacting the fair value of ACES 2008-6 as of December 31, 2008, and based on our credit analysis, we believe that ACES 2008-6 ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in ACES 2008-06 would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

As of December 31, 2008, 70% of the securities in the other corporate sector in an unrealized loss position was investment grade, compared with 54% at the end of 2007. For any credit-related declines in market value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuers' continued ability to service our investments.

Included in the unrealized losses in the other corporate sector was an unrealized loss of \$186 million on Aflac Japan's \$329 million (¥30 billion) investment issued by Ford Motor

Credit Corporation (FMCC) as of December 31, 2008, an increase of \$139 million compared with the prior year end. This investment is a debt security issued by FMCC, a wholly owned financing subsidiary of Ford Motor Company. Ford has reiterated its commitment to continue to own 100% of FMCC, and both Moody's and Standard & Poor's rating services also expect this commitment to continue. Financial subsidy payments from Ford and lease program residual value support payments inextricably link FMCC's financing business to the parent.

The increase in the unrealized loss for FMCC related to foreign currency translation was \$38 million. We believe that the remaining increase in the unrealized loss on FMCC was related to sharply lower reported earnings by FMCC in 2008, compared with 2007. We believe FMCC's decline in profitability is largely attributable to lower loan volumes, higher credit losses, a write-down of lease residual values, market valuation adjustments for derivatives and lower financing margins. We also believe that the unrealized losses in FMCC were impacted by the widening of credit spreads globally as a result of the contraction in global capital markets liquidity over the past several quarters. However, we also believe FMCC continues to maintain adequate stand-alone liquidity and a stable credit outlook even after substantial lease residual asset write-downs. Despite the difficult market conditions, FMCC executed \$23 billion in private transactions, primarily from private term debt, securitizations, other structured financings and whole loan sales. FMCC has also increased available liquidity primarily as the result of a reduction in its managed receivables balance and the retention of higher cash balances in 2008.

We have considered the factors impacting the fair value of FMCC as of December 31, 2008, and based on our credit analysis, we believe that FMCC's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer or its parent to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in FMCC would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

Also included in the unrealized losses in the other corporate sector was an unrealized loss of \$107 million on Aflac Japan's investment of \$264 million (¥24 billion) in Tollo Shipping Company S.A. as of December 31, 2008, an increase of \$39

million as compared with the prior year end. This investment is a loan to Tollo Shipping Company S.A., guaranteed by the borrower's parent, Compania Sudamericana de Vapores S.A. (CSAV). As of December 31, 2008, CSAV was the largest shipping company in Latin America, and the 16th largest shipping company in the world. CSAV provides liner and specialized cargo services to clients worldwide with an emphasis on container shipping to and from its key markets of Chile and Brazil. Strong ties with Chile's top exporters and a well-developed logistics service are CSAV's main competitive advantages compared with other shippers with greater capacity.

The increase in the unrealized loss for CSAV related to foreign currency translation was \$22 million. We believe that the remaining decline in fair value of the security was primarily caused by two factors: depressed revenue due to competitive pricing pressures in the container shipping industry and weaker operating margins due to sharply increased fuel costs. However, CSAV continues to maintain sound liquidity, with adequate cash and cash equivalents reserves a benign debt maturity profile, and a substantial undrawn credit facility. In addition, CSAV is now in the process of raising additional share capital over the next 12 to 24 months, which will further strengthen its financial profile.

We have considered the factors impacting the fair value of CSAV as of December 31, 2008, and based on our credit analysis, we believe that CSAV's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer or its parent to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in CSAV would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

An additional amount included in the unrealized losses in the other corporate sector was an unrealized loss of \$124 million on Aflac Japan's \$384 million (¥35 billion) investment issued by Sultanate of Oman (Oman) as of December 31, 2008, an increase of \$94 million as compared with the prior year end. This investment is a debt security issued by Oman, a sovereign nation bordering the Arabian Sea, Gulf of Oman and Persian Gulf with significant natural resources in petroleum and natural gas, copper, asbestos, as well as some marble, limestone, chromium and gypsum. Oman is noted for its strong public finances, including modest indebtedness and substantial financial assets and foreign exchange reserves.

The increase in the unrealized loss on this debt security related to foreign currency translation was \$25 million. We believe that the remaining decline in the fair value of Oman was caused principally by two factors. First, a worsening in fiscal measures due to worldwide declines in oil prices and sustained social and infrastructure expenditures of the sovereign nation of the Sultanate of Oman. Second, Oman is exposed to somewhat elevated regional political risks, such as the ongoing conflicts in the Middle East and continued political tensions. Despite its economic pressures, Oman has maintained sound financial assets, substantial oil and natural gas reserves, strong and growing gross domestic production per capita, domestic political stability and strong international relations. Throughout 2008, Oman's credit rating remained at A and A2 by S&P and Moody's, respectively.

We have considered the factors impacting the fair value of Oman as of December 31, 2008, and based on our credit analysis, we believe that Oman's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer or its parent to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Since it is expected that our investment in Oman would not be settled at a price less than the amortized cost of the investment and we have the intent and ability to hold this investment until recovery of fair value, which may be maturity, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

Another amount included in the unrealized losses in other corporate sector was an unrealized loss of \$117 million on Aflac Japan's investment of \$339 million (¥30.8 billion) in UPM-Kymmene Corporation (UPM), one of the world's largest forest product companies. The unrealized loss on UPM increased \$108 million during the year ended December 31, 2008. The increase in the unrealized loss for UPM related to foreign currency translation was \$24 million. The remaining decline in value in UPM was due to the currently poor fundamental profile of the forest products sector as a whole. UPM and its peers have been negatively impacted by both weakening demand due to poor economic conditions and the significant excess capacity present in the sector. While UPM has been a leader among its peers in capacity reductions, the sector needs significantly more reductions in capacity so as to improve producer pricing power. Despite the negative outlook for the forest product sector, UPM possesses an above average competitive profile compared with its forest product peers. Through its successful efforts to control costs, improve its position in energy self-sufficiency, and diversify its products, UPM has maintained solid operating ratios, earnings profitability and liquidity. As of

December 31, 2008, UPM was rated Baa3, BBB-, and BB+ by Moody's, S&P, and Fitch, respectively, and was classified by us as an investment grade security. However, subsequent to year end, UPM was downgraded to Ba1 by Moody's. As a result of the downgrade by Moody's, we reclassified UPM to below investment grade in the first quarter of 2009 in accordance with our investment policy.

We have considered the factors impacting the fair value of UPM as of December 31, 2008, and based on our credit analysis, we believe that UPM's ability to service its obligation to Aflac is currently not impaired. Furthermore, the contractual terms of this investment do not permit the issuer or its parent to settle the security at a price less than the amortized cost of the investment. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Therefore, it is expected that our investment would not be settled at a price less than the amortized cost of the investment. Because we have the intent and ability to hold this investment in UPM until recovery of fair value, which may be the investments' respective maturities, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

We have determined that the majority of the unrealized losses on the investments in the other corporate sector were caused by widening credit spreads globally and to a lesser extent, changes in foreign exchange rates. Due to the liquidity contraction experienced in the capital markets during 2008, credit spreads continued to widen sharply throughout the year causing the increase in the unrealized losses in this sector as of December 31, 2008, compared with prior year. Also impacting the unrealized losses in this sector is the decline in credit worthiness of certain issuers in the other corporate sector. However, consistent with our above discussions of certain specific issuers within this sector, we have determined that the ability of these issuers to service our investments has not been impaired by these factors. Because we consider the decline in the value of these securities to be temporary and because we have the ability and intent to hold them until a recovery of fair value, which may be maturity, we do not consider these investments to be other than temporarily impaired at December 31, 2008. Based on our credit related reviews of the issuers in the other corporate sector, we have determined that there is little risk that we will not recover our investment in these issuers. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

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 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 as of December 31, 2008, were as follows:

Perpetual Securities

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Upper Tier II:				
	AA	\$ 3,534	\$ 3,408	\$ (126)
	A	2,599	2,448	(151)
	BBB	399	411	12
Total Upper Tier II		6,532	6,267	(265)
Tier I:				
	AA	937	683	(254)
	A	1,302	891	(411)
	BBB	170	118	(52)
	BB	133	88	(45)
Total Tier I		2,542	1,780	(762)
Total		\$ 9,074	\$ 8,047	\$(1,027)

At the end of 2008, 96% of the company's total perpetual securities in an unrealized loss position were investment grade, compared with 93% at the end of the prior year. With the exception of the previously mentioned Icelandic bank securities that we impaired in the fourth quarter of 2008, all of the perpetual securities we own were current on interest and principal payments at the end of 2008. Based on amortized cost as of December 31, 2008, the geographic breakdown by issuer was as follows: Europe (65%); the United Kingdom (20%); and Japan (12%). For any credit-related declines in market value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investment.

Included in the unrealized losses in the perpetual security category was an unrealized loss of \$106 million on Aflac Japan's investment of \$393 million (¥35.7 billion) in perpetual securities issued by Nordea Bank AB (Nordea) and its subsidiaries. Included in our total investment in Nordea was \$283 million (¥25.7 billion) of instruments considered to be Tier I instruments and \$110 million (¥10 billion) in an Upper Tier II instrument. The unrealized loss on Nordea increased \$82 million during the year ended December 31, 2008 as compared with the prior year end.

Nordea is the largest financial services group in the Nordic region with leading market positions in retail banking,

merchant banking and wealth management. Nordea is the parent of the Nordea Group. Nordea enjoys strong market positions not only in its native Sweden but also in its other key Nordic markets of Denmark, Finland and Norway.

The increase in the unrealized loss for Nordea related to foreign currency translation is approximately \$21 million. We believe that the remaining increase in the unrealized loss is related to concerns surrounding the impact of the downturn in the Nordic economies. While the Nordic economies have negatively impacted all Nordic banks, Nordea's operations and asset quality have remained relatively strong. At September 30, 2008, Nordea's ratio of non-performing loans to total assets remained relatively low compared to other competitor banks and, at the same time, Nordea reported capital adequacy margins well in excess of regulatory requirements. Furthermore, Nordea reported strong profits for the nine months ending September 30, 2008. We also believe the value of our investment in Nordea has been negatively impacted by the overall view of perpetual securities issued by banks and financial institutions due to the global financial crisis and perceived higher extension and redemption risk for perpetual securities. Although the Nordic economy has negatively impacted its operations, Nordea has maintained strong profitability, liquidity, asset quality and capitalization and has remained current on all of its debt service obligations.

We have considered risks common to perpetual securities, including deferral, extension and loss absorption, along with Nordea's leading position within the Nordic region, its diverse revenue sources and profit generation, strong asset quality, and adequate capitalization. Based upon a review of these factors, we believe that Nordea's ability to service its obligation to Aflac is currently not impaired. Accordingly, we currently believe it is probable that we will collect all amounts due according to the contractual terms of the investment. Combined with our intent and ability to hold this investment until recovery of book value, we do not consider this investment to be other-than-temporarily impaired at December 31, 2008.

We have determined that the majority of our unrealized losses in the perpetual security category, including the increase over 2007, were principally due to widening credit spreads globally largely as the result of the contraction of liquidity in the capital markets. Credit spreads for this category were also impacted by the uncertain outlook for the accounting classification of subordinated securities in certain regulatory environments, and to a lesser extent, changes in foreign exchange rates. Based on our reviews, we concluded that the ability of the issuers to service our investment has not been compromised by these factors. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming

no credit related factors develop, as the investments near economic maturity, the unrealized gains or losses can be expected to diminish. Because the unrealized losses in this sector are considered to be principally driven by widening credit spreads and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

The net effect on shareholders' equity of unrealized gains and losses from investment securities at December 31 was as follows:

(In millions)	2008	2007
Unrealized gains (losses) on securities available for sale	\$ (2,046)	\$ 941
Unamortized unrealized gains on securities transferred to held to maturity	179	343
Deferred income taxes	659	(410)
Other	(3)	-
Shareholders' equity, unrealized gains (losses) on investment securities	\$ (1,211)	\$ 874

The unrealized gains declined and the unrealized losses increased on securities available for sale during the period, such that we now reflect a net unrealized loss as of December 31, 2008. We believe the declines in unrealized gains and the increases in unrealized losses primarily resulted from a widening of credit spreads globally, increases in interest rates globally, foreign exchange rates, and the previously discussed reclassification of all of our perpetual securities to available for sale.

We attempt to match the duration of our assets with the duration of our liabilities. The following table presents the approximate duration of our yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2008	2007
Yen-denominated debt securities	12	13
Policy benefits and related expenses to be paid in future years	14	14
Premiums to be received in future years on policies in force	10	10

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 profits that have emerged from changes in mix of business and favorable experience from mortality, morbidity and expenses.

The contractual maturities of our investments in fixed maturities at December 31, 2008, appear in the table at the top of the following page.

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$ 1,613	\$ 1,642	\$ 26	\$ 27
Due after one year through five years	5,046	5,420	312	313
Due after five years through 10 years	3,061	3,129	594	596
Due after 10 years	18,766	18,151	5,281	4,585
Mortgage- and asset-backed securities	860	798	364	251
Total fixed maturities available for sale	\$ 29,346	\$ 29,140	\$ 6,577	\$ 5,772
Held to maturity:				
Due after one year through five years	\$ 1,390	\$ 1,438	\$ –	\$ –
Due after five years through 10 years	2,637	2,554	200	50
Due after 10 years	20,134	18,967	–	–
Mortgage- and asset-backed securities	75	75	–	–
Total fixed maturities held to maturity	\$ 24,236	\$ 23,034	\$ 200	\$ 50

The Parent Company has a portfolio of investment-grade available-for-sale fixed-maturity securities totaling \$111 million at amortized cost and \$100 million at fair value, which is not included in the table above.

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

As previously described, our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at issuance 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 December 31, 2008, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$ 290	\$ 284	\$ 15	\$ 7
Due after one year through five years	1,017	1,095	–	–
Due after five years through 10 years	1,839	1,944	5	2
Due after 10 years through 15 years	294	307	–	–
Due after 15 years	5,320	4,213	294	195
Total perpetual securities available for sale	\$ 8,760	\$ 7,843	\$ 314	\$ 204

We believe a principal cause of the increase in gross unrealized losses on securities available for sale was the widening of credit spreads on Aflac Japan's long-duration invested assets.

As part of our investment activities, we own investments in qualifying special purpose entities (QSPEs) and variable

interest entities (VIEs). The following details our investments in these vehicles as of December 31:

Investments in Qualified Special Purpose Entities and Variable Interest Entities

(In millions)	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
QSPEs:				
Total QSPEs	\$ 4,458*	\$ 4,372	\$ 3,288*	\$ 3,214
VIEs:				
Consolidated:				
Total VIEs consolidated	\$ 1,842	\$ 1,392	\$ 1,591	\$ 1,338
Not consolidated:				
CDOs	908	433	494	399
Other	517	499	359	361
Total VIEs not consolidated	1,425	932	853	760
Total VIEs	\$ 3,267**	\$ 2,324	\$ 2,444**	\$ 2,098

* Total QSPEs represent 6.4% of total debt and perpetual securities in 2008 and 6.0% in 2007.

** Total VIEs represent 4.7% of total debt and perpetual securities in 2008 and 4.5% in 2007.

We have no equity interests in any of the QSPEs in which we invest, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

We evaluate our involvement with VIEs at inception to determine our beneficial interests in the VIE and, accordingly, our beneficiary status. 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. We would reevaluate our beneficiary status should a reconsideration event occur. However, due to the static nature of these VIEs and our protective rights entered into as a condition of investing in the VIEs, there are few, if any, scenarios that would constitute a reconsideration event in our VIEs. To date, we have not had any reconsideration events in any of our VIEs. If we determine that we own less than 50% of the variable interest created by a VIE, we are not considered to be a primary beneficiary of the VIE and therefore are not required to consolidate the VIE.

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we absorb or participate in greater than 50%, if not all, of the variability created by these VIEs and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. The activities of these VIEs are limited to holding debt securities and utilizing the cash flows from the debt securities to service our investments therein. The terms of the debt securities held by these VIEs mirror the terms of the notes held by Aflac. Our loss exposure to these VIEs is limited to the cost of our investment. The consolidation of these investments does not impact our financial position or results of operations. We began investing

in the VIEs we consolidate in 1994 and have continued to invest in them periodically from time to time.

We also have interests in VIEs that we are not required to consolidate as reflected in the above table. Included in the VIEs that we do not consolidate are CDOs issued through VIEs originated by third party companies. These VIEs combine highly rated underlying assets as collateral for the CDOs with credit default swaps (CDS) to produce an investment security that consists of multiple asset tranches with varying levels of subordination within the VIE.

The underlying collateral assets and funding of these VIEs are generally static in nature and we do not control the activities of these VIEs. These VIEs are limited to holding the underlying collateral and CDS contracts on specific corporate entities and utilizing the cash flows from the collateral and CDS contracts to service our investment therein. The underlying collateral and the reference corporate entities covered by the CDS contracts are all investment grade at the time of issuance. These VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and CDS contracts.

We currently own only senior CDO tranches within these VIEs. At inception of our investment in these VIEs, we identify the variable interests created by the VIE and, using statistical analysis techniques, evaluate our participation in the variable interests created by them.

Consistent with our other debt securities, we are exposed to credit losses within these 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. Based on our statistical analysis models, each of the VIEs can sustain a reasonable number of defaults in the underlying CDS pools with no loss to our CDO investments.

While we may own a significant portion of the securities issued by these VIEs, we have determined that we do not participate in the majority of the variable interests created by the VIE. We also confirm with the arranging investment banks that the variable interests in which we do not retain an interest are issued to third parties unrelated to the arranging investment bank. Since we participate in less than 50% of the variable interests created by these VIEs, we are not the primary beneficiary and are therefore not required to consolidate these VIEs. We began investing in VIEs that are CDOs in 2006 and have continued to invest in them from time to time.

Included in the CDOs described above are variable interest rate CDOs purchased with the proceeds from \$200 million of variable interest rate funding agreements issued to third party

investors during the second quarter of 2008. We earn a spread between the coupon received on the CDOs and the interest credited on the funding agreements. Our obligation under these funding agreements is included in other policyholder funds.

The remaining VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicle 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 invest in less than 50% of the security interests issued by these VIEs and therefore participate in less than 50% of the variable interests created by them. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. We began investing in these VIEs in 1994 and have continued to invest in them from time to time.

The categories, ratings and weighted-average lives of the assets held by the non-consolidated VIEs that we own as of December 31, 2008, are reflected in the table below.

Category	CDO Amortized Cost (In millions)	Weighted-Average Life	Moody's Rating	S&P Rating	Fitch Rating
Floating Rate Credit Card ABS	\$ 612	6.44	Aaa	AAA	AAA
Floating Rate Guaranteed Investment Contracts (GIC)	21	8.34	Aa3	AAA	AAA
Floating Rate Note (Rabobank)	55	7.96	Aaa	AAA	AA+
Japan National Government	220	9.59	Aa3	AA	AA-
Total	\$ 908				

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. Except as relates to our review and evaluation of the structure of these VIEs in the normal course of our investment decision making process, we have not been involved in establishing these entities. We have not been nor are we required to purchase the securities issued in the future by any of 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.

We do not anticipate any impact on debt covenants, capital ratios, credit ratings or dividends should we be required to consolidate all of the VIEs we own in the future. In the event that we incur losses on the debt securities issued by these VIEs, the impact on debt covenants, capital ratios, credit ratings or dividends would be no different than the impact from losses on any of the other debt securities we own.

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

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 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 as of December 31:

(In millions)	2008	2007
Security loans outstanding, fair value	\$ 1,679	\$ 790
Cash collateral on loaned securities	1,733	808

Of the total cash collateral received from borrowers for securities loaned, \$119 million is callable at the discretion of the borrowers. The remaining amount of collateral of \$1,614 million may not be called by the borrowers prior to the expiration of the security lending contracts. All security lending agreements are callable by us at any time.

As of December 31, 2008, \$48 million, at fair value, of Aflac Japan's debt securities had been pledged to Japan's policyholder protection corporation. At December 31, 2008, debt securities with a fair value of \$14 million were on deposit with regulatory authorities in the United States and Japan. We retain ownership of all securities on deposit and receive the related investment income.

During the third quarter of 2008, Lehman Brothers Special Financing Inc. (LBSF), the swap counterparty under four of our CDO debt securities, filed for bankruptcy protection along with certain of its affiliates (including Lehman Brothers Holdings Inc., the guarantor of LBSF's obligations relating to the CDOs). We transferred these CDOs from held to maturity to available for sale as a result of the default by LBSF under the swaps. In connection with the transfer, we took an impairment charge primarily related to the foreign currency component of three of these CDOs totaling \$20 million (\$13 million after-tax). This impairment charge is included in realized investment losses during the year. At the time of the transfer and after impairment charges, these CDO debt securities had a total amortized cost of \$245 million and an unrealized gain of \$3

million. The unrealized gain related to the only CDO of the four that was not impaired. In the fourth quarter of 2008, we recognized an additional impairment charge of \$29 million (\$19 million after-tax) on these CDOs. We have taken steps to cause these CDO securities to be redeemed. However, there is a significant risk that delays and/or litigation associated with these redemptions may arise out of the ongoing bankruptcy proceedings involving LBSF and its affiliates.

We also transferred four other debt securities from held to maturity to available for sale during 2008 as a result of significant deterioration in the issuers' creditworthiness. At the time of the transfer, the first security had an amortized cost of \$94 million and an unrealized loss of \$7 million. We subsequently sold this security at a realized loss of less than \$1 million. The second security had an amortized cost of \$120 million and an unrealized loss of \$74 million at the time of transfer and was classified as below investment grade. The third security had an amortized cost of \$51 million and an unrealized loss of \$50 million at the time of transfer and was subsequently written off. At the time of the transfer and after impairment charges, the fourth security had an amortized cost of \$3 million and was classified as below investment grade.

During 2007, we reclassified an investment from held to maturity to available for sale as a result of a significant deterioration in the issuer's creditworthiness. At the date of transfer, this debt security had an amortized cost of \$169 million and an unrealized loss of \$8 million. The investment was subsequently sold at a realized gain of \$12 million.

During 2006, we reclassified an investment from held to maturity to available for sale as a result of the issuer's credit rating downgrade. At the date of transfer, this debt security had an amortized cost of \$118 million and an unrealized loss of \$15 million.

4. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The carrying values and estimated fair values of the Company's financial instruments as of December 31 were as follows:

(In millions)	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed-maturity securities	\$ 59,448	\$ 58,096	\$ 47,330	\$ 46,702
Perpetual securities	8,047	8,047	8,074	8,023
Equity securities	27	27	28	28
Liabilities:				
Notes payable (excl. capitalized leases)	1,713	1,561	1,457	1,452
Cross-currency and interest-rate swaps	158	158	35	35
Obligation to Japanese policyholder protection corporation	161	161	151	151

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

Our DCF pricing model utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads are derived based on pricing data obtained from investment brokers and take into account the current yield curve, time to maturity and subordination levels for similar securities or classes of securities. We validate the reliability of the DCF pricing models periodically by using the models to price investments for which there are quoted market prices from active and inactive markets or, in the alternative, are quoted by our custodian for the same or similar securities.

The pricing data and market quotes we obtain from outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, the inputs are re-examined and the value is confirmed or revised.

During 2008, we have noted a continued reduction in the availability of pricing data from market sources. This decline is due largely to the contraction of liquidity in the global markets and a reduction in the overall number of sources to provide pricing data. As a result, we have noted that available pricing data has become more volatile. The reduction in available pricing sources coupled with the increase in price volatility has increased the degree of management judgment required in the final determination of fair values. We continually assess the reasonableness of the pricing data we receive by comparing it to historical results. In addition to historical comparisons, we evaluate the reasonableness of the pricing data in light of current market trends and events. The final pricing data used to determine fair values is based on management's judgment.

The fair values of notes payable with fixed interest rates were obtained from an independent financial information service. The fair values of our cross-currency and interest-rate swaps are the expected amounts that we would receive or pay to terminate the swaps, taking into account current interest rates, foreign currency rates and the current creditworthiness of the swap counterparties. The fair value of the obligation to the Japanese policyholder protection corporation is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years.

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

We have outstanding cross-currency swap agreements related to the \$450 million senior notes (see Note 7). We have designated the foreign currency component of these cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. The notional amounts and terms of the swaps match the principal amount and terms of the senior notes. We entered into cross-currency swaps to minimize the impact of foreign currency translation on shareholders' equity and to reduce interest expense by converting the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations. By entering into these cross-currency swaps, we converted our \$450 million liability into a ¥55.6 billion liability, and we reduced our interest rate from 6.5% in dollars to 1.67% in yen. See Note 1 for information on the accounting policy for cross-currency swaps.

We have interest-rate swap agreements related to the ¥20 billion variable interest rate Uridashi notes (see Note 7). By entering into these contracts, we have been able to lock in the interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes. The swaps had no value at inception. Changes in the fair value of the swap contracts are recorded in other comprehensive income.

The components of the fair value of the cross-currency and interest-rate swaps were reflected as an asset or (liability) in the balance sheet as of December 31 as follows:

(In millions)	2008	2007
Interest rate component	\$ 2	\$ 7
Foreign currency component	(164)	(47)
Accrued interest component	4	5
Total fair value of cross-currency swaps and interest-rate swaps	\$ (158)	\$ (35)

The table at the top of the following page is a reconciliation of the foreign currency component of the cross-currency swaps included in accumulated other comprehensive income for the years ended December 31.

(In millions)	2008	2007	2006
Balance, beginning of period	\$ (47)	\$ (17)	\$ (22)
Increase (decrease) in fair value of cross-currency swaps	(122)	(26)	5
Interest rate component not qualifying for hedge accounting reclassified to net earnings	5	(4)	–
Balance, end of period	\$ (164)	\$ (47)	\$ (17)

The change in fair value of the interest-rate swaps, included in accumulated other comprehensive income, was immaterial during each of the years in the three-year period ended December 31, 2008.

We are exposed to credit risk in the event of nonperformance by counterparties to our cross-currency and interest-rate swaps. The counterparties to our swap agreements are U.S. and Japanese financial institutions with the following credit ratings as of December 31.

(In millions)	2008		2007	
Counterparty Credit Rating	Fair Value of Swaps	Notional Amount of Swaps	Fair Value of Swaps	Notional Amount of Swaps
AA	\$ (104)	\$ 300	\$ (24)	\$ 387
A	(54)	370	(11)	238
Total	\$ (158)	\$ 670	\$ (35)	\$ 625

We have also designated our yen-denominated Samurai and Uridashi notes (see Note 7) as nonderivative hedges of the foreign currency exposure of our investment in Aflac Japan.

SFAS 157 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. The following table presents the fair-value hierarchy levels of the Company's assets and liabilities under SFAS 157 that are measured at fair value on a recurring basis as of December 31, 2008.

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities	\$ 10,298	\$ 22,124	\$ 2,590	\$ 35,012
Perpetual securities	–	7,635	412	8,047
Equity securities	18	5	4	27
Total assets	\$ 10,316	\$ 29,764	\$ 3,006	\$ 43,086
Liabilities:				
Cross-currency and interest-rate swaps	–	158	–	158
Total liabilities	\$ –	\$ 158	\$ –	\$ 158

The fair value of our fixed maturities and equity securities categorized as Level 1 is based on quoted market prices for identical securities traded in active markets that are readily and regularly available to us.

The fair value of our fixed maturities and perpetual securities categorized as Level 2 is determined using each of the three valuation techniques described above, depending on the source and availability of market inputs.

Approximately 36% of our investments classified as Level 2 are valued by obtaining quoted market prices from our investment custodian. The custodian obtains price quotes from various pricing services who estimate their fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 59% of our Level 2 fixed maturities and perpetual securities is determined using our DCF pricing model. The significant valuation inputs to the DCF model are obtained from, or corroborated by, observable market sources from both active and inactive markets.

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

The fair value of our cross-currency and interest-rate swap contracts is based on the amount we would expect to receive or pay to terminate the swaps. The prices used to determine the value of the swaps are obtained from the respective swap counterparties and take into account current interest and foreign currency rates, duration, counterparty credit risk and our own credit rating.

The fair value of our fixed maturities classified as Level 3 consists of securities for which there are limited or no observable valuation inputs. We estimate the fair value of our Level 3 fixed maturities by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market flows. The equity securities classified in Level 3 are related to investments in Japanese businesses, each of which are insignificant and in the aggregate are immaterial. Because fair values for these investments are not readily available, we carry them at their original cost. We review each of these investments periodically and, in the event we determine that any are other-than-temporarily impaired, we write them down to their estimated fair value at that time.

The following table presents the changes in our securities available for sale classified as Level 3 for the year ended December 31, 2008.

(In millions)	Fixed maturities and perpetual securities	Equity securities	Total
Balance, beginning of year	\$ 109	\$ 3	\$ 112
Realized gains (losses) included in earnings	(57)	–	(57)
Unrealized gains (losses) included in other comprehensive income	(46)	1	(45)
Purchases and settlements	46	–	46
Transfers into Level 3	2,950	–	2,950
Balance, end of year	\$ 3,002	\$ 4	\$ 3,006
Amount of total gains (losses) for the year included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at end of year	\$ (39)	\$ –	\$ (39)

Following the first quarter of 2008, we experienced a reduction in the availability of observable valuation inputs from all of the pricing services and brokers we use to value our investment securities. Thus several valuation inputs we considered to be observable in the first quarter of 2008 were classified as non-observable in the second, third and fourth quarters of 2008. This resulted in the transfer of affected fixed maturities available for sale from the Level 2 valuation category into the Level 3 valuation category as shown in the table above.

As previously disclosed, we use various pricing sources, including brokers and arrangers to provide pricing data or valuation inputs for certain groups or classes of our securities. To the extent that one or more of the significant valuation inputs obtained from these sources is considered to be unobservable or becomes unobservable and is used to value a security, the estimated fair value for that security is considered to be a Level 3 value. Consequently, those particular securities are then classified as Level 3 valuations.

As a result of the continued contraction of observable valuation inputs, we transferred investments totaling \$2.7 billion into Level 3 during the fourth quarter of 2008. Included in these transfers were our below-investment-grade investments, callable RDC investments and certain of our private placement securities. Transfers into Level 3 prior to the fourth quarter totaled \$245 million and consisted of various other hard-to-value investment securities.

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

Some of these securities require the calculation of a theoretical forward exchange rate which is developed by using yen swap rates, U.S. dollar swap rates, interest rate volatilities, and spot exchange rates. The forward exchange rate is then used to convert all future dollar cash flows of the bond, where applicable, into yen cash flows. Additionally, credit spreads

for the individual issuers are key valuation inputs of these securities. Finally, in pricing securities with a call option, the assumptions regarding interest rates in the U.S. and Japan are considered to be significant valuation inputs. Collectively, these valuation inputs, are included to estimate the fair values of these securities at each reporting date.

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

5. DEFERRED POLICY ACQUISITION COSTS AND INSURANCE EXPENSES

Deferred Policy Acquisition Costs and Insurance Expenses:

Consolidated policy acquisition costs deferred were \$1.24 billion in 2008, compared with \$1.09 billion in 2007 and \$1.05 billion in 2006. The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	2008		2007	
	Japan	U.S.	Japan	U.S.
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 4,269	\$ 2,385	\$ 3,857	\$ 2,168
Capitalization	658	578	555	539
Amortization	(405)	(370)	(318)	(322)
Foreign currency translation and other	1,122	–	175	–
Balance, end of year	\$ 5,644	\$ 2,593	\$ 4,269	\$ 2,385

Commissions deferred as a percentage of total acquisition costs deferred were 76% in 2008, 74% in 2007 and 76% in 2006.

Personnel, compensation and benefit expenses as a percentage of insurance expenses were 43% in 2008 and 44% in both 2007 and 2006. Advertising expense is reported as incurred in insurance expenses in the consolidated statements of earnings and was as follows for each of the three years ended December 31:

(In millions)	2008	2007	2006
Advertising expense:			
Aflac Japan	\$ 86	\$ 83	\$ 82
Aflac U.S.	118	95	88
Total advertising expense	\$ 204	\$ 178	\$ 170

Depreciation and other amortization expenses, which are included in insurance expenses in the consolidated statements of earnings for the years ended December 31, appear in the table at the top of the following page.

(In millions)	2008	2007	2006
Depreciation expense	\$ 57	\$ 51	\$ 44
Other amortization expense	17	14	15
Total depreciation and other amortization expense*	\$ 74	\$ 65	\$ 59

*Aflac Japan accounted for \$43 in 2008, \$37 in 2007 and \$33 in 2006.

Lease and rental expense, which are included in insurance expenses in the consolidated statements of earnings, were as follows for the years ended December 31:

(In millions)	2008	2007	2006
Lease and rental expense:			
Aflac Japan	\$ 68	\$ 51	\$ 8
Aflac U.S.	9	8	7
Other	1	-	1
Total lease and rental expense	\$ 78	\$ 59	\$ 16

6. POLICY LIABILITIES

Our policy liabilities primarily include future policy benefits and unpaid policy claims, which accounted for 90% and 5% of total policy liabilities at December 31, 2008, respectively. We regularly review the adequacy of our policy liabilities in total and by component. The liability for future policy benefits as of December 31 consisted of the following:

(In millions)	Policy Issue Year	Liability Amounts		Interest Rates	
		2008	2007	Year of Issue	In 20 Years
Health insurance:					
Japan:	2005 - 2008	\$ 527	\$ 284	1.5 - 2.5%	1.5 - 2.5%
	1999 - 2008	9,558	6,345	3.0	3.0
	1997 - 1999	3,415	2,650	3.5	3.5
	1995 - 1996	367	283	4.0	4.0
	1994 - 1996	4,908	3,810	4.5	4.5
	1987 - 1994	21,734	17,100	5.25 - 5.5	5.25 - 5.5
	1978 - 1986	5,233	4,208	6.5 - 6.75	5.5
	1974 - 1979	1,015	859	7.0	5.0
U.S.:	2005 - 2008	1,562	1,107	5.5	5.5
	1998 - 2004	1,048	1,023	7.0	7.0
	1988 - 2004	1,016	1,057	8.0	6.0
	1986 - 2004	1,405	1,377	6.0	6.0
	1985 - 1986	25	25	6.5	6.5
	1981 - 1986	203	210	7.0	5.5
	Other	30	31		
Life insurance:					
Japan:	2007 - 2008	197	41	2.75	2.75
	2006 - 2008	301	130	2.5	2.5
	2001 - 2008	746	485	1.65 - 1.85	1.65 - 1.85
	1999 - 2008	1,592	1,155	3.0	3.0
	1997 - 2008	779	619	3.5	3.5
	1994 - 1996	1,177	948	4.0	4.0
	1985 - 1993	2,316	1,798	5.25 - 5.65	5.25 - 5.65
U.S.:	1956 - 2008	156	130	4.0 - 6.0	4.0 - 6.0
Total		\$ 59,310	\$ 45,675		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 4.6% in 2008, 4.6% in 2007 and 4.7% in 2006; and for U.S. policies, 6.1% in 2008, 6.2% in 2007 and 6.3% in 2006.

Changes in the liability for unpaid policy claims were as follows for the years ended December 31:

(In millions)	2008	2007	2006
Unpaid supplemental health claims, beginning of year	\$ 2,332	\$ 2,293	\$ 2,375
Add claims incurred during the year related to:			
Current year	6,127	5,225	5,045
Prior years	(253)	(401)	(516)
Total incurred	5,874	4,824	4,529
Less claims paid during the year on claims incurred during:			
Current year	4,177	3,600	3,435
Prior years	1,476	1,257	1,162
Total paid	5,653	4,857	4,597
Effect of foreign exchange rate changes on unpaid claims	406	72	(14)
Unpaid supplemental health claims, end of year	2,959	2,332	2,293
Unpaid life claims, end of year	159	123	97
Total liability for unpaid policy claims	\$ 3,118	\$ 2,455	\$ 2,390

The incurred claims development related to prior years reflects favorable development in the unpaid policy claims liability previously provided for. There are no additional or return of premium considerations associated with that development.

7. NOTES PAYABLE

A summary of notes payable as of December 31 follows:

(In millions)	2008	2007
6.50% senior notes due April 2009	\$ 450	\$ 450
Yen-denominated Uridashi notes:		
1.52% notes due September 2011 (principal amount ¥15 billion)	165	131
2.26% notes due September 2016 (principal amount ¥10 billion)	110	88
Variable interest rate notes due September 2011 (1.23% at December 2008, principal amount ¥20 billion)	220	175
Yen-denominated Samurai notes:		
.71% notes due July 2010 (principal amount ¥40 billion)	439	350
1.87% notes due June 2012 (principal amount ¥30 billion)	329	263
Capitalized lease obligations payable through 2013	8	8
Total notes payable	\$ 1,721	\$ 1,465

The increase in total notes payable as of December 31, 2008, compared with the prior year, is due to the change in the yen/dollar exchange rate. There were no new borrowings or loan repayments in 2008.

In June 2007, the Parent Company issued yen-denominated Samurai notes totaling ¥30 billion. We used the net proceeds of these Samurai notes to pay in full the .96% Samurai notes that were issued in 2002 and matured in June 2007. These Samurai notes issued by the Parent Company in 2007 and those issued in 2005 each have five-year maturities. Each

series of Samurai notes pays interest semiannually, may only be redeemed prior to maturity upon the occurrence of a tax event as specified in the respective bond agreement and is not available to U.S. persons.

In September 2006, the Parent Company issued three tranches of Uridashi notes totaling ¥45 billion. The first tranche totaled ¥15 billion and has a five-year maturity. The second tranche totaled ¥10 billion and has a 10-year maturity. The third tranche totaled ¥20 billion and has a five-year maturity and a variable interest coupon of six-month yen LIBOR plus a spread. We have entered into interest rate swaps related to the ¥20 billion variable interest rate notes (see Note 4). Each tranche of Uridashi notes pays interest semiannually, may only be redeemed prior to maturity upon the occurrence of a tax event as specified in the respective bond agreement and is not available to U.S. persons.

For our yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period due to changes in the yen/dollar exchange rate. We have designated all of our yen-denominated notes payable as a nonderivative hedge of the foreign currency exposure of our investment in Aflac Japan. We have also designated the interest rate swaps on our variable interest rate Uridashi notes as a hedge of the variability in our interest cash flows associated with these notes.

In 1999, we issued \$450 million of senior notes. These notes pay interest semiannually and are redeemable at our option at any time with a redemption price equal to the principal amount of the notes redeemed plus a make-whole premium. We have entered into cross-currency swaps related to these notes (see Note 4). By entering into these cross-currency swaps, we converted our \$450 million liability into a ¥55.6 billion liability, and we reduced our interest rate from 6.5% in dollars to 1.67% in yen. We plan to either refinance, subject to market conditions, or use existing cash to pay off the aforementioned senior notes when they mature in April 2009.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2008, are as follows:

(In millions)	Long-term Debt	Capitalized Lease Obligations	Total Notes Payable
2009	\$ 450	\$ 3	\$ 453
2010	439	3	442
2011	385	1	386
2012	329	1	330
2013	—	—	—
Thereafter	110	—	110
Total	\$ 1,713	\$ 8	\$ 1,721

We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of

our notes payable at December 31, 2008. No events of default or defaults occurred during 2008 and 2007.

8. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the years ended December 31 were as follows:

(In millions)	Japan	U.S.	Total
2008:			
Current	\$ 409	\$ 227	\$ 636
Deferred	109	(85)	24
Total income tax expense	\$ 518	\$ 142	\$ 660
2007:			
Current	\$ 450	\$ 98	\$ 548
Deferred	222	95	317
Total income tax expense	\$ 672	\$ 193	\$ 865
2006:			
Current	\$ 398	\$ 21	\$ 419
Deferred	229	133	362
Total income tax expense	\$ 627	\$ 154	\$ 781

Income tax expense in the accompanying statements of earnings varies from the amount computed by applying the expected U.S. tax rate of 35% to pretax earnings. The principal reasons for the differences and the related tax effects for the years ended December 31 were as follows:

(In millions)	2008	2007	2006
Income taxes based on U.S. statutory rates	\$ 670	\$ 875	\$ 792
Utilization of foreign tax credit	(27)	(23)	(21)
Nondeductible expenses	11	11	10
Other, net	6	2	—
Income tax expense	\$ 660	\$ 865	\$ 781

Total income tax expense for the years ended December 31, was allocated as follows:

(In millions)	2008	2007	2006
Statements of earnings	\$ 660	\$ 865	\$ 781
Other comprehensive income:			
Change in unrealized foreign currency translation gains (losses) during year	(457)	(82)	10
Pension liability adjustment during year	(29)	5	3
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	(716)	(291)	(226)
Reclassification adjustment for realized (gains) losses included in net earnings	(353)	(10)	(28)
Total income tax expense (benefit) allocated to other comprehensive income	(1,555)	(378)	(241)
Additional paid-in capital (exercise of stock options)	(16)	(51)	(18)
Adoption of SFAS 158	—	—	(25)
Total income taxes	\$ (911)	\$ 436	\$ 497

Changes in unrealized foreign currency translation gains/losses included a deferred income tax benefit of \$329 million in 2008, compared with a deferred income tax benefit of \$55 million in 2007 and a deferred income tax expense of \$11 million in 2006.

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities as of December 31 were as follows:

(In millions)	2008	2007
Deferred income tax liabilities:		
Deferred policy acquisition costs	\$ 2,356	\$ 1,847
Unrealized gains on investment securities	–	92
Difference in tax basis of investment in Aflac Japan	–	6
Other basis differences in investment securities	112	528
Premiums receivable	155	143
Policy benefit reserves	735	302
Other	–	185
Total deferred income tax liabilities	3,358	3,103
Deferred income tax assets:		
Depreciation	128	102
Policyholder protection corporation obligation	48	56
Difference in tax basis of investment in Aflac Japan	172	–
Unfunded retirement benefits	44	43
Other accrued expenses	65	49
Unrealized losses on investment securities	1,189	–
Policy and contract claims	106	76
Unrealized exchange loss on yen-denominated notes payable	184	57
Deferred compensation	131	85
Capital loss carryforwards	76	–
Other	229	416
Total deferred income tax assets	2,372	884
Net deferred income tax liability	986	2,219
Current income tax liability	215	312
Total income tax liability	\$ 1,201	\$ 2,531

A valuation allowance is provided when it is more likely than not that deferred tax assets will not be realized. In prior years, we established valuation allowances primarily for alternative minimum tax credit and noninsurance loss carryforwards that exceeded projected future offsets. Under U.S. income tax rules, only 35% of noninsurance losses can be offset against life insurance taxable income each year. For current U.S. income tax purposes, there were no alternative minimum tax credit carryforwards available at December 31, 2008. The Company has capital loss carryforwards of \$217 million available to offset capital gains through 2013.

We file federal income tax returns in the United States and Japan as well as state or prefecture income tax returns in various jurisdictions in the two countries. U.S. federal and state income tax returns for years before 2004 are no longer subject to examination. We are currently under examination by the IRS in the U.S. for tax years 2006 and 2007 and by the National Tax Agency (NTA) in Japan for tax years 2004 through 2007.

We adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), on January 1, 2007 (see Note 1). There was no change in the liability for unrecognized tax benefits as a result of the implementation of FIN 48 and therefore no adjustment to retained earnings upon adoption. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows for the years ended December 31:

(In millions)	2008	2007
Balance, beginning of year	\$ 50*	\$ 43*
Additions for tax positions of prior years	18	18
Reductions for tax positions of prior years	(11)	(11)
Balance, end of year	\$ 57*	\$ 50*

*Amounts do not include tax deductions of \$14 at January 1, 2007, \$18 at December 31, 2007, and \$20 at December 31, 2008.

Included in the balance of the liability for unrecognized tax benefits at December 31, 2008, are \$56 million of tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility, compared with \$51 million at December 31, 2007. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate, but would accelerate the payment of cash to the taxing authority to an earlier period. The Company has accrued approximately \$4 million as of December 31, 2008, for permanent uncertainties, which if reversed would not have a material effect on the annual effective rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized approximately \$5 million in interest and penalties in 2008, compared with \$3 million in 2007 and \$2 million in 2006. The Company has accrued approximately \$37 million for the payment of interest and penalties as of December 31, 2008, compared with \$32 million a year ago.

As of December 31, 2008, there were no material uncertain tax positions for which the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

9. SHAREHOLDERS' EQUITY

The following table is a reconciliation of the number of shares of the Company's common stock for the years ended December 31.

(In thousands of shares)	2008	2007	2006
Common stock - issued:			
Balance, beginning of year	658,604	655,715	654,522
Exercise of stock options and issuance of restricted shares	1,431	2,889	1,193
Balance, end of year	660,035	658,604	655,715
Treasury stock:			
Balance, beginning of year	172,074	163,165	155,628
Purchases of treasury stock:			
Open market	23,201	11,073	10,265
Other	146	559	55
Dispositions of treasury stock:			
Shares issued to AFL Stock Plan	(1,523)	(1,400)	(1,461)
Exercise of stock options	(413)	(1,206)	(1,240)
Other	(65)	(117)	(82)
Balance, end of year	193,420	172,074	163,165
Shares outstanding, end of year	466,615	486,530	492,550

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share. The following table presents the approximate number of stock options 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 at December 31:

(In thousands)	2008	2007	2006
Anti-dilutive stock options	2,179	1,695	1,795

The weighted-average shares used in calculating earnings per share for the years ended December 31 were as follows:

(In thousands of shares)	2008	2007	2006
Weighted-average outstanding shares used for calculating basic EPS	473,405	487,869	495,614
Dilutive effect of share-based awards	5,410	6,102	6,213
Weighted-average outstanding shares used for calculating diluted EPS	478,815	493,971	501,827

Share Repurchase Program: Under share repurchase authorizations from our board of directors, we purchased 23.2 million shares of our common stock in 2008, funded with internal capital. The total 23.2 million shares was comprised of a 12.5 million share purchase through an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) and a 10.7 million share purchase through Goldman, Sachs & Co. (GS&Co.).

On February 4, 2008, we entered into an agreement for an accelerated share repurchase (ASR) program with Merrill Lynch. Under the agreement, we purchased 12.5 million shares of our outstanding common stock at \$60.61 per share for an initial purchase price of \$758 million. The shares were acquired as a part of previously announced share repurchase authorizations by our board of directors and are held in treasury. The ASR program was settled during the second quarter of 2008, resulting in a purchase price adjustment of

\$40 million, or \$3.22 per share, paid to Merrill Lynch based upon the volume-weighted average price of our common stock during the ASR program period. The total purchase price for the 12.5 million shares was \$798 million, or \$63.83 per share.

On August 26, 2008, we entered into an agreement for a share repurchase program with GS&Co. Under the agreement, which had an original termination date of February 18, 2009, we paid \$825 million to GS&Co. for the repurchase of a variable number of shares of our outstanding common stock over the stated contract period. On October 2, 2008, due to market conditions, we took early delivery of 10.7 million shares, which we hold in treasury, at a total purchase price of \$683 million, or \$63.87 per share. We also received unused funds of \$142 million from GS&Co.

As of December 31, 2008, a remaining balance of 32.4 million shares were available for purchase; 2.4 million shares are the remainder from a board authorization in 2006 and 30.0 million shares were authorized by the board of directors for purchase in January 2008.

Voting Rights: In accordance with the Parent Company's articles of incorporation, shares of common stock are generally entitled to one vote per share until they have been held by the same beneficial owner for a continuous period of 48 months, at which time they become entitled to 10 votes per share.

10. SHARE-BASED TRANSACTIONS

As of December 31, 2008, 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 and generally vest after three years. The strike 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. Generally, the awards vest based upon time-based conditions or time- and performance-based conditions. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. As of December 31, 2008, approximately 20.7 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 upon exercise with authorized but unissued Company stock, while those issued to Japan-based grantees are settled upon exercise with treasury shares.

The following table presents the expense recognized in connection with share-based awards for the periods ended December 31.

(In millions, except for per-share amounts)	2008	2007	2006
Earnings from continuing operations	\$ 42	\$ 42	\$ 35
Earnings before income taxes	42	42	35
Net earnings	29	29	25
Net earnings per share:			
Basic	\$.06	\$.06	\$.05
Diluted	.06	.06	.05

We estimate the fair value of each stock option granted using the Black-Scholes-Merton multiple option approach. Expected volatility is based on historical periods generally commensurate with the estimated term of options. We use historical data to estimate option exercise and termination patterns within the model. Separate groups of employees that have similar historical exercise patterns are stratified and considered separately for valuation purposes. The expected term of options granted is derived from the output of our option model and represents the weighted-average period of time that options granted are expected to be outstanding. We base the risk-free interest rate on the Treasury note rate with a term comparable to that of the estimated term of options. The weighted-average fair value of options at their grant date was \$17.21 for 2008, compared with \$16.06 for 2007 and \$15.28 in 2006. The following table presents the assumptions used in valuing options granted during the years ended December 31.

	2008	2007	2006
Expected term (years)	7.0	7.4	6.7
Expected volatility	25.0%	25.0%	28.0%
Annual forfeiture rate	.8	.8	.8
Risk-free interest rate	3.5	4.7	4.5
Dividend yield	1.3	1.3	1.1

The following table summarizes stock option activity.

(In thousands of shares)	Stock Option Shares	Weighted-Average Exercise Price Per Share	
Outstanding at December 31, 2005	19,981	\$ 27.40	
Granted in 2006	2,456	45.08	
Canceled in 2006	(90)	39.72	
Exercised in 2006	(2,241)	18.61	
Outstanding at December 31, 2006	20,106	30.48	
Granted in 2007	1,244	49.35	
Canceled in 2007	(133)	43.64	
Exercised in 2007	(4,640)	20.94	
Outstanding at December 31, 2007	16,577	34.46	
Granted in 2008	1,703	59.78	
Canceled in 2008	(146)	44.69	
Exercised in 2008	(1,798)	25.91	
Outstanding at December 31, 2008	16,336	\$ 37.95	
(In thousands of shares)	2008	2007	2006
Shares exercisable, end of year	12,382	12,653	16,094

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008.

(In thousands of shares)	Options Outstanding			Options Exercisable	
	Range of Exercise Prices Per Share	Stock Option Shares Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price Per Share	Stock Option Shares Exercisable
\$ 21.16 – \$ 23.87	2,587	1.4	\$ 23.10	2,587	\$ 23.10
24.00 – 30.38	2,291	2.5	27.57	2,291	27.57
30.57 – 38.74	2,906	4.5	33.01	2,906	33.01
38.75 – 42.85	2,571	5.5	39.88	2,534	39.85
43.07 – 47.25	3,120	7.3	44.73	1,493	44.41
47.32 – 67.67	2,861	8.7	55.59	571	48.95
\$ 21.16 – \$ 67.67	16,336	5.2	\$ 37.95	12,382	\$ 33.44

As of December 31, 2008, the aggregate intrinsic value of stock options outstanding was \$158 million, with a weighted-average remaining term of 5.2 years. The aggregate intrinsic value of stock options exercisable at that same date was \$156 million, with a weighted-average remaining term of 4.1 years.

The following table summarizes stock option activity during the years ended December 31.

(In millions)	2008	2007	2006
Total intrinsic value of options exercised	\$ 59	\$ 154	\$ 62
Cash received from options exercised	38	52	38
Tax benefit realized as a result of options exercised and restricted stock releases	23	51	19

The value of restricted stock awards is based on the fair market value of our common stock at the date of grant. The following table summarizes restricted stock activity during the years ended December 31.

(In thousands of shares)	Shares	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock at December 31, 2005	270	\$ 39.58
Granted in 2006	357	46.96
Canceled in 2006	(8)	42.92
Vested in 2006	(6)	38.75
Restricted stock at December 31, 2006	613	43.84
Granted in 2007	391	48.43
Canceled in 2007	(21)	45.88
Vested in 2007	(9)	42.06
Restricted stock at December 31, 2007	974	45.65
Granted in 2008	302	61.00
Canceled in 2008	(17)	52.86
Vested in 2008	(262)	39.95
Restricted stock at December 31, 2008	997	\$ 51.68

As of December 31, 2008, total compensation cost not yet recognized in our financial statements related to restricted stock awards was \$21 million, of which \$10 million (480 thousand shares) was related to restricted-share-based awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately 1.1 years. There are no other contractual terms covering restricted stock awards once vested.

11. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Our insurance subsidiary is required to report its results of operations and financial position to state insurance regulatory authorities on the basis of statutory accounting practices prescribed or permitted by such authorities.

As determined on a U.S. statutory accounting basis, Aflac's net income was \$1.2 billion in 2008, \$1.8 billion in 2007 and \$1.7 billion in 2006. Capital and surplus was \$4.6 billion at December 31, 2008 and \$4.2 billion at December 31, 2007.

Net assets of the insurance subsidiaries aggregated \$8.0 billion at December 31, 2008, on a GAAP basis, compared with \$9.1 billion a year ago. Aflac Japan accounted for \$5.9 billion, or 73.7%, of net assets at December 31, 2008, compared with \$6.0 billion, or 66.8%, at December 31, 2007.

Reconciliations of Aflac's net assets on a GAAP basis to capital and surplus determined on a U.S. statutory accounting basis as of December 31 were as follows:

(In millions)	2008	2007
Net assets on GAAP basis	\$ 7,985	\$ 9,050
Adjustment of carrying values of investments	1,835	(1,283)
Elimination of deferred policy acquisition costs	(8,111)	(6,540)
Adjustment to policy liabilities	2,474	1,928
Adjustment to deferred income taxes	593	1,813
Other, net	(175)	(760)
Capital and surplus on U.S. statutory accounting basis	\$ 4,601	\$ 4,208

Aflac Japan must report its results of operations and financial position to the Japanese Financial Services Agency (FSA) on a Japanese regulatory accounting basis as prescribed by the FSA. Capital and surplus (unaudited) of Aflac Japan, based on Japanese regulatory accounting practices, aggregated \$2.0 billion at December 31, 2008, and \$2.5 billion at December 31, 2007. Japanese regulatory accounting practices differ in many respects from U.S. GAAP. Under Japanese regulatory accounting practices, policy acquisition costs are charged off immediately; deferred income tax liabilities are recognized on a different basis; policy benefit and claim reserving methods and assumptions are different; the carrying value of securities transferred to held to maturity is different; policyholder protection corporation obligations are not accrued; and premium income is recognized on a cash basis.

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent the undistributed earnings of our insurance subsidiary. Amounts available for dividends, management fees and other payments to the Parent Company by its insurance subsidiary may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. Our insurance subsidiary must maintain adequate risk-based capital for U.S. regulatory authorities and our Japan branch must maintain adequate solvency margins for Japanese regulatory authorities. Additionally, 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 gain 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 2009 in excess of \$1.2 billion would require such approval. Dividends declared by Aflac during 2008 were \$1.1 billion.

A portion of Aflac Japan earnings, as determined on a Japanese regulatory accounting basis, can be repatriated each year to Aflac U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit repatriations to the United States can fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory earnings include Japanese regulatory accounting practices and fluctuations in currency translation of Aflac Japan's dollar-denominated investments and related investment income into

yen. Profits repatriated by Aflac Japan to Aflac U.S. were as follows for the years ended December 31:

(In millions of dollars and billions of yen)	In Dollars			In Yen		
	2008	2007	2006	2008	2007	2006
Profit repatriation	\$ 598	\$ 567	\$ 442	¥ 64.1	¥ 67.8	¥ 50.0

12. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees in the United States and Japan.

On December 31, 2006, we adopted the recognition and disclosure provisions and early adopted the measurement date provisions of SFAS 158. This pronouncement requires the recognition of the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of our benefit plans in our financial statements, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs or credits, as applicable, and the unrecognized transition asset remaining from the initial adoption of SFAS 87, all of which were previously netted against the plan's funded status in the past under the provisions of SFAS 87. These amounts will be subsequently recognized as net periodic pension cost over future periods consistent with our historical accounting policy for amortizing such amounts. Further, the components of the benefit obligations that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods are recognized as a component of other comprehensive income. Those amounts will also be subsequently recognized as a component of net periodic pension cost as previously described. The adoption of SFAS 158 had no effect on our net earnings for any period presented, and it will not affect our operating results in future periods.

The following table summarizes the amounts included in accumulated other comprehensive income as of December 31.

(In millions)	2008		2007	
	Japan	U.S.	Japan	U.S.
Net loss	\$ 64	\$ 102	\$ 36	\$ 47
Prior service cost (credit)	(5)	1	(4)	1
Transition obligation	2	-	2	-
Total	\$ 61	\$ 103	\$ 34	\$ 48

No prior service costs or credits arose during 2008 and the amounts of prior service costs and credits as well as transition obligation amortized to expense were immaterial for the years ended December 31, 2008, 2007 and 2006. Amortization of actuarial losses to expense in 2009 is estimated to be \$3 million for the Japanese plan and \$4 million for the U.S. plan, while the amortization of prior service costs and credits and transition obligation are expected to be negligible.

The following table summarizes the amounts recognized in other comprehensive loss (income) for the years ended December 31.

(In millions)	2008		2007	
	Japan	U.S.	Japan	U.S.
Net loss (gain)	\$ 17	\$ 57	\$ 2	\$ (11)
Amortization of net loss	(2)	(2)	(1)	(4)
Total	\$ 15	\$ 55	\$ 1	\$ (15)

Reconciliations of the funded status of the basic employee defined-benefit pension plans with amounts recognized in the consolidated balance sheets as of December 31 were as follows:

(In millions)	2008		2007	
	Japan	U.S.	Japan	U.S.
Projected benefit obligation:				
Benefit obligation, beginning of year	\$ 125	\$ 186	\$ 110	\$ 184
Service cost	11	10	9	10
Interest cost	3	11	3	10
Actuarial loss (gain)	(1)	(2)	-	(14)
Benefits paid	(2)	(4)	(2)	(4)
Effect of foreign exchange rate changes	33	-	5	-
Benefit obligation, end of year	169	201	125	186
Plan assets:				
Fair value of plan assets, beginning of year	79	150	66	126
Actual return on plan assets	(16)	(48)	-	8
Employer contribution	14	30	11	20
Benefits paid	(2)	(4)	(2)	(4)
Effect of foreign exchange rate changes	19	-	4	-
Fair value of plan assets, end of year	94	128	79	150
Funded status	\$ (75)	\$ (73)	\$ (46)	\$ (36)
Accumulated benefit obligation	\$ 146	\$ 151	\$ 106	\$ 139

At December 31, 2008, other liabilities included a liability for both plans in the amount of \$148 million, compared with \$82 million a year ago. In December 2008, we pre-funded \$10 million to the U.S. plan that we had originally planned to contribute in 2009. We accelerated the timing of this contribution to improve the funded status of the plan in light of the effect that recent market volatility has had on plan asset fair values. We plan to make contributions of \$10 million to the U.S. plan and \$16 million to the Japanese plan in 2009.

The composition of plan assets as of December 31 was as follows:

	2008		2007	
	Japan	U.S.	Japan	U.S.
Equity securities	30%	61%	36%	61%
Fixed-income securities	70	34	64	34
Cash and cash equivalents	-	1	-	1
Other	-	4	-	4
Total	100%	100%	100%	100%

Equity securities held by our U.S. plan included \$3 million (2.1% of plan assets) of Aflac Incorporated common stock at December 31, 2008, compared with \$4 million (2.5% of plan assets) at December 31, 2007. Target asset allocations for U.S. plan assets are 60% to 65% equity securities, 35% to 40% fixed-income securities and 0% to 3% cash and cash equivalents. Target asset allocations for Japanese plan assets are 35% equity securities and 65% fixed-income securities. As discussed below, the investment strategy of our pension plans is long-term in nature.

The investment objective of our U.S. and Japanese plans is to preserve the purchasing power of the plan's assets and earn a reasonable inflation adjusted rate of return over the long term. Furthermore, we seek to accomplish these objectives in a manner that allows for the adequate funding of plan benefits and expenses. In order to achieve these objectives, our goal is to maintain a conservative, well-diversified and balanced portfolio of high-quality equity, fixed-income and money market securities. As a part of our strategy, we have established strict policies covering quality, type and concentration of investment securities. For our U.S. plan, these policies prohibit investments in precious metals, limited partnerships, venture capital, and direct investments in real estate. We are also prohibited from trading on margin. For our Japanese plan, these policies include limitations on investments in derivatives including futures, options and swaps, and low-liquidity investments such as real estate, venture capital investments, and privately issued securities.

We monitor the U.S. plan's performance over a three- to five-year period utilizing shorter time frame performance measures to identify trends. We review investment performance and compliance with stated investment policies and practices on a quarterly basis. The specific investment objectives for the U.S. pension plan are: to exceed a composite of asset class target returns, weighted according to the plan's target asset allocation; and to outperform the median fund from a universe of similarly managed corporate pension funds. Both objectives are measured over a rolling three- to five-year period. We monitor the Japanese plan's asset allocation and compliance with stated investment policies and practices. The Japanese plan's performance is reviewed on a quarterly basis by asset

allocation. The specific investment objective for the Japanese plan is to outperform the projected long-term rate of return used to determine the Japanese plan's pension obligation.

Expected future benefit payments for the U.S. and Japanese plans are as follows:

(In millions)	Japan	U.S.
2009	\$ 4	\$ 4
2010	5	5
2011	5	5
2012	6	6
2013	6	7
2014 - 2018	36	48

The components of retirement expense and actuarial assumptions for the Japanese and U.S. pension plans for the years ended December 31 were as follows:

(In millions)	2008		2007		2006	
	Japan	U.S.	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	\$ 11	\$ 10	\$ 9	\$ 10	\$ 8	\$ 9
Interest cost	3	11	3	10	3	9
Expected return on plan assets	(2)	(12)	(2)	(10)	(1)	(7)
Amortization of net actuarial loss	2	2	1	4	2	3
Net periodic benefit cost	\$ 14	\$ 11	\$ 11	\$ 14	\$ 12	\$ 14

Weighted-average actuarial assumptions used in the calculations:

Discount rate – net periodic benefit cost	2.50%	6.00%	2.50%	5.50%	2.50%	5.50%
Discount rate – benefit obligations	2.50	6.25	2.50	6.00	2.50	5.50
Expected long-term return on plan assets	2.50	8.00	2.50	8.00	2.50	8.00
Rate of compensation increase	N/A*	4.00	N/A*	4.00	N/A*	4.00

*Not applicable

In Japan, participant salary and future salary increases are not factors in determining pension benefit cost or the related pension benefit obligation.

We base the long-term rate of return on U.S. plan assets on the historical rates of return over the last 15 years and the expectation of similar returns over the long-term investment goals and objectives of U.S. plan assets. We base the long-term rate of return on the Japanese plan assets on the historical rates of return over the last 10 years.

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. Retirement expense for these unfunded supplemental plans was \$11 million in

2008, \$5 million in 2007 and \$16 million in 2006. The accrued retirement liability for the unfunded supplemental retirement plans was \$217 million at December 31, 2008, compared with \$204 million a year ago. The assumptions used in the valuation of these plans were the same as for the funded plans.

Stock Bonus Plan: Aflac U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of Aflac Incorporated common stock based on their new annualized premium sales and their first-year persistency of substantially all new insurance policies. The cost of this plan, which is included in deferred policy acquisition costs, amounted to \$46 million in 2008, \$45 million in 2007 and \$40 million in 2006.

13. COMMITMENTS AND CONTINGENT LIABILITIES

We have three outsourcing agreements with IBM. The first agreement provides mainframe computer operations and support for Aflac Japan. It has a remaining term of seven years and an aggregate remaining cost of ¥21.0 billion (\$230 million using the December 31, 2008, exchange rate). The second agreement provides distributed computer mid-range server operations and support for Aflac Japan. It has a remaining term of seven years and an aggregate remaining cost of ¥26.7 billion (\$293 million using the December 31, 2008, exchange rate). The third agreement provides application maintenance and development services for Aflac Japan. It has a remaining term of four years and an aggregate remaining cost of ¥7.2 billion (\$79 million using the December 31, 2008, exchange rate).

We have an outsourcing agreement with Accenture to provide application maintenance and development services for our Japanese operation. The agreement has a remaining term of six years with an aggregate remaining cost of ¥6.0 billion (\$66 million using the December 31, 2008, exchange rate).

We lease office space and equipment under agreements that expire in various years through 2019. Future minimum lease payments due under non-cancelable operating leases at December 31, 2008, were as follows:

(In millions)	
2009	\$ 63
2010	31
2011	14
2012	12
2013	12
Thereafter	41
Total future minimum lease payments	\$ 173

In a strategic marketing effort to continue to reach business decision makers and the large and loyal NASCAR fan base to

grow our U.S. business, we have entered into an \$84 million agreement with Roush Fenway for the primary sponsorship of racing driver Carl Edwards, starting in 2009 and continuing through 2011. We plan to contract with co-sponsors during the term of this agreement, which could reduce our total cost.

In 2005, we announced a multiyear building project for additional office space in Columbus, Georgia. The initial phase was completed in 2007 at a cost of \$27 million. The second phase of the expansion is to be completed in 2009 and is expected to cost approximately \$48 million.

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.

14. SUPPLEMENTARY INFORMATION

(In millions)	2008	2007	2006
Supplemental disclosures of cash flow information:			
Income taxes paid	\$ 765	\$ 416	\$ 569
Interest paid	27	26	15
Impairment losses included in realized investment gains (losses)	752	22	1
Noncash financing activities:			
Capitalized lease obligations	3	1	9
Dividends declared	131	-	91
Treasury stock issued for:			
Associate stock bonus	43	38	35
Shareholder dividend reinvestment	20	19	15
Share-based compensation grants	2	2	2

Auditors' Report

Report of Independent Registered Public Accounting Firm

The shareholders and board of directors of Aflac Incorporated:

We have audited the accompanying consolidated balance sheets of Aflac Incorporated and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aflac Incorporated and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, as of January 1, 2006. Additionally, as discussed in Notes 1 and 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aflac Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 19, 2009, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Atlanta, Georgia
February 19, 2009

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2008, which is included herein.

Auditors' Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The shareholders and board of directors of Aflac Incorporated:

We have audited Aflac Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Aflac Incorporated's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aflac Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aflac Incorporated and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2008, and our report dated February 19, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Atlanta, Georgia
February 19, 2009

Unaudited Consolidated Quarterly Financial Data and Common Stock Prices

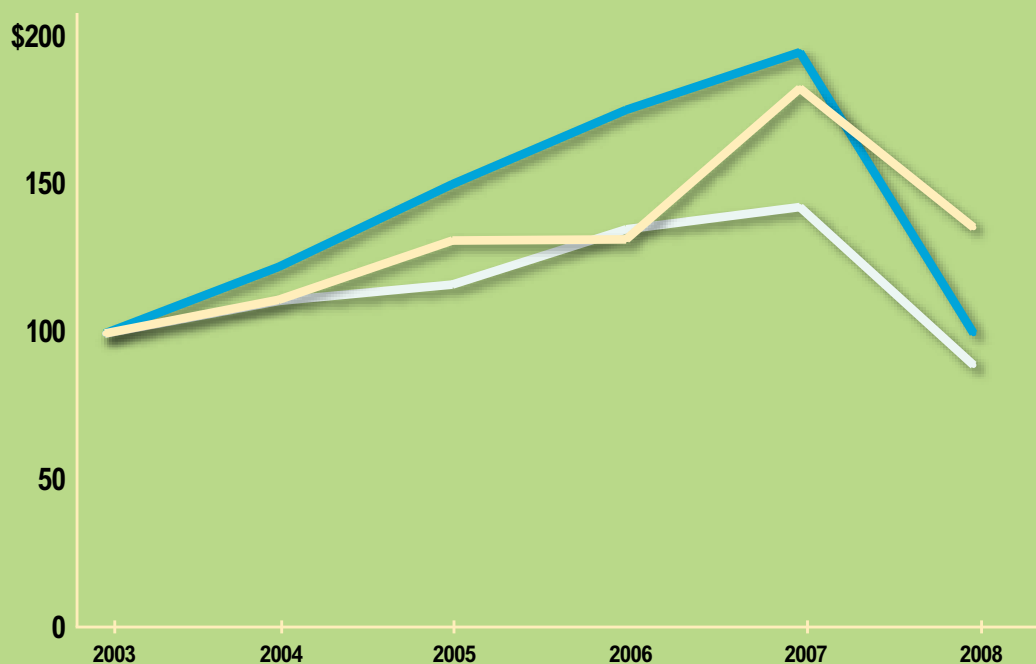
In management's opinion, this quarterly financial information fairly presents the results of operations for such periods and is prepared on a basis consistent with our annual audited financial statements.

(In millions, except for per-share amounts)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Premium income	\$3,635	\$3,684	\$3,647	\$3,981	\$3,156	\$3,162	\$3,260	\$3,395
Net investment income	627	637	637	677	566	572	592	604
Realized investment gains (losses)	(7)	(1)	(597)	(402)	13	15	1	(1)
Other income	12	16	4	4	16	15	8	20
Total revenues	4,267	4,336	3,691	4,260	3,751	3,764	3,861	4,018
Total benefits and expenses	3,541	3,596	3,543	3,959	3,115	3,129	3,219	3,433
Earnings before income taxes	726	740	148	301	636	635	642	585
Total income tax	252	257	48	104	220	220	222	203
Net earnings	\$ 474	\$ 483	\$ 100	\$ 197	\$ 416	\$ 415	\$ 420	\$ 382
Net earnings per basic share	\$.99	\$ 1.02	\$.21	\$.42	\$.85	\$.85	\$.86	\$.79
Net earnings per diluted share	.98	1.00	.21	.42	.84	.84	.85	.78
Cash dividends paid per share	\$.24	\$.24	\$.24	\$.24	\$.185	\$.205	\$.205	\$.205
Common stock prices:								
High	67.00	68.81	68.00	60.73	49.37	54.00	57.44	63.91
Low	56.75	62.52	51.25	29.68	45.18	47.00	50.19	55.77

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.

Comparison Of Five-Year Cumulative Total Return*

Among Aflac Incorporated, the S&P 500 Index and the S&P Life & Health Insurance Index



Aflac Incorporated	100.00	111.20	130.91	131.29	181.50	135.25
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
S&P Life & Health Insurance	100.00	122.14	149.64	174.35	193.53	100.02

*\$100 invested on 12/31/03 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Board of Directors



Daniel P. Amos, 57, chairman and chief executive officer of Aflac and Aflac Incorporated, has been with the company full-time since 1973. He was named president of Aflac in 1983, chief operating officer in 1987, chief executive officer of

Aflac Incorporated in 1990, and chairman in 2001. He has been a member of Aflac Incorporated's board since 1983.



John Shelby Amos II, 56, Alabama/West Florida state sales coordinator for Aflac U.S., has served in a variety of sales positions with the company for the past 34 years. He was first elected to Aflac Incorporated's board in 1983.



Paul S. Amos II, 33, president of Aflac and chief operating officer of Aflac U.S., joined Aflac in 2002 as state sales coordinator of Georgia North. He was promoted to executive vice president in 2005, assumed additional responsibilities as

Aflac U.S. chief operating officer in 2006 and was promoted to his current position in 2007. He joined Aflac Incorporated's board in 2007.



Yoshiro Aoki, 63, president of Seiwa Sogo Tatemono Co., Ltd. and corporate auditor of Chuo Real Estate Co., Ltd., Yushu Corp. and Gekkeikan Sake Co., Ltd., previously held the positions of deputy president of Mizuho Research Institute Ltd.

and senior managing director of Mizuho Bank, Ltd. He also held various positions at the Dai-ichi Kangyo Bank, Ltd., including senior managing director and managing executive officer. He joined Aflac's board in 2007.



Michael H. Armacost, 71, Shorenstein Distinguished Fellow at Stanford University's Asia-Pacific Research Center, retired in June 2002 as president and trustee of The Brookings Institution, a private nonpartisan organization devoted to public

policy research. A former undersecretary of state for political affairs, Mr. Armacost was U.S. ambassador to Japan from 1989 to 1993. Mr. Armacost joined Aflac Incorporated's board in 1994.



Kriss Cloninger III, 61, president, chief financial officer and treasurer of Aflac Incorporated, joined Aflac in 1992 as senior vice president and CFO after working with Aflac as a consulting actuary since 1977. He was named president of Aflac

Incorporated and elected to its board in 2001.



Joe Frank Harris, 73, previously a distinguished executive fellow at Georgia State University and a lecturer in its School of Policy Studies, serves as chairman of the board of Harris Georgia Corporation, an industrial development firm.

Mr. Harris was governor of Georgia from 1983 to 1991. He joined Aflac Incorporated's board in 1991.



Elizabeth Hudson, 59, executive vice president of communications for the National Geographic Society, previously held similar positions with iVillage, the Reader's Digest Association and NBC. She also was

previously a director in Spencer Stuart's Media & Communication Practice. She joined Aflac Incorporated's board in 1990.



Kenneth S. Janke Sr., 74, chairman emeritus of the National Association of Investors Corporation (NAIC), a nonprofit association dedicated to education for individual investors, also served as chairman, president and

director of the NAIC Growth Fund. He was first elected to Aflac Incorporated's board in 1989.



Douglas W. Johnson, 65, certified public accountant and retired Ernst & Young LLP audit partner, has spent the majority of his career auditing companies in the life, health and property/casualty segments of the insurance industry. He joined

Aflac Incorporated's board in 2003.



Robert B. Johnson, 64, senior counselor, Porter Novelli PR, was formerly chairman and CEO of the One America Foundation (an organization that promotes dialogue and solidarity among Americans of all races). He previously served

in President Clinton's White House as an assistant to the president and director of the president's initiative for One America. He has been on Aflac Incorporated's board since 2002.



Charles B. Knapp, 62, director of educational development for the CF Foundation, is president emeritus, a professor of economics and distinguished public service fellow at the University of Georgia. Dr. Knapp also serves as the

Chairman of the Board of the East Lake Foundation, which is the organization responsible for leading the revitalization of the East Lake community in Atlanta. He joined Aflac Incorporated's board in 1990.



E. Stephen Purdom, M.D., 61, former executive vice president of insurance operations for Aflac U.S., is on the board of advisors for Emory University Medical School. He previously served as chief of staff at Doctors' Hospital in Columbus, Georgia, and was first elected to Aflac Incorporated's board in 1987.



Barbara K. Rimer, Dr. PH, 60, Alumni Distinguished Professor of Health Behavior and Health Education and dean of the University of North Carolina Gillings School of Global Public Health, was previously director of the Division of Cancer

Control and Population Sciences at the National Cancer Institute. She is a former director of Cancer Control Research and Professor of Community and Family Medicine at the Duke University School of Medicine. She joined Aflac Incorporated's board in 1995.



Marvin R. Schuster, 71, chairman of Schuster Enterprises Inc., which operates Burger King restaurants throughout the Southeast, is an emeritus member of the board of directors of Columbus Bank & Trust Company. He was

elected to Aflac Incorporated's board in 2000.



D. Gary Thompson, 62, retired executive vice president of Wachovia Corporation and a retired chief executive officer of Georgia Banking, Wachovia Bank, N.A., is on the board of directors for Georgia Power Company, a subsidiary of

the Southern Company, and was elected to Aflac Incorporated's board in 2005.



Robert L. Wright, 71, chairman of FE Holdings, Inc., a company which has interests in motorsports, gaming, entertainment, real estate and lighting. He was previously chairman of both Dimensions International and Flight

Explorer and an associate administrator for the United States Small Business Administration. He was first elected to Aflac Incorporated's board in 1999.

Executive Management

Daniel P. Amos (see facing page)

Kriss Cloninger III (see facing page)

Paul S. Amos II (see facing page)



Martin A. Durant III, 60, executive vice president; deputy chief financial officer; joined Aflac in 1990 as vice president and comptroller of Aflac Incorporated and was promoted to senior vice president, Corporate Services. In 1999, he accepted a position as senior vice president and CFO of Carmike Cinemas, Inc., from which he retired in April 2006. He rejoined Aflac as senior vice president; Corporate Finance in July 2006 and was promoted to executive vice president; deputy chief financial officer in June 2008.



Joey M. Loudermilk, 55, executive vice president; general counsel and corporate secretary, joined Aflac in 1983 as head of the Legal Department. He is also responsible for Aflac's Governmental Relations Department and is treasurer of Aflac Incorporated's political action committee.



Audrey Boone Tillman, 44, executive vice president; Corporate Services, joined Aflac in 1996 in the Legal Division. Her main areas of responsibility are: Human Resources, Facilities, Corporate Training and Health Services. She previously served as a director-at-large for the Society for Human Resource Management (SHRM).



Teresa L. White, 42, executive vice president; chief administrative officer, joined Aflac in 1998. Since then, Teresa has served in various leadership roles within Administration and Sales Support leading to her promotion to chief administrative officer in March 2008. Her current areas of responsibility include U.S. Internal Operations and various Sales Support functions. Teresa is an alumnus of Leadership Columbus, and is a Fellow of the Life Management Institute.



Tohru Tonoike, 58, president of Aflac Japan, worked for Dai-ichi Kangyo Bank prior to joining Aflac Japan in February 2007. Dai-ichi Kangyo Bank later merged with two other banks to form the Mizuho Financial Group. In 2005 he became president and representative director of Dai-ichi Kangyo Asset Management Company, another division of the Mizuho Financial Group. He served on the Aflac board of directors from November 2004 through January 2007.



Charles D. Lake II, 47, chairman of Aflac Japan, joined Aflac in 1999. Prior to his current position, he served as vice president and president of Aflac Japan. Before joining Aflac, he was director of Japan Affairs at the office of the U.S. Trade Representative in the executive office of the president, and he practiced law in Washington, D.C.



Takaaki Matsumoto, 60, first senior vice president; director of Marketing and Sales for Aflac Japan, joined Aflac in 1975. He served as general manager of the Tohoku Sales and Sales Promotion Departments. After serving as general manager of East Japan Claims Department, he was promoted to vice president in January 2005 and senior vice president in February 2006. He was then appointed director of marketing and sales in December 2006, followed by a promotion to first senior vice president in January 2007.



Hiroshi Yamauchi, 57, first senior vice president; chief administrative officer of Aflac Japan, joined Aflac in 1976 and served in the Actuarial Department as section manager and assistant general manager. He was promoted to general manager in the Policy Maintenance Department in 1998 and to vice president in 1999, then to first senior vice president in 2002. He was promoted to his current position as chief administrative officer in January 2005.



Hisayuki Shinkai, 58, first senior vice president of Aflac Japan, joined the company in 1999 as general manager of the Public Relations Department and has served in various management capacities, including director of sales. Prior to joining Aflac Japan, he worked for Long Term Credit Bank of Japan, Ltd.

Senior Management

Aflac Incorporated

Peter T. Adams, Senior Vice President, Financial Reporting

Susan R. Blanck, Senior Vice President; Corporate Actuary; First Senior Vice President, Aflac Japan

Kenneth S. Janke Jr., Senior Vice President, Investor Relations

W. Jeremy Jeffery, Senior Vice President; Chief Investment Officer

John A. Moorefield, Senior Vice President, Strategic Management

Ralph A. Rogers Jr., Senior Vice President, Financial Services; Chief Accounting Officer

Aflac U.S.

Janet P. Baker, Senior Vice President, Corporate Learning

M. Jeffrey Charney, Senior Vice President; Chief Marketing Officer

Phillip J. Friou, Senior Vice President, Director of Governmental Relations

Ronald E. Kirkland, Senior Vice President; Director of Sales

Robert M. Ottman, Senior Vice President, Claims, Benefit Services, New York Administration and Shared Services

David L. Pringle, Senior Vice President, Federal Relations

Ronald S. Sanders, Senior Vice President; Deputy Director of Sales

Gerald W. Shields, Senior Vice President; Chief Information Officer

Aflac Japan

Yuji Arai, Senior Vice President, Investments, Asset Management and Investment Analysis; Principal Financial Officer

Koji Ariyoshi, Senior Vice President, Retail Marketing Promotion, Alliance Management, Hojinkai Promotion

Yukio Fukushima, Senior Vice President, Information Technology

Jun Isonaka, Senior Vice President, Policy Data Administration, Contact Center, Customer Services

Tomomichi Itoh, Senior Vice President, Planning, Government Affairs and Research, Legal, Compliance Promotion and Risk Management

Yosuke Miwa, Senior Vice President, Human Resources, Human Resources Support, General Affairs

Aflac Incorporated

Worldwide Headquarters
1932 Wynnton Road
Columbus, Georgia 31999
706.323.3431
aflac.com

Aflac Japan

Shinjuku Mitsui Bldg.
2-1-1, Nishishinjuku, Shinjuku-ku,
Tokyo, 163-0456, Japan
011.81.3.3344.2701

Independent Registered Public Accountants

KPMG LLP
303 Peachtree Street, N.E.
Suite 2000
Atlanta, Georgia 30308

Registrar

Synovus Trust Company
P.O. Box 23024
Columbus, Georgia 31902-3024

Legal Counsel

Skadden, Arps, Slate,
Meagher & Flom LLP
New York, New York 10036

Stock Transfer Agent

Aflac Incorporated
1932 Wynnton Road
Shareholder Services Dept.
Columbus, Georgia 31999
800.235.2667 – option 2
or 706.596.3581
Fax: 706.596.3488

Annual Meeting

Aflac Incorporated's annual meeting of shareholders will be held at 10 a.m. on May 4, 2009, at the Columbus Museum, 1251 Wynnton Road, Columbus, Georgia.

Customer Service

Policyholders and claimants needing assistance may call 800.992.3522. Sales associates may call 800.462.3522. Para asistencia en Español, por favor llame al 800.742.3522.

Shareholder Inquiries

Communication regarding stock purchase plans, dividends, lost stock certificates, etc., should be directed to the Shareholder Services Department at 800.235.2667 – option 2.

Form 10-K

We have included as Exhibit 31 to our Annual Report to the Securities and Exchange Commission (Form 10-K) certificates of the CEO and CFO of the Company certifying the quality of the Company's public disclosure. Copies of Aflac Incorporated's Form 10-K can be obtained free of charge by calling the Investor Relations Department at 800.235.2667 – option 3.

New York Stock Exchange Certification

In 2008 the Company submitted to the NYSE a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of the NYSE's corporate governance listing standards.

For more information concerning the company, please contact:

Kenneth S. Janke Jr.
Senior Vice President,
Investor Relations
800.235.2667 – option 3
or 706.596.3264
Fax: 706.324.6330

In Japan contact:

Ken Kyo
Investor Relations
Support Department
Shinjuku Mitsui Bldg.,
2-1-1, Nishishinjuku, Shinjuku-ku,
Tokyo, 163-0456, Japan
011.81.3.3344.0481
Fax: 011.81.3.3344.0485

