AFLAC INC
Form 10-Q
August 11, 2008

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

706.323.3431

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Class	August 4, 2008
Common Stock, $.10 Par Value	476,212,034 shares

AFLAC INCORPORATED AND SUBSIDIARIES
Table of Contents

Items other than those listed above are omitted because they are not required or are not applicable.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The June 30, 2008, and 2007, financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

The report of KPMG LLP commenting upon its review is included on page 2.

Table of Contents

Report of Independent Registered Public Accounting Firm

The shareholders and board of directors of Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries as of June 30, 2008, and the related consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2008, and 2007, and the consolidated statements of shareholders equity and cash flows for the six-month periods ended June 30, 2008, and 2007. These consolidated financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2007, and the related consolidated statements of earnings, shareholders equity, cash flows and comprehensive income for the year then ended (not presented herein); and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia
August 8, 2008

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended June 30, **2008**	Three Months Ended June 30, 2007	Six Months Ended June 30, **2008**	Six Months Ended June 30, 2007
Revenues:				
Premiums, principally supplemental health insurance	**$ 3,684**	$ 3,162	**$ 7,319**	$ 6,318
Net investment income	**637**	572	**1,264**	1,138
Realized investment gains (losses)	**(1)**	15	**(8)**	27
Other income	**16**	15	**28**	32
Total revenues	**4,336**	3,764	**8,603**	7,515
Benefits and expenses:				
Benefits and claims	**2,575**	2,266	**5,113**	4,524
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**184**	155	**376**	309
Insurance commissions	**362**	326	**720**	655
Insurance expenses	**432**	351	**845**	688
Interest expense	**7**	6	**14**	14
Other operating expenses	**36**	25	**69**	54
Total acquisition and operating expenses	**1,021**	863	**2,024**	1,720
Total benefits and expenses	**3,596**	3,129	**7,137**	6,244
Earnings before income taxes	**740**	635	**1,466**	1,271
Income taxes	**257**	220	**509**	440
Net earnings	**$ 483**	$ 415	**$ 957**	$ 831
Net earnings per share:				
Basic	**$ 1.02**	$ .85	**$ 2.01**	$ 1.70
Diluted	**1.00**	.84	**1.98**	1.68
Common shares used in computing earnings per share (In thousands):				
Basic	**474,383**	487,900	**476,261**	489,219
Diluted	**480,828**	494,227	**482,623**	495,435
Cash dividends per share	**$ .24**	$ .205	**$ .48**	$ .39

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	**June 30, 2008** (Unaudited)	December 31, 2007
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $31,741 in 2008 and $29,399 in 2007)	**$31,476**	$30,511
Perpetual debentures (amortized cost $4,426 in 2008 and $4,272 in 2007)	**3,970**	4,095
Equity securities (cost $17 in 2008 and $16 in 2007)	**22**	22
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $17,997 in 2008 and $16,191 in 2007)	**19,709**	16,819
Perpetual debentures (fair value $4,094 in 2008 and $3,934 in 2007)	**4,259**	3,985
Other investments	**69**	61
Cash and cash equivalents	**1,387**	1,563
Total investments and cash	**60,892**	57,056
Receivables, primarily premiums	**777**	732
Receivables for securities transactions	**225**	
Accrued investment income	**607**	561
Deferred policy acquisition costs	**7,194**	6,654
Property and equipment, at cost less accumulated depreciation	**529**	496
Other	**328**	306
Total assets	**$70,552**	$65,805

See the accompanying Notes to the Consolidated Financial Statements.
(continued)

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	**June 30, 2008** (Unaudited)	December 31, 2007
Liabilities and shareholders equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$50,147**	$45,675
Unpaid policy claims	**2,643**	2,455
Unearned premiums	**745**	693
Other policyholders funds	**2,346**	1,853
Total policy liabilities	**55,881**	50,676
Notes payable	**1,539**	1,465
Income taxes	**2,053**	2,531
Payables for return of cash collateral on loaned securities	**1,540**	808
Other	**1,640**	1,530
Commitments and contingent liabilities (Note 9)		
Total liabilities	**62,653**	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 659,601 shares in 2008 and 658,604 shares in 2007	**66**	66
Additional paid-in capital	**1,132**	1,054
Retained earnings	**11,366**	10,637
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	**292**	129
Unrealized gains (losses) on investment securities	**(214)**	874
Pension liability adjustment	**(69)**	(69)
Treasury stock, at average cost	**(4,674)**	(3,896)
Total shareholders equity	**7,899**	8,795
Total liabilities and shareholders equity	**$70,552**	$65,805
Shareholders equity per share	**$ 16.59**	$ 18.08

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders Equity

(In millions, except for per-share amounts - Unaudited)	Six Months Ended June 30, **2008**	2007
Common stock:		
Balance, beginning of period	**$ 66**	$ 66
Exercise of stock options		
Balance, end of period	**66**	66
Additional paid-in capital:		
Balance, beginning of period	**1,054**	895
Exercise of stock options, including income tax benefits	**33**	41
Share-based compensation	**18**	19
Gain on treasury stock reissued	**27**	23
Balance, end of period	**1,132**	978
Retained earnings:		
Balance, beginning of period	**10,637**	9,304
Net earnings	**957**	831
Dividends to shareholders	**(228)**	(101)
Balance, end of period	**11,366**	10,034
Accumulated other comprehensive income:		
Balance, beginning of period	**934**	1,426
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	**163**	(72)
Change in unrealized gains (losses) on investment securities during period, net of income taxes	**(1,088)**	(571)
Pension liability adjustment during period, net of income taxes		2
Balance, end of period	**9**	785
Treasury stock:		
Balance, beginning of period	**(3,896)**	(3,350)
Purchases of treasury stock	**(805)**	(355)
Cost of shares issued	**27**	32
Balance, end of period	**(4,674)**	(3,673)
Total shareholders equity	**$ 7,899**	$ 8,190

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net earnings	**$ 957**	$ 831
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**14**	9
Increase in deferred policy acquisition costs	**(231)**	(203)
Increase in policy liabilities	**1,612**	1,569
Change in income tax liabilities	**108**	231
Realized investment (gains) losses	**8**	(27)
Other, net	**(14)**	(81)
Net cash provided by operating activities	**2,454**	2,329
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**426**	320
Fixed maturities matured or called	**858**	1,189
Perpetual debentures sold	**127**	166
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities	**(2,385)**	(2,268)
Securities held to maturity:		
Fixed maturities	**(1,510)**	(1,432)
Cash received as collateral on loaned securities, net	**701**	303
Other, net	**(31)**	(20)
Net cash used by investing activities	**$(1,814)**	$(1,742)

See the accompanying Notes to the Consolidated Financial Statements.
(continued)

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows (continued)

(In millions - Unaudited)	Six Months Ended June 30, **2008**	2007
Cash flows from financing activities:		
Purchases of treasury stock	**$ (805)**	$ (355)
Proceeds from borrowings		242
Principal payments under debt obligations	**(2)**	(245)
Dividends paid to shareholders	**(218)**	(182)
Change in investment-type contracts, net	**133**	103
Treasury stock reissued	**20**	23
Other, net	**31**	39
Net cash used by financing activities	**(841)**	(375)
Effect of exchange rate changes on cash and cash equivalents	**25**	(9)
Net change in cash and cash equivalents	**(176)**	203
Cash and cash equivalents, beginning of period	**1,563**	1,203
Cash and cash equivalents, end of period	**$1,387**	$1,406
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 362**	$ 255
Interest paid	**13**	11
Noncash financing activities:		
Capitalized lease obligations	**2**	1
Treasury shares issued for:		
Associate stock bonus	**23**	20
Shareholder dividend reinvestment	**10**	10
Shared-based compensation grants	**2**	2

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Comprehensive Income

(In millions - Unaudited)	Three Months Ended June 30, **2008**	Three Months Ended June 30, 2007	Six Months Ended June 30, **2008**	Six Months Ended June 30, 2007
Net earnings	**$ 483**	$ 415	**$ 957**	$ 831
Other comprehensive income (loss) before income taxes:				
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) during period	**(43)**	(2)	**34**	(11)
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) during period	**(710)**	(753)	**(1,667)**	(860)
Reclassification adjustment for realized (gains) losses included in net earnings	**1**	(15)	**8**	(27)
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) during period	**2**	2	**2**	1
Pension liability adjustment during period	**3**	3	**(1)**	3
Total other comprehensive income (loss) before income taxes	**(747)**	(765)	**(1,624)**	(894)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**(129)**	(193)	**(699)**	(253)
Other comprehensive income (loss), net of income taxes	**(618)**	(572)	**(925)**	(641)
Total comprehensive income (loss)	**$(135)**	$(157)	**$ 32**	$ 190

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

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

1. 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 Aflac Incorporated (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.

In the opinion of management, the accompanying unaudited consolidated financial statements of Aflac Incorporated and subsidiaries (the Company) contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of June 30, 2008, and December 31, 2007, and the consolidated statements of earnings and comprehensive income for the three- and six-month periods ended June 30, 2008, and 2007, and consolidated statements of shareholders equity and cash flows for the six-month periods ended June 30, 2008, and 2007. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2007.

New Accounting Pronouncements: In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 163, Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60 (SFAS 163). This Statement clarifies accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises. SFAS 163 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2008. Because we do not issue financial guarantee insurance contracts, we do not expect the adoption of this standard to have an effect 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 60 days

Table of Contents

following the Securities and Exchange Commission s pending approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles. We do not expect the adoption of this standard to have any 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 any 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 any 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 or liabilities. Accordingly, the adoption of this standard did not have any impact on our financial position or results of operations.

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

Table of Contents

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 any impact on our financial position or results of operations.

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

For additional information on new accounting pronouncements and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents

2. BUSINESS SEGMENT 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 follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2008**	2007	**2008**	2007
Revenues:				
Aflac Japan:				
Earned premiums	**$2,620**	$2,190	**$5,205**	$4,385
Net investment income	**508**	442	**1,004**	878
Other income	**14**	10	**13**	19
Total Aflac Japan	**3,142**	2,642	**6,222**	5,282
Aflac U.S.:				
Earned premiums	**1,064**	972	**2,114**	1,933
Net investment income	**125**	124	**248**	246
Other income	**2**	3	**5**	5
Total Aflac U.S.	**1,191**	1,099	**2,367**	2,184
Other business segments	**10**	9	**20**	18
Total business segment revenues	**4,343**	3,750	**8,609**	7,484
Realized investment gains (losses)	**(1)**	15	**(8)**	27
Corporate	**14**	23	**44**	53
Intercompany eliminations	**(20)**	(24)	**(42)**	(49)
Total revenues	**$4,336**	$3,764	**$8,603**	$7,515

(In millions)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Pretax earnings:				
Aflac Japan	**$573**	$461	**$1,127**	$ 926
Aflac U.S.	**190**	171	**380**	340
Other business segments	**2**		**(1)**	
Total business segments	**765**	632	**1,506**	1,266
Interest expense, noninsurance operations	**(6)**	(5)	**(13)**	(10)
Corporate and eliminations	**(13)**	(5)	**(19)**	(11)
Pretax operating earnings	**746**	622	**1,474**	1,245
Realized investment gains (losses)	**(1)**	15	**(8)**	27
Impact from SFAS 133	**(5)**	(2)		(1)
Total earnings before income taxes	**$740**	$635	**$1,466**	$1,271
Income taxes applicable to pretax operating earnings	**$259**	$215	**$ 511**	$ 431
Effect of foreign currency translation on operating earnings	**38**	(10)	**63**	(15)

Assets were as follows:

(In millions)	June 30, 2008	December 31, 2007
Assets:		
Aflac Japan	**$59,024**	$54,153
Aflac U.S.	**11,044**	10,415
Other business segments	**129**	117
Total business segments	**70,197**	64,685
Corporate	**9,430**	10,364
Intercompany eliminations	**(9,075)**	(9,244)
Total assets	**$70,552**	$65,805

3. INVESTMENTS

The following table presents our realized investment gains and losses that resulted from securities sold or redeemed in the normal course of business.

(In millions, except for per-share amounts)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007

Realized investments gains (losses), before tax	**$(1)**	$ 15	**$ (8)**	$ 27
Realized investments gains (losses), net of tax	**(1)**	9	**(5)**	18
Realized investments gains (losses) per diluted share, net of tax		.02	**(.01)**	.04

Table of Contents

Impairment charges were immaterial during the six months ended June 30, 2008 and 2007.

The net effect on shareholders equity of unrealized gains and losses from investment securities at the following dates was:

(In millions)	**June 30, 2008**	December 31, 2007
Unrealized gains (losses) on securities available for sale	**$(716)**	$ 941
Unamortized unrealized gains on securities transferred to held to maturity	**341**	343
Deferred income taxes	**161**	(410)
Shareholders equity, net unrealized gains (losses) on investment securities	**$(214)**	$ 874

The unrealized gains on securities available for sale declined during the period, such that we now reflect a net unrealized loss as of June 30, 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 and foreign exchange rates.

Our total investment in the banks and financial institutions sector including those classified as perpetual debentures as of June 30, 2008, is $23,975 million, or 42% of our total investment portfolio at fair value ($25,925 million, or 43% at amortized cost) compared with $23,348 million, or 43% of our total investment portfolio at fair value ($23,941 million, or 44% at amortized cost) as of December 31, 2007. We invest in the top financial institutions globally because we believe this sector has a very desirable risk profile. The banks and financial institutions sector is a highly regulated industry and plays a strategic role in the global economy. While this is our largest sector concentration, we achieve some degree of diversification through a geographically diverse universe of credit exposures.

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 debentures. 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.

	June 30, 2008		December 31, 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	32%	40%	40%	41%
Perpetual debentures	14%	18%	14%	22%
Total	46%	58%	54%	63%

Ford Motor Credit (FMC) is a wholly owned financing subsidiary of Ford Motor Company. The unrealized loss on Aflac Japan s $282 million (30.0 billion yen) investment in FMC increased $61 million to $109 million during the six-month period ended June 30, 2008, as compared to $48 million at December 31, 2007. The increase in the unrealized loss for FMC related to foreign currency translation is $7 million. We believe that the remaining increase in the unrealized loss on FMC is related to sharply lower reported earnings by FMC in 2007, compared with 2006, coupled with an operating loss in the first quarter of 2008. We believe FMC s decline in profitability is fueled largely by higher borrowing and other operating costs in 2007 and 2008 and that unrealized losses in FMC are also impacted by widening credit spreads globally as a result of the contraction in global capital markets liquidity over the past several quarters. However, we also believe FMC continues to maintain adequate stand-alone liquidity and a stable credit outlook even after substantial lease residual asset write-downs. Accordingly, based on our reviews of FMC, we believe we will collect all amounts due under the contractual terms of our investment. Because we have the ability and intent to hold this investment until a recovery of fair value, which may be maturity, we do not consider this investment to be other than temporarily impaired as of June 30, 2008. For further information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2007.

As part of our investment activities, we own investments in qualifying special purpose entities (QSPEs). At June 30, 2008, available-for-sale QSPEs totaled $3.6 billion at fair value ($3.8 billion at amortized cost, or 6.3% of total debt securities), compared with $3.2 billion at fair value ($3.3 billion at amortized cost, or 6.0% of total debt securities) at December 31, 2007. We have no equity interests in any of the QSPEs, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

We also own investments in variable interest entities (VIEs). We are the primary beneficiary of VIEs totaling $1.4 billion at fair value ($1.7 billion at amortized cost) and have consolidated our interests in these VIEs in accordance with FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. 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. The consolidation of these investments does not impact our financial position or results of operations.

We have interests in VIEs in which we are not the primary beneficiary and are therefore not required to consolidate totaling $1.1 billion at fair value ($1.4 billion at amortized cost) as of June 30, 2008.

Included in these VIEs are collateralized debt obligations (CDOs) totaling $667 million at fair value ($921 million at amortized cost) as of June 30, 2008. These CDOs were issued through VIEs originated by third party companies and combine highly rated underlying assets as collateral for the CDOs with credit default swaps (CDS) to produce an investment security that consists of multiple tranches with varying levels of subordination within the VIE. The underlying collateral assets and funding of these VIEs are generally static in nature. The 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 the VIEs that we own. 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 the VIEs we own to absorb the expected losses from the underlying credit default swaps. Based on our models, each of the VIEs can sustain multiple defaults in the underlying CDS pools with no loss to our CDO investments. There have been no defaults in any of the CDOs we own. We have no continuing obligation to fund these VIEs nor do we guarantee any of the VIEs in any manner. Our involvement with these VIEs began in 2006, and we have continued to invest in this type of financing vehicle from time to time. Our risk of loss associated with our interest in these VIEs is limited to our current investment therein.

Table of Contents

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 totaled $415 million at fair value ($442 million at amortized cost) at June 30, 2008. Our investment in these VIEs is 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 used to raise financing for their parent companies in the international capital markets. These VIEs do not rely on outside or ongoing forms of funding to support their activities beyond the guarantees of their corporate parents. We have no continuing obligation to fund these VIEs nor do we guarantee any of the VIEs in any manner. Our involvement with these VIEs began in 2004 and we have continued to invest in these financing vehicles from time to time. Our risk of loss associated with our interest in these VIEs is limited to our current investment therein.

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. At June 30, 2008, we had security loans outstanding with a fair value of $1,501 million, and we held cash in the amount of $1,540 million as collateral for these loaned securities. At December 31, 2007, we had security loans outstanding with a fair value of $790 million, and we held cash in the amount of $808 million as collateral for these loaned securities.

During the first quarter of 2007, we reclassified an investment from the held-to-maturity portfolio to the available-for-sale portfolio as a result of a significant deterioration in the issuer s credit worthiness. At the date of transfer, this debt security had an amortized cost of $169 million and an unrealized loss of $8 million. We sold the security at a realized gain of $12 million in the first quarter of 2007.

For additional information, see Notes 1 and 3 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents

4. FINANCIAL INSTRUMENTS

We have outstanding cross-currency swap agreements related to the $450 million senior notes and interest-rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes (see Note 5). 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 follows:

(In millions)	**June 30, 2008**	December 31, 2007
Interest rate component	**$ 9**	$ 7
Foreign currency component	**(75)**	(47)
Accrued interest component	**5**	5
Total fair value of cross-currency and interest-rate swaps	**$(61)**	$ (35)

The following is a reconciliation of the foreign currency component of the cross-currency swaps included in accumulated other comprehensive income for the six-month periods ended June 30.

(In millions)	**2008**	2007
Balance, beginning of period	**$(47)**	$(17)
Increase (decrease) in fair value of cross-currency swaps	**(28)**	15
Interest rate component not qualifying for hedge accounting reclassified to net earnings		1
Balance, end of period	**$(75)**	$ (1)

The change in fair value of the interest-rate swaps, included in accumulated other comprehensive income, was immaterial during the six-month periods ended June 30, 2008 and 2007.

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 June 30, 2008.

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities	$8,141	$23,041	$294	$31,476
Perpetual debentures		3,970		3,970
Equity securities	18		4	22
Total assets	$8,159	$27,011	$298	$35,468
Liabilities:				
Cross-currency and interest-rate swaps		61		61
Total liabilities	$	$ 61	$	$ 61

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.

Table of Contents

The fair value of our fixed maturities and perpetual debentures categorized as Level 2 is determined using three techniques, depending on the source and availability of market inputs. Of these securities, approximately 42% are valued by obtaining quoted prices from our custodian. The custodian obtains price quotes from various pricing services that 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 44% of our Level 2 fixed maturities and perpetual debentures 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 fixed maturities and perpetual debentures that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from a minimum of three brokers and use the average of the three 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 and remaining duration.

The fair value of our fixed maturities classified as Level 3 consist primarily of collateralized debt obligations 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.

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
(In millions)	Fixed maturities	Equity securities	Total	Fixed maturities	Equity securities	Total
Balance, beginning of period	$100	$4	$104	$109	$3	$112
Unrealized gains (losses) included in other comprehensive income	(10)		(10)	(19)	1	(18)
Transfers into Level 3	204		204	204		204
Balance, end of period	$294	$4	$298	$294	$4	$298

Table of Contents

During the second quarter of 2008, we experienced a reduction in the availability of observable valuation inputs from various pricing services and brokers used to value certain of 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 quarter 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 during the second quarter of 2008.

Gains or losses included in earnings attributable to the change in unrealized gains or losses during the six-month period ended June 30, 2008, relating to assets still held were immaterial.

For additional information on our cross-currency and interest-rate swaps and other financial instruments, see Notes 1 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

5. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	**June 30, 2008**	December 31, 2007
6.50% senior notes due April 2009	**$ 450**	$ 450
Yen-denominated Uridashi notes:		
1.52% notes due September 2011 (principal amount 15 billion yen)	**141**	131
2.26% notes due September 2016 (principal amount 10 billion yen)	**94**	88
Variable interest rate notes due September 2011 (1.25% at June 2008, principal amount 20 billion yen)	**188**	175
Yen-denominated Samurai notes:		
.71% notes due July 2010 (principal amount 40 billion yen)	**376**	350
1.87% notes due June 2012 (principal amount 30 billion yen)	**282**	263
Capitalized lease obligations payable through 2013	**8**	8
Total notes payable	**$1,539**	$ 1,465

We were in compliance with all of the covenants of our notes payable at June 30, 2008. No events of default or defaults occurred during the six months ended June 30, 2008.

For additional information, see Notes 4 and 7 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents

6. SHAREHOLDERS EQUITY

The following table is a reconciliation of the number of shares of the Company s common stock for the six-month periods ended June 30:

(In thousands of shares)	**2008**	2007
Common stock issued:		
Balance, beginning of period	**658,604**	655,715
Exercise of stock options and issuance of restricted shares	**997**	1,500
Balance, end of period	**659,601**	657,215
Treasury stock:		
Balance, beginning of period	**172,074**	163,165
Purchases of treasury stock:		
Open market	**12,500**	7,062
Other	**109**	184
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	**(688)**	(764)
Exercise of stock options	**(352)**	(798)
Other	**(69)**	(117)
Balance, end of period	**183,574**	168,732
Shares outstanding, end of period	**476,027**	488,483

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share. For the quarter ended June 30, 2008, stock options to purchase approximately 1.3 million shares, on a weighted-average basis, were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share, compared with 2.4 million shares for the quarter ended June 30, 2007. For the six months ended June 30, 2008, stock options to purchase approximately 1.0 million shares, on a weighted-average basis, were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share, compared with 2.6 million shares for the six-month period a year ago.

In February 2006, the board of directors authorized the purchase of 30.0 million shares of our common stock. In January 2008, the board of directors authorized the purchase of an additional 30.0 million shares of our common stock. As of June 30, 2008, approximately 43.1 million shares were available for purchase under our share repurchase authorizations.

On February 4, 2008, we entered into an agreement for an accelerated share repurchase (ASR) program with an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (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 repurchase was funded with internal capital. 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.

Table of Contents

7. SHARE-BASED TRANSACTIONS

The Company has two long-term incentive compensation plans. The first plan is a stock option plan that allows for grants of both incentive stock options (ISOs) and non-qualifying stock options (NQSOs). This plan expired in February 2007 (although options granted before that date remain outstanding in accordance with their terms). The second plan is a long-term incentive compensation plan that allows for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. At June 30, 2008, approximately 21.1 million shares were available for future grants under this plan, and the only performance-based awards issued and outstanding were restricted stock awards.

The following table provides information on stock options outstanding and exercisable at June 30, 2008.

(In thousands of shares)	**Stock Option Shares**	**Weighted-Average Exercise Price Per Share**
Outstanding	16,575	$ 37.18
Exercisable	12,651	32.75

As of June 30, 2008, the aggregate intrinsic value of stock options outstanding was $425 million, with a weighted-average remaining term of 5.5 years. The aggregate intrinsic value of stock options exercisable at that same date was $380 million, with a weighted-average remaining term of 4.5 years. We received cash from the exercise of stock options in the amount of $27 million during the first six months of 2008, compared with $32 million in the first six months of 2007. The tax benefit realized as a result of stock option exercises and restricted stock releases was $18 million in the first six months of 2008, compared with $24 million in the first six months of 2007.

As of June 30, 2008, total compensation cost not yet recognized in our financial statements related to restricted-share-based awards was $29 million, of which $14 million (503 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 1.6 years. There are no other contractual terms covering restricted stock awards once vested.

For additional information on our long-term share-based compensation plans and the types of share-based awards, see Note 10 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents

8. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees in the United States and Japan. The components of retirement expense for the Japanese and U.S. pension plans were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008		2007		**2008**		2007	
(In millions)	**Japan**	**U.S.**	Japan	U.S.	**Japan**	**U.S.**	Japan	U.S.
Components of net periodic benefit cost:								
Service cost	**$2**	**$ 3**	$ 3	$ 2	**$ 5**	**$ 5**	$ 5	$ 5
Interest cost	**1**	**2**		2	**2**	**5**	1	5
Expected return on plan assets		**(3)**	(1)	(2)	**(1)**	**(6)**	(1)	(5)
Amortization of net actuarial loss	**1**		1	1	**1**	**1**	1	2
Net periodic benefit cost	**$4**	**$ 2**	$ 3	$ 3	**$ 7**	**$ 5**	$ 6	$ 7

During the six months ended June 30, 2008, Aflac Japan contributed approximately $7 million (using the June 30, 2008, exchange rate) to the Japanese pension plan, and Aflac U.S. did not make a contribution to the U.S. pension plan.

For additional information regarding our Japanese and U.S. benefit plans, see Note 12 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

9. COMMITMENTS AND CONTINGENT LIABILITIES

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

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a safe harbor to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. We desire to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as expect, anticipate, believe, goal, objective, may, should, estimate, intends, projects, will, assumes, potential, tar 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:

- legislative and regulatory developments, including changes to health care and health insurance delivery
- assessments for insurance company insolvencies
- competitive conditions in the United States and Japan
- new product development and customer response to new products and new marketing initiatives
- ability to attract and retain qualified sales associates and employees
- ability to repatriate profits from Japan
- changes in U.S. and/or Japanese tax laws or accounting requirements
- credit and other risks associated with Aflac s investment activities
- significant changes in investment yield rates
- fluctuations in foreign currency exchange rates
- deviations in actual experience from pricing and reserving assumptions including, but not limited to, morbidity, mortality, persistency, expenses, and investment yields
- level and outcome of litigation
- downgrades in the Company s credit rating
- changes in rating agency policies or practices
- subsidiary s ability to pay dividends to Parent Company
- ineffectiveness of hedging strategies
- catastrophic events
- general economic conditions in the United States and Japan, including increased uncertainty in the U.S. and international financial markets

Table of Contents

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.

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 period from December 31, 2007, to June 30, 2008. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2007.

This MD&A is divided into four primary sections. In the first section, we discuss our critical accounting estimates. We then follow with a discussion of the results of our operations on a consolidated basis and by segment. The third section presents an analysis of our financial condition as well as a discussion of market risks of financial instruments. We conclude by addressing the availability of capital and the sources and uses of cash in the Capital Resources and Liquidity section.

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 95% of our assets and 84% of our liabilities are reported and thus have a direct effect on net earnings and shareholders equity. Subsequent experience or use of other assumptions could produce significantly different results.

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 thirteenth 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 thirteenth 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 thirteenth month after a claim is incurred.

Table of Contents

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.

If the downward trend in hospital claim costs continues, we will expect to see a release in the unpaid policy claims liability for prior years during 2008 that is similar to what we experienced in 2007. However, if claim trends stabilize or deteriorate, then the unpaid policy claims liability for prior years could have a much smaller release or an increase.

There have been no changes in the items that we have identified as critical accounting estimates during the six months ended June 30, 2008. For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2007.

New Accounting Pronouncements

We adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) effective January 1, 2008. The adoption of this standard did not have any impact on our financial position or results of operations. 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 value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities. For those securities classified as Level 1, we obtain quoted market prices in the active market in which they are traded.

For those securities classified as level 2, we first obtain 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.

For those Level 2 securities not quoted by our custodian, we estimate fair values based on a discounted cash flow (DCF) pricing model that uses observable market inputs from both active and inactive markets to determine the estimated fair value of the security. The estimated fair values developed by the DCF pricing model are most sensitive to the credit spreads and, consequently, the discount rate used in the model. Credit spreads are derived based on pricing sheets obtained from brokers and pricing services and take into account the current yield curve, remaining duration and subordination levels for similar securities or classes of securities. We validate the reliability of the DCF pricing model periodically by using the model to price securities for which there are quoted market prices from active markets or, in the alternative, are quoted by our custodian. For those securities that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from a minimum of three brokers and use the average of the quotes to estimate the fair value of the security.

Our investment in securities classified as Level 3 is not significant. 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.

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 June 30, 2008.

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

Table of Contents

RESULTS OF OPERATIONS

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

Items Impacting Net Earnings

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	In Millions		Per Diluted Share		In Millions		Per Diluted Share	
Net earnings	**$483**	$415	**$1.00**	$.84	**$957**	$831	**$1.98**	$1.68
Items impacting net earnings, net of tax:								
Realized investment gains (losses)	**(1)**	9		.02	**(5)**	18	**(.01)**	.04
Impact from SFAS 133	**(3)**	(1)	**(.01)**			(1)		

Realized Investment Gains and Losses

Our investment strategy is to invest in fixed-income securities in order to provide a reliable stream of investment income, which is one of the drivers of the Company s profitability. 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. Realized investment losses in the first six months of 2008 and realized investment gains in the same period in 2007 primarily resulted from securities sold or redeemed in the normal course of business during the period.

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior notes, which mature in 2009, into a yen-denominated obligation. 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 (other income). 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.

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 (other income). The ineffective portion would be included in the impact from SFAS 133. These hedges were effective during the six-month period ended June 30, 2008; therefore, there was no impact on net earnings.

We have entered into interest-rate swap agreements related to the 20 billion yen 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 six-month periods ended June 30, 2008 and 2007; therefore, there was no impact on net earnings.

For additional information, see the Impact from SFAS 133 section of MD&A and Notes 4 and 7 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

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

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 34.7% for the six-month period ended June 30, 2008, compared with 34.6% for the same period in 2007.

Earnings Guidance

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management s control may have a significant impact on actual results. Therefore, our comparison of net earnings includes certain assumptions to reflect the limitations that are inherent in projections of net earnings. In comparing period-over-period results, we exclude the effect of realized investment gains and losses, the impact from SFAS 133 and nonrecurring items. We also assume no impact from foreign currency translation on the Aflac Japan segment and the Parent Company s yen-denominated interest expense for a given period in relation to the prior period.

Table of Contents

Subject to the preceding assumptions, our objective for 2008 is to increase net earnings per diluted share by 14% to 15% over 2007. If we achieve this objective, the following table shows the likely results for 2008 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2008 Net Earnings Per Share (EPS) Scenarios*

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share		% Growth Over 2007		Yen Impact on EPS
100.00	$ 4.06	4.09	24.2	25.1%	$ .33
105.00	3.95	3.98	20.8	21.7	.22
110.00	3.86	3.89	18.0	19.0	.13
115.00	3.78	3.81	15.6	16.5	.05
117.93**	3.73	3.76	14.1	15.0	
120.00	3.70	3.73	13.1	14.1	(.03)
125.00	3.63	3.66	11.0	11.9	(.10)

* *Excludes realized investment gains/losses, impact from SFAS 133 and nonrecurring items in 2008 and 2007*

** *Actual 2007 weighted-average exchange rate*

Our objective for 2009 is to increase net earnings per diluted share by 13% to 15%, on the basis described above.

INSURANCE OPERATIONS

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

We 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.

Table of Contents

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)	Three Months Ended June 30, **2008**	Three Months Ended June 30, 2007	Six Months Ended June 30, **2008**	Six Months Ended June 30, 2007
Premium income	**$ 2,620**	$ 2,190	**$ 5,205**	$ 4,385
Net investment income:				
Yen-denominated investment income	**322**	267	**637**	534
Dollar-denominated investment income	**186**	175	**367**	344
Net investment income	**508**	442	**1,004**	878
Other income	**14**	10	**13**	19
Total operating revenues	**3,142**	2,642	**6,222**	5,282
Benefits and claims	**1,946**	1,682	**3,868**	3,368
Operating expenses:				
Amortization of deferred policy acquisition costs	**100**	76	**196**	150
Insurance commissions	**239**	208	**478**	417
Insurance and other expenses	**284**	215	**553**	421
Total operating expenses	**623**	499	**1,227**	988
Total benefits and expenses	**2,569**	2,181	**5,095**	4,356
Pretax operating earnings*	**$ 573**	$ 461	**$ 1,127**	$ 926
Weighted-average yen/dollar exchange rate	**104.50**	120.78	**104.77**	120.13

	In Dollars				In Yen			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
Percentage change over previous period:	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Premium income	**19.7%**	(1.1)%	**18.7%**	.7%	**3.6%**	4.3%	**3.6%**	4.6%
Net investment income	**14.8**	4.8	**14.3**	5.8	**(.7)**	10.6	**(.3)**	9.9
Total operating revenues	**18.9**		**17.8**	1.7	**2.9**	5.5	**2.8**	5.6
Pretax operating earnings*	**24.3**	6.7	**21.7**	8.0	**7.5**	12.6	**6.1**	12.2

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

The percentage increases in premium income reflect the growth of premiums in force. Annualized premiums in force in yen increased 3.6% to 1.14 trillion yen as of June 30, 2008, compared with 1.10 trillion yen a year ago, and reflect the high persistency of Aflac Japan s business and the sales of new policies. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were $10.7 billion at June 30, 2008, compared with $8.9 billion a year ago.

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 37% of Aflac Japan s investment income in the first

Table of Contents

six months of 2008, compared with 39% a year ago. In periods when the yen strengthens in relation to the dollar, translating Aflac Japan s dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In periods when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. On a constant currency basis, dollar-denominated investment income accounted for approximately 40% of Aflac Japan s investment income during the first six months of 2008. The following table illustrates the effect of translating Aflac Japan s dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the comparable period in the prior year.

Aflac Japan Percentage Changes Over Previous Period

(Yen Operating Results)

For the Periods Ended June 30,

	Including Foreign Currency Changes				**Excluding Foreign Currency Changes****			
	Three Months		Six Months		Three Months		Six Months	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net investment income	**(.7)%**	10.6%	**(.3)%**	9.9%	**5.0%**	8.3%	**5.0%**	8.3%
Total operating revenues	**2.9**	5.5	**2.8**	5.6	**3.7**	5.1	**3.8**	5.3
Pretax operating earnings*	**7.5**	12.6	**6.1**	12.2	**11.3**	10.6	**11.0**	10.8

* *See the Insurance Operations section of this MD&A 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 period as the comparable period in the prior year.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Ratios to total revenues:	**2008**	2007	**2008**	2007
Benefits and claims	**61.9%**	63.7%	**62.2%**	63.8%

Operating expenses:				
Amortization of deferred policy acquisition costs	**3.2**	2.9	**3.1**	2.8
Insurance commissions	**7.6**	7.9	**7.7**	7.9
Insurance and other expenses	**9.1**	8.1	**8.9**	8.0
Total operating expenses	**19.9**	18.9	**19.7**	18.7
Pretax operating earnings*	**18.2**	17.4	**18.1**	17.5

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

The benefit ratio has declined over the past several years, reflecting the impact of newer products with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders and the impact of favorable claim trends. The operating expense ratio increased in the first six months 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 be modestly higher for the year in relation to 2007. Due to continued improvement in the benefit ratio, the pretax operating profit margin expanded from 17.4% to 18.2% for the three-month period and from 17.5% to 18.1% for the six-month period ended June 30, 2008. We expect an expanded profit margin to continue through the remainder of 2008.

Table of Contents

Aflac Japan Sales

Aflac Japan s total new annualized premium sales in yen declined 4.9% in the second quarter of 2008, compared with the second quarter of 2007. For the six months ended June 30, 2008, total new annualized premium sales in yen declined .3%, compared with the same period a year ago. The following table presents Aflac Japan s total new annualized premium sales for the periods ended June 30.

	In Dollars				In Yen			
(In millions of dollars	Three Months		Six Months		Three Months		Six Months	
and billions of yen)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Total new annualized premium sales	**$274**	$249	**$537**	$470	**28.7**	30.1	**56.3**	56.4
Percentage change over comparable period in prior year	**9.9%**	(8.7)%	**14.4%**	(10.4)%	**(4.9)%**	(3.5)%	**(.3)%**	(6.9)%

The following table details the contributions to total new annualized premium sales by major product for the periods ended June 30.

	Three Months		Six Months	
	2008	2007	**2008**	2007
Medical policies	**34%**	30%	**35%**	31%
Cancer life	**34**	36	**33**	34
Ordinary life	**23**	23	**22**	22
Rider MAX	**5**	7	**5**	8
Other	**4**	4	**5**	5
Total	**100%**	100%	**100%**	100%

Medical sales rose 8.7% during the second quarter of 2008, compared with the same period a year ago. Medical sales were helped by sales of Gentle EVER, our nonstandard medical product for customers that do not qualify for our standard EVER product. Cancer insurance sales declined 11.1% in the second quarter, reflecting challenging comparisons to 2007 when cancer insurance sales benefited from advance purchases of our product prior to a pending premium rate increase. In addition, our sales associates focused on selling a lower premium cancer insurance product in the second quarter that upgrades the coverage for existing policyholders.

We continue to believe that sales of cancer and medical insurance will benefit from the recently opened bank channel. By the end of June, we had agreements with 154 out of a total of 402 banks to sell our products in their branches. Sales from the bank channel increased 146.4% during the second quarter, compared with first quarter; however, we had expected sales from the bank channel to be even higher. As the year progresses, we expect to see further sales gains in the bank channel.

As previously disclosed, in November 2007 Japan Post Network Co., Ltd., selected Aflac Japan as its provider of cancer insurance to be sold through Japan s vast postal network. Japan Post Network Co., Ltd., operates the 24,000 post offices located throughout Japan. Initially, we expect to sell through about 300 postal outlets beginning in October of this year.

Table of Contents

Although we expected somewhat weaker sales in the second quarter, compared with the first quarter, we did expect a sales increase over the comparable period in 2007. However, despite sales being flat for the first six months of the year, we expect to see improved sales growth in the second half of 2008. Based on our strong product line and the prospects of our two new distribution opportunities, the bank channel and Japan Post, we believe we can achieve our sales objective of a 3% to 7% increase in 2008, although attainment of our sales target will be more challenging than we had originally anticipated.

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 Japanese government or other public corporate bonds would have provided, 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 standard documentation for medium-term note programs and have appropriate covenants.

The following table presents the results of Aflac Japan s investment activities for the periods ended June 30.

	Three Months		Six Months	
	2008	2007	**2008**	2007
New money yield yen only	**3.27%**	3.20%	**3.31%**	3.18%
New money yield blended	**3.46**	3.58	**3.57**	3.47
Return on average invested assets, net of investment expenses	**3.83**	4.10	**3.84**	4.10

At June 30, 2008, the yield on Aflac Japan s investment portfolio, including dollar-denominated investments, was 3.98%, compared with 4.09% a year ago. See the Investments and Cash section of this MD&A for additional information.

Japanese Economy

Japan s economy has shown signs of moderate expansion over the past few years. However, recent statistics suggest that the growth in the Japanese economy is slowing somewhat. Based on these recent observations, we believe that the ability of the Japanese economy to sustain such expansion remains uncertain. For additional information, see the Japanese Economy section of MD&A in our annual report to shareholders for the year ended December 31, 2007.

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.

Table of Contents

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2008**	2007	**2008**	2007
Premium income	**$1,064**	$ 972	**$2,114**	$1,933
Net investment income	**125**	124	**248**	246
Other income	**2**	3	**5**	5
Total operating revenues	**1,191**	1,099	**2,367**	2,184
Benefits and claims	**628**	584	**1,245**	1,156
Operating expenses:				
Amortization of deferred policy acquisition costs	**85**	79	**180**	159
Insurance commissions	**123**	118	**242**	238
Insurance and other expenses	**165**	147	**320**	291
Total operating expenses	**373**	344	**742**	688
Total benefits and expenses	**1,001**	928	**1,987**	1,844
Pretax operating earnings*	**$ 190**	$ 171	**$ 380**	$ 340
Percentage changes over previous period:				
Premium income	**9.5%**	10.7%	**9.4%**	10.8%
Net investment income	**.1**	8.4	**.7**	9.4
Total operating revenues	**8.4**	10.6	**8.4**	10.7
Pretax operating earnings*	**11.1**	14.1	**11.8**	14.7

* *See the Insurance Operations section of this MD&A 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 8.9% in the first six months of 2008 and 10.6% for the same period of 2007 were favorably affected by sales at the worksite and a slight improvement in the persistency of several products. Annualized premiums in force at June 30, 2008, were $4.6 billion, compared with $4.2 billion a year ago.

Table of Contents

Net investment income was relatively flat during the three- and six-month periods ended June 30, 2008 primarily as a result of funds utilized in our accelerated share repurchase program in early 2008. For further information, see the Capital Resources and Liquidity section of this MD&A, Note 6 of the Notes to the Consolidated Financial Statements, and MD&A and Note 9 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Ratios to total revenues:	**2008**	2007	**2008**	2007
Benefits and claims	**52.8%**	53.1%	**52.6%**	52.9%
Operating expenses:				
Amortization of deferred policy acquisition costs	**7.1**	7.2	**7.6**	7.3
Insurance commissions	**10.3**	10.8	**10.2**	10.9
Insurance and other expenses	**13.9**	13.3	**13.5**	13.3
Total operating expenses	**31.3**	31.3	**31.3**	31.5
Pretax operating earnings*	**15.9**	15.6	**16.1**	15.6

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

The benefit ratio declined in the first half of 2008. We expect the benefit ratio to decline slightly in 2008, compared with 2007 due to favorable claim cost trends. We expect the operating expense ratio and pretax operating profit margin for 2008 to remain relatively stable compared with 2007.

Aflac U.S. Sales

Aflac s U.S. total new annualized premium sales rose 4.9% during the second quarter and 2.7% for the six-month period ended June 30, 2008. The following table presents Aflac s U.S. total new annualized premium sales for the periods ended June 30.

	Three Months		Six Months	
(In millions)	**2008**	2007	**2008**	2007
Total new annualized premium sales	**$383**	$ 365	**$736**	$ 717
Percentage change over comparable period in prior year	**4.9%**	11.8%	**2.7%**	11.2%

The following table details the contributions to total new annualized premium sales by major product category for the periods ended June 30.

	Three Months		Six Months	
	2008	2007	**2008**	2007
Accident/disability coverage	**49%**	52%	**49%**	52%
Cancer expense insurance	**18**	16	**18**	16
Hospital indemnity products	**16**	13	**15**	13
Fixed-benefit dental coverage	**6**	6	**6**	6
Other	**11**	13	**12**	13
Total	**100%**	100%	**100%**	100%

Table of Contents

Total new annualized premium sales for accident/disability, our leading product category, decreased 1.3% in the second quarter of 2008, while cancer expense insurance increased 16.7% and our hospital indemnity group increased 21.0%, compared with the same period a year ago.

We remain satisfied with our progress in the ongoing expansion of our U.S. sales force. The number of newly recruited sales associates rose 4.2% to more than 6,700 new associates as compared to the same period a year ago. The number of average weekly producing sales associates rose 6.3% to approximately 11,300 in the second quarter of 2008, compared with the same period a year ago. We believe that the average weekly producing sales associates metric allows our sales management to actively monitor progress 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.

However, based on our six month sales results, it will be difficult to achieve our objective of an 8% to 12% increase in new annualized premium sales for the full year. 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. During this period of rising food and gas prices, the protection our products offer is even more valuable to consumers when a health event occurs, and we will continue to convey that message to consumers through our commercials and sales force. Consistent demand for our products has been evidenced by our improved U.S. sales growth and persistency in the second quarter, compared with the first quarter this year.

Aflac U.S. Investments

The following table presents the results of Aflac s U.S. investment activities for the periods ended June 30.

	Three Months		Six Months	
	2008	2007	**2008**	2007
New money yield	**7.29%**	6.51%	**7.19%**	6.40%
Return on average invested assets, net of investment expenses	**6.64**	6.73	**6.71**	6.78

The increase in the U.S. new money yield reflects widening credit spreads globally. At June 30, 2008, the portfolio yield on Aflac s U.S. portfolio was 7.04%, compared with 7.01% a year ago. During the second quarter of 2008, Aflac U.S. purchased $200 million of variable interest rate CDOs at an initial rate of 5.41%. These CDOs were purchased in conjunction with 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. See Note 3 of the Notes to the Consolidated Financial Statements and the Investments and Cash section of this MD&A for additional information.

Table of Contents

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. 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 exchange rate at June 30, 2008, was 106.42 yen to one dollar, or 7.3% stronger than the December 31, 2007, exchange rate of 114.15. The stronger yen increased reported investments and cash by $3.3 billion, total assets by $3.7 billion, and total liabilities by $3.7 billion, compared with the amounts that would have been reported for the second quarter of 2008 if the exchange rate had remained unchanged from December 31, 2007.

Market Risks of Financial Instruments

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

(In millions)	**June 30, 2008**	December 31, 2007
Aflac Japan yen-denominated net assets	**$ 2,129**	$ 2,415
Parent Company yen-denominated net liabilities	**(1,605)**	(1,496)
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	**$ 524**	$ 919

38

Table of Contents

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

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

(In millions)		**June 30, 2008**			December 31, 2007	
Yen/dollar exchange rates	**91.42**	**106.42***	**121.42**	99.15	114.15*	129.15
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$24,960**	**$21,442**	**$18,793**	$23,190	$20,143	$17,803
Perpetual debentures	**4,194**	**3,603**	**3,158**	4,218	3,664	3,238
Equity securities	**25**	**22**	**19**	25	22	20
Securities held to maturity:						
Fixed maturities	**22,686**	**19,488**	**17,080**	19,341	16,799	14,848
Perpetual debentures	**4,957**	**4,259**	**3,733**	4,588	3,985	3,522
Cash and cash equivalents	**367**	**315**	**276**	369	321	284
Other financial instruments	**73**	**62**	**55**	60	52	46
Subtotal	**57,262**	**49,191**	**43,114**	51,791	44,986	39,761
Liabilities:						