

AFLAC INC  
Form 10-Q  
August 07, 2009

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

(Mark One)

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

**For the quarterly period ended June 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-07434  
Aflac Incorporated**

(Exact name of registrant as specified in its charter)

**Georgia**

**58-1167100**

(State or other jurisdiction of incorporation or  
organization)

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

**1932 Wynnton Road, Columbus, Georgia**

**31999**

(Address of principal executive offices)

(ZIP Code)

**706.323.3431**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

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

Class	August 4, 2009
Common Stock, \$.10 Par Value	467,525,284 shares

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**Aflac Incorporated and Subsidiaries  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Review by Independent Registered Public Accounting Firm**

The June 30, 2009, and 2008, financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

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**Report of Independent Registered Public Accounting Firm**

The shareholders and board of directors of Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries as of June 30, 2009, and the related consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2009, and 2008, and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2009, and 2008. 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, 2008, 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 19, 2009, we expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia

August 7, 2009

**Table of Contents****Aflac Incorporated and Subsidiaries  
Consolidated Statements of Earnings**

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except for share and per-share amounts - Unaudited)	2009	2008	2009	2008
<b>Revenues:</b>				
Premiums, principally supplemental health insurance	\$ 3,995	\$ 3,684	\$ 8,110	\$ 7,319
Net investment income	668	637	1,356	1,264
Realized investment gains (losses):				
Other-than-temporary impairment losses:				
Total other-than-temporary impairment losses	(388)		(626)	
Other-than-temporary impairment losses recognized in other comprehensive income	3		7	
Other-than-temporary impairment losses realized	(385)		(619)	
Sales and redemptions	2	(1)	227	(8)
Total realized investment gains (losses)	(383)	(1)	(392)	(8)
Other income	33	16	57	28
Total revenues	4,313	4,336	9,131	8,603
<b>Benefits and expenses:</b>				
Benefits and claims	2,723	2,575	5,534	5,113
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	225	184	475	376
Insurance commissions	381	362	770	720
Insurance expenses	462	432	919	845
Interest expense	14	7	21	14
Other operating expenses	35	36	68	69
Total acquisition and operating expenses	1,117	1,021	2,253	2,024
Total benefits and expenses	3,840	3,596	7,787	7,137
Earnings before income taxes	473	740	1,344	1,466
Income taxes	159	257	462	509
Net earnings	\$ 314	\$ 483	\$ 882	\$ 957
<b>Net earnings per share:</b>				
Basic	\$ .67	\$ 1.02	\$ 1.89	\$ 2.01

Diluted	<b>.67</b>	1.00	<b>1.89</b>	1.98
<b>Weighted-average outstanding common shares used in computing earnings per share (In thousands):</b>				
Basic	<b>466,401</b>	474,383	<b>466,249</b>	476,261
Diluted	<b>468,285</b>	480,828	<b>467,709</b>	482,623
<b>Cash dividends per share</b>	<b>\$ .28</b>	<b>\$ .24</b>	<b>\$ .56</b>	<b>\$ .48</b>

*See the accompanying Notes to the Consolidated Financial Statements.*



**Table of Contents****Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets**

(In millions)	<b>June 30, 2009</b> (Unaudited)	December 31, 2008
<b>Assets:</b>		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost \$35,344 in 2009 and \$36,034 in 2008)	<b>\$ 32,982</b>	\$ 35,012
Perpetual securities (amortized cost \$8,310 in 2009 and \$9,074 in 2008)	<b>7,226</b>	8,047
Equity securities (cost \$22 in 2009 and \$24 in 2008)	<b>26</b>	27
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value \$22,064 in 2009 and \$23,084 in 2008)	<b>23,559</b>	24,436
Other investments	<b>90</b>	87
Cash and cash equivalents	<b>1,689</b>	941
 Total investments and cash	 <b>65,572</b>	 68,550
Receivables, primarily premiums	<b>840</b>	920
Accrued investment income	<b>627</b>	650
Deferred policy acquisition costs	<b>8,089</b>	8,237
Property and equipment, at cost less accumulated depreciation	<b>579</b>	597
Other	<b>334</b>	377
 Total assets	 <b>\$76,041</b>	 \$79,331

*See the accompanying Notes to the Consolidated Financial Statements.*

(continued)

**Table of Contents****Aflac Incorporated and Subsidiaries  
Consolidated Balance Sheets (continued)**

	<b>June 30,</b>	December
	<b>2009</b>	31,
(In millions, except for share and per-share amounts)	(Unaudited)	2008
<b>Liabilities and shareholders' equity:</b>		
Liabilities:		
Policy liabilities:		
Future policy benefits	<b>\$57,788</b>	\$59,310
Unpaid policy claims	<b>3,128</b>	3,118
Unearned premiums	<b>847</b>	874
Other policyholders' funds	<b>3,032</b>	2,917
Total policy liabilities	<b>64,795</b>	66,219
Notes payable	<b>1,992</b>	1,721
Income taxes	<b>880</b>	1,201
Payables for return of cash collateral on loaned securities	<b>593</b>	1,733
Other	<b>1,431</b>	1,818
Commitments and contingent liabilities (Note 9)		
Total liabilities	<b>69,691</b>	72,692
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2009 and 2008; issued 660,487 shares in 2009 and 660,035 shares in 2008	<b>66</b>	66
Additional paid-in capital	<b>1,201</b>	1,184
Retained earnings	<b>12,058</b>	11,306
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	<b>591</b>	750
Unrealized gains (losses) on investment securities:		
Unrealized gains (losses) on securities not other-than-temporarily impaired	<b>(2,121)</b>	(1,211)
Unrealized gains (losses) on other-than-temporarily impaired securities	<b>(5)</b>	
Total unrealized gains (losses) on investment securities	<b>(2,126)</b>	(1,211)
Pension liability adjustment	<b>(117)</b>	(121)
Treasury stock, at average cost	<b>(5,323)</b>	(5,335)
Total shareholders' equity	<b>6,350</b>	6,639
Total liabilities and shareholders' equity	<b>\$76,041</b>	\$79,331

*See the accompanying Notes to the Consolidated Financial Statements.*

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**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity**

(In millions, except for per-share amounts - Unaudited)	Six months ended June 30, <b>2009</b>	2008
<b>Common stock:</b>		
Balance, beginning of period	\$ 66	\$ 66
Exercise of stock options		
Balance, end of period	66	66
<b>Additional paid-in capital:</b>		
Balance, beginning of period	1,184	1,054
Exercise of stock options	1	33
Share-based compensation	16	18
Gain on treasury stock reissued		27
Balance, end of period	1,201	1,132
<b>Retained earnings:</b>		
Balance, beginning of period	11,306	10,637
Net earnings	882	957
Dividends to shareholders	(130)	(228)
Balance, end of period	12,058	11,366
<b>Accumulated other comprehensive income:</b>		
Balance, beginning of period	(582)	934
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	(159)	163
Change in unrealized gains (losses) on investment securities during period, net of income taxes:		
Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes	(910)	(1,088)
Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes	(5)	
Total change in unrealized gains (losses) on investment securities during period, net of income taxes	(915)	(1,088)
Pension liability adjustment during period, net of income taxes	4	
Balance, end of period	(1,652)	9
<b>Treasury stock:</b>		
Balance, beginning of period	(5,335)	(3,896)
Purchases of treasury stock	(2)	(805)
Cost of shares issued	14	27

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Balance, end of period	(5,323)	(4,674)
Total shareholders' equity	\$ 6,350	\$ 7,899

*See the accompanying Notes to the Consolidated Financial Statements.*

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**Table of Contents****Aflac Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows**

(In millions - Unaudited)	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 882	\$ 957
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	125	14
Increase in deferred policy acquisition costs	(146)	(231)
Increase in policy liabilities	1,421	1,612
Change in income tax liabilities	217	108
Realized investment (gains) losses	392	8
Other, net	(17)	(14)
Net cash provided by operating activities	2,874	2,454
<b>Cash flows from investing activities:</b>		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	3,713	426
Fixed maturities matured or called	1,249	858
Perpetual securities sold	102	127
Securities held to maturity:		
Fixed maturities matured or called	209	
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities	(4,565)	(2,385)
Securities held to maturity:		
Fixed maturities	(1,906)	(1,510)
Cash received as collateral on loaned securities, net	(1,063)	701
Other, net	(47)	(31)
Net cash used by investing activities	(2,308)	(1,814)

*See the accompanying Notes to the Consolidated Financial Statements.*

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

(In millions - Unaudited)	Six Months Ended June 30, <b>2009</b>	2008
<b>Cash flows from financing activities:</b>		
Purchases of treasury stock	\$ (2)	\$ (805)
Proceeds from borrowings	<b>844</b>	
Principal payments under debt obligations	<b>(548)</b>	(2)
Dividends paid to shareholders	<b>(262)</b>	(218)
Change in investment-type contracts, net	<b>169</b>	133
Treasury stock reissued	<b>4</b>	20
Other, net	<b>(2)</b>	31
Net cash provided (used) by financing activities	<b>203</b>	(841)
Effect of exchange rate changes on cash and cash equivalents	<b>(21)</b>	25
Net change in cash and cash equivalents	<b>748</b>	(176)
Cash and cash equivalents, beginning of period	<b>941</b>	1,563
Cash and cash equivalents, end of period	<b>\$1,689</b>	\$1,387
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid	<b>304</b>	362
Interest paid	<b>15</b>	13
Impairment losses included in realized investment gains (losses)	<b>619</b>	
<b>Noncash financing activities:</b>		
Capitalized lease obligations	<b>1</b>	2
Treasury stock issued for:		
Associate stock bonus	<b>6</b>	23
Shareholder dividend reinvestment		10
Share-based compensation grants	<b>4</b>	2

*See the accompanying Notes to the Consolidated Financial Statements.*

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**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

(In millions - Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
Net earnings	<b>\$ 314</b>	\$ 483	<b>\$ 882</b>	\$ 957
<b>Other comprehensive income (loss) before income taxes:</b>				
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) during period	<b>58</b>	(43)	<b>(51)</b>	34
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	<b>945</b>	(710)	<b>(1,818)</b>	(1,667)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	<b>384</b>	1	<b>396</b>	8
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) on derivatives during period	<b>(1)</b>	2		2
Pension liability adjustment during period		3	<b>6</b>	(1)
Total other comprehensive income (loss) before income taxes	<b>1,386</b>	(747)	<b>(1,467)</b>	(1,624)
Income tax expense (benefit) related to items of other comprehensive income (loss)	<b>431</b>	(129)	<b>(397)</b>	(699)
Other comprehensive income (loss), net of income taxes	<b>955</b>	(618)	<b>(1,070)</b>	(925)
Total comprehensive income (loss)	<b>\$1,269</b>	\$ (135)	<b>\$ (188)</b>	\$ 32

*See the accompanying Notes to the Consolidated Financial Statements.*

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business:** Aflac Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan accounted for 77% and 72% of the Company's total revenues in the six-month periods ended June 30, 2009 and 2008, respectively, and comprised 86% and 87% of total assets at June 30, 2009, and December 31, 2008, respectively.

**Basis of Presentation**

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of June 30, 2009, and December 31, 2008, and the consolidated statements of earnings and comprehensive income for the three- and six-month periods ended June 30, 2009, and 2008, and consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2009, and 2008. 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, 2008.

**Significant Accounting Policies**

As a result of accounting guidance adopted subsequent to December 31, 2008, we have updated our accounting policy for investments. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2008.



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

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

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

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

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

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

Our credit analysts/research personnel routinely monitor and evaluate the difference between the amortized cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in fair value is other than temporary. For investments with a fair value below amortized cost, the process includes evaluating, among other factors, the length of time and the extent to which amortized cost exceeds fair value, the financial condition, operations, credit and liquidity posture, and future prospects of the issuer as well as our intent or need to dispose of the security prior to a recovery of its fair value to amortized cost. This process is not exact and requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's amortized cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate.

If, after monitoring and analyses, management believes that fair value will not recover to amortized cost prior to the disposal of the security, we recognize an other-than-temporary impairment of the security. Once a security is considered to be other-than-temporarily impaired, the impairment loss is separated into two separate components, the portion of the impairment related to credit and the portion of the impairment related to factors other than credit. We automatically recognize a charge to earnings for the credit-related portion of other-than-temporary impairments. Impairments related to factors other than credit are charged to earnings in the event we intend to sell the security prior to the recovery of its amortized cost or if it is more likely than not that we would be required to dispose of the security prior to recovery of its amortized cost; otherwise, non-credit-related other-than-temporary impairments are charged to other comprehensive income.

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

For further information regarding our investments, see Note 3.

### **New Accounting Pronouncements**

#### **Recently Adopted Accounting Pronouncements**

In May 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS 165). This statement establishes standards for the recognition and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires companies to recognize in their financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date. The statement prohibits companies from recognizing in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance sheet date, but requires information about those events to be disclosed if the financial statements would otherwise be misleading. We adopted the provisions of SFAS 165 as of June 30, 2009. The adoption of this standard did not have an impact on our financial position or results of operations.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP on fair-value measurements provides guidance on how to determine the fair value of assets and liabilities under Statement 157 in the current economic environment and reemphasizes that the objective of a fair-value measurement remains an exit price. This FSP provides factors to consider when determining whether there has been a significant decrease in the volume and level of activity in the market for an asset or liability as well as provides factors for companies to consider in identifying transactions that are not orderly. The FSP also discusses the necessity of adjustments to transaction or quoted prices to estimate fair value in accordance with FAS 157 when it is determined that there has been a significant decrease in the volume and level of activity or that the transaction is not orderly. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the provisions of FSP FAS 157-4 as of March 31, 2009. The adoption of this standard did not have a material impact on our financial position or results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). This FSP modifies the requirements for recognizing other-than-temporarily impaired debt securities and significantly changes the existing impairment model for such securities. In accordance with this FSP, the intention to sell a security and the expectation regarding the recovery of the entire amortized cost basis of a security governs the recognition of other-than-temporary impairment losses. This FSP also modifies the presentation of other-than-temporary impairment losses in financial statements and increases the frequency of and expands already required disclosures about other-than-temporary impairment for debt and equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the provisions of FSP FAS 115-2 and FAS 124-2 as of March 31, 2009. The adoption of this standard did not have a material impact on our financial position or results of operations.

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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, (FSP FAS 107-1 and APB 28-1), which requires publicly traded companies to disclose the fair value of financial instruments within the scope of SFAS 107, Disclosures about Fair Value of Financial Instruments, in interim financial statements. This FSP also requires companies to disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and to discuss changes, if any, to those methods or assumptions during the period. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the provisions of FSP FAS 107-1 and APB 28-1 as of March 31, 2009. The adoption of this standard did not have an impact 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 adopted the provisions of SFAS 161 as of January 1, 2009. The adoption of this standard did not have an effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The purpose of SFAS 160 is to improve relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, with earlier adoption prohibited. We adopted the provisions of SFAS 160 as of January 1, 2009. The adoption of this standard did not have an effect on our financial position or results of operations.

**Accounting Pronouncements Pending Adoption**

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). This statement eliminates the hierarchy of authoritative accounting and reporting guidance on nongovernmental GAAP and replaces it with a single authoritative source, the FASB Accounting Standards Codification<sup>TM</sup> (the Codification). Securities and Exchange Commission (SEC) rules and interpretive releases, which may not be included in their entirety within the Codification, will remain as authoritative GAAP for SEC registrants. The Codification will affect the way in which users refer to GAAP and perform accounting research, but will not change GAAP. The statement is effective for interim and annual reporting periods ending after September 15, 2009. The adoption of this standard will not impact our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). This statement eliminates exceptions to consolidating qualifying special-purpose entities (QSPEs) under FASB Interpretation No. 46(R), Consolidation of Variable Purpose Entities - An Interpretation of ARB No. 51 (FIN 46(R)). Additionally, the statement defines new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. SFAS 167 also requires additional disclosures regarding VIEs. SFAS 167 is effective for fiscal years beginning after November 15, 2009, and early application is prohibited. For information concerning our investments in VIEs, see Note 3. We are currently evaluating the potential impact of the adoption of this standard on our financial position and results of operations.



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In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140 (SFAS 166). This statement eliminates the concept of a QSPE and its exemption from consolidation in the transferor's financial statements, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, modifies the financial asset derecognition criteria, revises how interests retained by the transferor in a sale of financial assets are initially measured, removes guaranteed mortgage securitization recharacterization provisions, and requires additional disclosures. SFAS 166 requires that former QSPEs be evaluated for consolidation by transferors, servicers, and guarantors. SFAS 166 is effective for fiscal years beginning after November 15, 2009, and early application is prohibited. For information on our investments in QSPEs, see Note 3. We are currently evaluating the potential impact of the adoption of this standard on our financial position and results of operations.

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

### **Securities and Exchange Commission (SEC) Guidance**

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

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

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

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

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

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2008.

**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)	2009	2008	2009	2008
<b>Revenues:</b>				
Aflac Japan:				
Earned premiums	<b>\$2,901</b>	\$2,620	<b>\$5,913</b>	\$5,205
Net investment income	<b>544</b>	508	<b>1,105</b>	1,004
Other income	<b>15</b>	14	<b>22</b>	13
Total Aflac Japan	<b>3,460</b>	3,142	<b>7,040</b>	6,222
Aflac U.S.:				
Earned premiums	<b>1,094</b>	1,064	<b>2,197</b>	2,114
Net investment income	<b>127</b>	125	<b>252</b>	248
Other income	<b>2</b>	2	<b>4</b>	5
Total Aflac U.S.	<b>1,223</b>	1,191	<b>2,453</b>	2,367
Other business segments	<b>14</b>	10	<b>24</b>	20
Total business segment revenues	<b>4,697</b>	4,343	<b>9,517</b>	8,609
Realized investment gains (losses)	<b>(383)</b>	(1)	<b>(392)</b>	(8)
Corporate	<b>34</b>	14	<b>69</b>	44
Intercompany eliminations	<b>(35)</b>	(20)	<b>(63)</b>	(42)
Total revenues	<b>\$4,313</b>	\$4,336	<b>\$9,131</b>	\$8,603

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2009	2008	2009	2008
<b>Pretax earnings:</b>				
Aflac Japan	<b>\$ 679</b>	\$573	<b>\$1,361</b>	\$1,127
Aflac U.S.	<b>198</b>	190	<b>402</b>	380
Other business segments		2		(1)

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Total business segments	<b>877</b>	765	<b>1,763</b>	1,506
Interest expense, noninsurance operations	<b>(17)</b>	(6)	<b>(24)</b>	(13)
Corporate and eliminations	<b>(6)</b>	(13)	<b>(16)</b>	(19)
Pretax operating earnings	<b>854</b>	746	<b>1,723</b>	1,474
Realized investment gains (losses)	<b>(383)</b>	(1)	<b>(392)</b>	(8)
Impact from SFAS 133	<b>1</b>	(5)	<b>(4)</b>	
Gain on extinguishment of debt	<b>1</b>		<b>17</b>	
Total earnings before income taxes	<b>\$ 473</b>	\$740	<b>\$1,344</b>	\$1,466
Income taxes applicable to pretax operating earnings	<b>\$ 292</b>	\$259	<b>\$ 595</b>	\$ 511
Effect of foreign currency translation on operating earnings	<b>24</b>	38	<b>64</b>	63



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Assets were as follows:

(In millions)	<b>June 30, 2009</b>	December 31, 2008
<b>Assets:</b>		
Aflac Japan	<b>\$65,293</b>	\$69,141
Aflac U.S.	<b>10,125</b>	9,679
Other business segments	<b>172</b>	166
Total business segments	<b>75,590</b>	78,986
Corporate	<b>8,483</b>	8,716
Intercompany eliminations	<b>(8,032)</b>	(8,371)
Total assets	<b>\$76,041</b>	\$79,331

**Table of Contents****3. INVESTMENTS**

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

	June 30, 2009			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale, carried at fair value:</b>				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$10,191	\$ 446	\$ 156	\$10,481
Mortgage- and asset-backed securities	449	4		453
Public utilities	2,191	133	81	2,243
Collateralized debt obligations	322	59	34	347
Sovereign and supranational	803	27	96	734
Banks/financial institutions	5,154	92	1,159	4,087
Other corporate	6,318	76	855	5,539
Total yen-denominated	25,428	837	2,381	23,884
Dollar-denominated:				
U.S. government and agencies	220	4	2	222
Municipalities	206	5	17	194
Mortgage- and asset-backed securities*	640	6	146	500
Collateralized debt obligations	29	4	4	29
Public utilities	1,471	64	124	1,411
Sovereign and supranational	351	26	16	361
Banks/financial institutions	2,673	32	546	2,159
Other corporate	4,326	208	312	4,222
Total dollar-denominated	9,916	349	1,167	9,098
Total fixed maturities	35,344	1,186	3,548	32,982
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	7,725	253	1,282	6,696
Other corporate	279	14		293
Dollar-denominated:				
Banks/financial institutions	306	12	81	237
Total perpetual securities	8,310	279	1,363	7,226
Equity securities	22	5	1	26
Total securities available for sale	\$43,676	\$1,470	\$4,912	\$40,234

\* *Includes \$7 million of  
other-than-temporary  
non-credit-related  
losses*

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(In millions)	Cost or Amortized Cost	June 30, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
<b>Securities held to maturity, carried at amortized cost:</b>				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$ 210	\$ 3	\$	\$ 213
Municipalities	134	1	3	132
Mortgage- and asset-backed securities	163	1	3	161
Collateralized debt obligations	208		55	153
Public utilities	4,315	107	162	4,260
Sovereign and supranational	4,060	70	234	3,896
Banks/financial institutions	10,651	87	1,123	9,615
Other corporate	3,618	86	112	3,592
Total yen-denominated	23,359	355	1,692	22,022
Dollar-denominated:				
Collateralized debt obligations	200		158	42
Total dollar-denominated	200		158	42
Total securities held to maturity	\$23,559	\$ 355	\$1,850	\$22,064

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(In millions)	Cost or Amortized Cost	December 31, 2008 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale, carried at fair value:</b>				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$ 11,153	\$ 988	\$ 16	\$ 12,125
Mortgage- and asset-backed securities	491	8		499
Public utilities	2,282	188	17	2,453
Collateralized debt obligations	253	6		259
Sovereign and supranational	943	37	126	854
Banks/financial institutions	4,667	81	686	4,062
Other corporate	6,183	155	576	5,762
Total yen-denominated	25,972	1,463	1,421	26,014
Dollar-denominated:				
U.S. government and agencies	266	6	1	271
Municipalities	119	1	14	106
Mortgage- and asset-backed securities	738	7	189	556
Collateralized debt obligations	53		37	16
Public utilities	1,337	34	165	1,206
Sovereign and supranational	366	44	9	401
Banks/financial institutions	2,910	107	529	2,488
Other corporate	4,273	182	501	3,954
Total dollar-denominated	10,062	381	1,445	8,998
Total fixed maturities	36,034	1,844	2,866	35,012
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	8,400	187	1,091	7,496
Other corporate	294	13		307
Dollar-denominated:				
Banks/financial institutions	380		136	244
Total perpetual securities	9,074	200	1,227	8,047
Equity securities	24	5	2	27
Total securities available for sale	\$45,132	\$2,049	\$4,095	\$43,086

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(In millions)	Cost or Amortized Cost	December 31, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
<b>Securities held to maturity, carried at amortized cost:</b>				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	\$ 220	\$ 17	\$	\$ 237
Mortgage- and asset-backed securities	75	1	1	75
Collateralized debt obligations	403		295	108
Public utilities	3,951	168	66	4,053
Sovereign and supranational	3,582	93	132	3,543
Banks/financial institutions	12,291	147	1,195	11,243
Other corporate	3,714	145	84	3,775
Total yen-denominated	24,236	571	1,773	23,034
Dollar-denominated:				
Collateralized debt obligations	200		150	50
Total dollar-denominated	200		150	50
Total securities held to maturity	\$24,436	\$571	\$1,923	\$23,084

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

During the first six months of 2009, we reclassified 11 investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of a significant decline in the issuers' credit worthiness. At the time of transfer, the securities had an aggregate amortized cost of \$1.2 billion and an aggregate unrealized loss of \$526 million.

**Table of Contents****Contractual and Economic Maturities**

The contractual maturities of our investments in fixed maturities at June 30, 2009, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available for sale:</b>				
Due in one year or less	\$ 850	\$ 854	\$ 1	\$ 1
Due after one year through five years	5,184	5,591	222	233
Due after five years through 10 years	2,737	2,679	728	753
Due after 10 years	19,346	17,315	5,077	4,502
Mortgage- and asset-backed securities	808	756	280	196
Total fixed maturities available for sale	\$28,925	\$27,195	\$6,308	\$5,685
<b>Held to maturity:</b>				
Due after one year through five years	\$ 1,417	\$ 1,436	\$ 200	\$ 42
Due after five years through 10 years	2,310	2,480		
Due after 10 years	19,469	17,945		
Mortgage- and asset-backed securities	163	161		
Total fixed maturities held to maturity	\$23,359	\$22,022	\$ 200	\$ 42

At June 30, 2009, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling \$111 million at amortized cost and \$102 million at fair value, which is not included in the table above.

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

As previously described in Note 1, our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at issuance subsequently change to a floating short-term interest rate of 125 to more than 300 basis points above an appropriate market index, generally by the 25<sup>th</sup> year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at June 30, 2009, were as follows:

(In millions)	Aflac Japan		Aflac U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 156	\$ 158	\$ 7	\$ 7
Due after one year through five years	964	1,052		
Due after five years through 10 years	1,743	1,728	5	4
Due after 10 years through 15 years	279	292		
Due after 15 years	4,922	3,801	234	184
Total perpetual securities available for sale	\$8,064	\$7,031	\$246	\$195





**Table of Contents****Investment Concentrations**

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

Our largest investment industry sector concentration is banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country's economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the bank and financial institution sector through a geographically diverse universe of credit exposures. Within this sector, the more significant concentration of our credit risk by geographic region or country of issuer at June 30, 2009, based on amortized cost, was: Europe (47%); United States (20%); United Kingdom (10%); and Japan (9%).

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

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Total Investments in Banks and Financial Institutions Sector (in millions)</b>	<b>Percentage of Total Investment Portfolio</b>	<b>Total Investments in Banks and Financial Institutions Sector (in millions)</b>	<b>Percentage of Total Investment Portfolio</b>
Debt Securities:				
Amortized cost	<b>\$18,478</b>	<b>27%</b>	\$19,868	28%
Fair value	<b>15,861</b>	<b>26</b>	17,793	27
Perpetual Securities:				
Upper Tier II:				
Amortized cost	<b>\$ 5,717</b>	<b>9%</b>	\$ 6,238	9%
Fair value	<b>5,110</b>	<b>8</b>	5,960	9
Tier I:				
Amortized cost	<b>2,314</b>	<b>3</b>	2,542	4
Fair value	<b>1,823</b>	<b>3</b>	1,780	3
Total:				
Amortized cost	<b>\$26,509</b>	<b>39%</b>	\$28,648	41%
Fair value	<b>22,794</b>	<b>37</b>	25,533	39

**Table of Contents****Realized Investment Gains and Losses**

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Realized investment gains (losses) on securities:				
Debt securities:				
Available for sale:				
Gross gains from sales	\$ 2	\$	\$ 225	\$
Gross losses from sales	(1)	(1)	(2)	(10)
Net gains (losses) from redemptions	1		2	2
Impairment losses	(241)		(410)	
Total debt securities	(239)	(1)	(185)	(8)
Perpetual securities:				
Available for sale:				
Impairment losses	(144)		(209)	
Total perpetual securities	(144)		(209)	
Other long-term assets			2	
Total realized investment gains (losses)	\$(383)	\$(1)	\$(392)	\$ (8)

During the six-month period ended June 30, 2009, sales and redemptions of securities resulted in realized pretax investment gains of \$227 million (\$148 million after-tax). These gains were primarily the result of bond swaps that took advantage of tax loss carryforwards from previously incurred investment losses. We realized total pretax investment losses of \$619 million (\$402 million after-tax) as a result of the recognition of other-than-temporary impairment losses. The following table details our pretax impairment losses by investment category.

(In millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Perpetual securities	\$ 144	\$ 209
Corporate bonds	238	288
Collateralized debt obligations		113
Collateralized mortgage obligations	3	9
Total other-than-temporary impairments	\$ 385	\$ 619

**Other-than-temporary Impairment**

The fair value of our debt and perpetual security investments fluctuates based on changes in credit spreads in the global financial markets. Credit spreads are most impacted by market rates of interest, the general and specific credit environment and market liquidity globally. We believe that fluctuations in the fair value of our investment securities related to changes in credit spreads have little bearing on whether our investment is ultimately recoverable. Therefore,

we consider such declines in fair value to be temporary even in situations where the specific decline of an investment's fair value below its cost exceeds a year or more.

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

the severity of the decline in fair value

the length of time the fair value is below cost

issuer financial condition, including profitability and cash flows

credit status of the issuer

the issuer's specific and general competitive environment

published reports

general economic environment

regulatory and legislative environment

other factors as may become available from time to time

In addition to the usual investment risk associated with a debt instrument, our perpetual security holdings are subject to the risk of nationalization of their issuers in connection with capital injections from an issuer's sovereign government. We cannot be assured that such capital support will extend to all levels of an issuer's capital. In addition, it is our understanding that certain governments or regulators may consider imposing interest and principal payment restrictions on issuers of hybrid securities to preserve cash and build capital. In addition to the cash flow impact that additional deferrals would have on our portfolio, such deferrals could result in ratings downgrades of the affected securities, which in turn could impair the fair value of the securities and increase our regulatory capital requirements. We take factors such as these into account in our credit review process.

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

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investment. Our investments in perpetual securities that are rated below investment grade are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model puts a primary focus on the severity of a security's decline in fair value coupled with the length of time the fair value of the security has been below amortized cost.

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As more fully discussed in the SEC Guidance section of Note 1, we apply the debt security impairment model to our perpetual securities provided there has been no evidence of deterioration in credit of the issuer, such as a downgrade of the rating of a perpetual security to below investment grade. During the six months ended June 30, 2009, the perpetual securities of four issuers we own were downgraded to below investment grade. As a result of these downgrades, we were required to evaluate these securities for other-than-temporary impairment using the equity security impairment model rather than the debt security impairment model. Use of the equity security model limits the forecasted recovery period that can be used in the impairment evaluation and, accordingly, affects both the recognition and measurement of other-than-temporary impairment losses. As a result of market conditions and the extent of changes in ratings on our perpetual securities, we recognized other-than-temporary impairment losses for perpetual securities being evaluated under our equity impairment model of \$144 million (\$94 million after-tax) during the three-month period ended June 30, 2009, and \$209 million (\$136 million after-tax) during the six-month period ended June 30, 2009.

During our review of certain CMOs, we determined that a portion of the other-than-temporary impairment of the securities was credit-related. However, we concluded a portion of the reduction in fair value below amortized cost was due to non-credit factors which we believe we will recover. As a result, we recognized an impairment charge in earnings for credit-related declines in value of \$3 million (\$2 million after-tax) during the three-month period and \$9 million (\$6 million after-tax) during the six-month period ended June 30, 2009. We recorded an unrealized loss in accumulated other comprehensive income of \$3 million (\$2 million after-tax) during the three-month period and \$7 million (\$5 million after-tax) during the six-month period ended June 30, 2009, for the portion of the other-than-temporary impairment of these securities resulting from non-credit factors.

The other-than-temporary impairment losses recognized in the first six months of 2009 of which a portion was transferred to other comprehensive income related only to the other-than-temporary impairment of certain of our investments in collateralized mortgage obligations. The other-than-temporary impairment charges related to credit and all other factors other than credit were determined using statistical modeling techniques. The model projects expected cash flows from the underlying mortgage pools assuming various economic recession scenarios including, more significantly, geographical and regional home data, housing price appreciation, prepayment speeds, and economic recession statistics. The following table summarizes credit-related impairment losses on securities for which other-than-temporary losses were recognized during the reporting period and only the amount related to credit loss was recognized in earnings.

(In millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Balance of credit loss impairments, beginning of period	\$ 6	\$
Credit losses for which an other-than-temporary impairment was not previously recognized	2	8
Credit losses for which an other-than-temporary impairment was previously recognized	1	1
Balance of credit loss impairments, end of period	\$ 9	\$ 9

**Unrealized Investment Gains and Losses****Gross Unrealized Loss Aging**

The following tables show the fair value and gross unrealized losses, including the portion of other-than-temporary impairment recognized in accumulated other comprehensive income, of our available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.



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(In millions)	June 30, 2009					
	Fair Value	Total Unrealized Losses	Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
<b>Fixed maturities:</b>						
U.S. government and agencies:						
Dollar-denominated	\$ 170	\$ 2	\$ 119	\$ 1	\$ 51	\$ 1
Japan government and agencies:						
Yen-denominated	4,549	156	4,258	134	291	22
Municipalities:						
Dollar-denominated	69	17	21	1	48	16
Yen-denominated	80	3	80	3		
Mortgage- and asset-backed securities:						
Dollar-denominated	376	146	90	26	286	120
Yen-denominated	53	3	31		22	3
Collateralized debt obligations:						
Dollar-denominated	59	162	59	162		
Yen-denominated	171	89			171	89
Public utilities:						
Dollar-denominated	668	124	215	29	453	95
Yen-denominated	3,516	243	1,513	41	2,003	202
Sovereign and supranational:						
Dollar-denominated	89	16	51	10	38	6
Yen-denominated	2,711	330	1,465	45	1,246	285
Banks/financial institutions:						
Dollar-denominated	1,610	546	718	150	892	396
Yen-denominated	9,909	2,282	2,105	394	7,804	1,888
Other corporate:						
Dollar-denominated	2,052	311	630	71	1,422	240
Yen-denominated	6,182	968	2,788	150	3,394	818
Total fixed maturities	32,264	5,398	14,143	1,217	18,121	4,181
<b>Perpetual securities:</b>						
Dollar-denominated	191	81	48	10	143	71
Yen-denominated	3,661	1,282	578	151	3,083	1,131
Total perpetual securities	3,852	1,363	626	161	3,226	1,202
<b>Equity securities</b>	<b>6</b>	<b>1</b>	<b>2</b>		<b>4</b>	<b>1</b>

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Total	\$36,122	\$6,762	\$14,771	\$1,378	\$21,351	\$5,384
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(In millions)	December 31, 2008					
	Fair Value	Total Unrealized Losses	Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	Unrealized Losses
<b>Fixed maturities:</b>						
U.S. government and agencies:						
Dollar-denominated	\$ 77	\$ 1	\$ 76	\$ 1	\$ 1	\$
Japan government and agencies:						
Yen-denominated	803	16	309	5	494	11
Municipalities:						
Dollar-denominated	69	14	28	1	41	13
Mortgage- and asset-backed securities:						
Dollar-denominated	406	189	284	138	122	51
Yen-denominated	26	1			26	1
Collateralized debt obligations:						
Dollar-denominated	60	188	56	162	4	26
Yen-denominated	101	295	75	145	26	150
Public utilities:						
Dollar-denominated	812	165	566	106	246	59
Yen-denominated	2,376	83	184	2	2,192	81
Sovereign and supranational:						
Dollar-denominated	106	9	101	9	5	
Yen-denominated	1,780	257	571	71	1,209	186
Banks/financial institutions:						
Dollar-denominated	1,528	529	830	212	698	317
Yen-denominated	10,458	1,881	2,128	152	8,330	1,729
Other corporate:						
Dollar-denominated	2,166	501	1,178	241	988	260
Yen-denominated	4,342	660	420	29	3,922	631
Total fixed maturities	25,110	4,789	6,806	1,274	18,304	3,515
<b>Perpetual securities:</b>						
Dollar-denominated	235	136	70	46	165	90
Yen-denominated	4,284	1,091	830	89	3,454	1,002
Total perpetual securities	4,519	1,227	900	135	3,619	1,092
<b>Equity securities</b>	8	2	5	1	3	1
Total	\$29,637	\$6,018	\$7,711	\$1,410	\$21,926	\$4,608



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The unrealized losses were primarily related to changes in interest rates, foreign exchange rates or the widening of credit spreads rather than specific issuer credit-related events. In addition, because we do not intend to sell and do not believe it is likely that we will be required to sell these investments before a recovery of fair value to amortized cost, we do not consider any of these investments to be other-than-temporarily impaired as of and for the period ended June 30, 2009. The following summarizes our evaluation of each investment category.

*Government and Agencies Investments*

All of the investments in the government and agencies sector in an unrealized loss position were investment grade at June 30, 2009 and December 31, 2008. The unrealized losses on our investments in this sector, which include U.S. Treasury obligations, direct obligations of U.S. government agencies, Japan government bonds, and direct obligations of Japan government agencies were caused by changes in interest rates and/or foreign exchange rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Unrealized gains and losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. As the investments near maturity the unrealized gains or losses can be expected to diminish.

*Municipalities, Mortgage- and Asset-Backed Securities, Public Utilities, and Sovereign and Supranational Investments*

As of June 30, 2009 and December 31, 2008, all of our fixed maturity investments in an unrealized loss position in the public utilities and sovereign and supranational sectors were investment grade. At June 30, 2009, 58% of securities in the municipalities sector and 67% of securities in the mortgage- and asset-backed securities sector in an unrealized loss position were investment grade, compared with 53% and 100%, respectively, at the end of 2008. We have determined that the majority of the unrealized losses on the investments in these sectors were caused by widening credit spreads globally. However, we have determined that the ability of the issuers to service our investments has not been compromised. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as investments near maturity the unrealized gains or losses can be expected to diminish.

*Collateralized Debt Obligation (CDO) Investments*

As of June 30, 2009, 87% of securities in an unrealized loss position in the CDO sector was investment grade, compared with 100% at the end of 2008. We have determined that the unrealized losses in our CDO portfolio were primarily the result of widening credit spreads globally. The widening credit spreads in the CDO sector has been fueled by continued deterioration of the credit worthiness of the credit default swap (CDS) reference credit entities underlying the CDO contracts and an overall contraction of market liquidity (demand) for CDO investments in all capital markets. As more fully described in our discussion regarding our investment in variable interest entities below, we only invested in the senior tranches of the CDO structures that we own. The subordinated tranches of our CDOs absorb the majority of the risk of loss, if any, arising from the CDS contracts underlying our CDOs. As a part of our credit analysis process, we obtain CDS default and default recovery probability statistics from published market sources. We use these default and default recovery statistics to project the number of defaults our CDOs can withstand before our CDO investment would be impaired. In addition to our review of default and default recovery statistics, we also assess the credit quality of the collateral underlying our CDOs.

Based on these reviews, we determined that the declines in value of certain of our CDO investments below their carrying value were considered to be other than temporary and wrote down our investment in these CDOs to their estimated fair value through a charge to earnings in the first quarter of 2009.

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

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The following summarizes our evaluation of a specific security in our CDO portfolio which is in an unrealized loss position as of June 30, 2009.

**Morgan Stanley ACES SPC Series 2008-6 (ACES 2008-6)**

We had an unrealized loss of \$158 million on our investment of \$200 million in ACES 2008-6. The ACES 2008-6 note is a floating rate debt instrument whose coupon is tied to the three-month US dollar LIBOR plus a spread. We believe the decline in the value of ACES 2008-6 was principally due to widening credit spreads globally, which were notably impacted or worsened by the lack of market liquidity and demand in the market environment for CDO securities as a whole. We also believe that the biggest risk to our investment in ACES 2008-6 is the potential for additional defaults on the underlying CDS reference entity portfolio as a result of weakening global economic conditions. We analyzed the number of defaults and declines in recovery values ACES 2008-6 could withstand until its maturity without experiencing a loss of principal. We have also considered all other available evidence related to our investment in ACES 2008-6 including, but not limited to, the rating of our tranche, our review of the underlying collateral, the number of below-investment-grade reference entities in the portfolio, the current level of CDS spreads for entities in the reference portfolio and the probability of default implied by those market levels as well as various other qualitative analyses. Additionally, the collateral underlying ACES 2008-6 are Bank of America Credit Card Trust 2007-A5 credit card ABS, rated Aaa, AAA, and AAA by Moody's, S&P, and Fitch, respectively, as of June 30, 2009.

Based on the evaluation of these factors, the outlook for projected future defaults and recoveries on the underlying CDS reference entities coupled with our review of the underlying collateral of ACES 2008-6, we concluded that this CDO continues to demonstrate the capability to service its debt for the foreseeable future.

*Bank and Financial Institution Investments*

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

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Percentage of Total Investments in an Unrealized Loss Position</b>	<b>Percentage of Total Unrealized Losses</b>	<b>Percentage of Total Investments in an Unrealized Loss Position</b>	<b>Percentage of Total Unrealized Losses</b>
Fixed maturities	<b>32%</b>	<b>42%</b>	41%	40%
Perpetual securities:				
Upper Tier II	<b>6</b>	<b>12</b>	9	8
Tier I	<b>5</b>	<b>8</b>	6	12
Total perpetual securities	<b>11</b>	<b>20</b>	15	20
Total	<b>43%</b>	<b>62%</b>	56%	60%



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The valuation and pricing pressures from certain structured investment securities throughout 2008 and in the first six months of 2009, more notably the bank and financial institution sector's exposure to the well publicized structured investment vehicles (SIVs), coupled with their exposure to the continued weakness in the housing sector, in the UK, Europe and the United States, has led to significant write-downs of asset values and capital pressure. To reduce capital pressure, banks and other financial institutions have sought to enhance their capital positions through exchange and tender offers issued at a discount. In addition, national governments in these regions have provided support in various forms, ranging from guarantees on new and existing debt to significant injections of capital. If the market continues to deteriorate, more of these banks and financial institutions may need various forms of government support before the current economic downturn begins to ease. While it does not appear to be a preferred solution, some troubled banks and financial institutions may be nationalized. Very few nationalizations have occurred to date, and in each instance, the governments are standing behind the classes of investments that we own.

As of June 30, 2009, 79% of our investments in the bank and financial institution sector in an unrealized loss position was investment grade, compared with 96% at December 31, 2008. We have determined that the majority of the unrealized losses on the investments in this sector were caused by widening credit spreads globally, the downturn in the global economic environment and, to a lesser extent, changes in foreign exchange rates. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. As a class of securities, hybrid securities, and particularly perpetual securities, suffered price declines over the last several months due to the financial crisis and perceived higher payment deferral and extension risk. Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligation to us.

The following summarizes our evaluation of specific securities in the bank and financial institution sector which are in an unrealized loss position as of June 30, 2009.

Takefuji Corporation (Takefuji)

We had an unrealized loss of \$237 million on our investments of \$588 million in Takefuji. Takefuji is one of four major consumer finance companies operating in Japan. In contrast to its peers, which have moved into other lending sectors including real estate, Takefuji has focused on small unsecured consumer loans contributing to Takefuji's status as one of the consumer finance market leaders. Takefuji has a broad business network, including distribution alliances with regional banks throughout Japan. Takefuji maintained an adequate capital position throughout the fiscal year ended March 31, 2009.

Our reviews of Takefuji reflect adequate near-term liquidity and cash resources to meet its principal and interest obligations for the next 24 months. In July 2009, Takefuji redeemed another of its debt issuances to us totaling \$30 million at 100% of its original par value.

Investcorp (ISA)

We had an unrealized loss of \$210 million on our investment of \$435 million in ISA. ISA, a Luxembourg based financial holding company, is a provider of and investor in alternative investments. While it has operations in London, Bahrain and New York, its clients are principally high net worth individuals and institutions based in the Persian Gulf region.

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We believe the unrealized loss on our investment in ISA was related to capital constraints primarily resulting from weakness in its fund of hedge fund (FoHF) proprietary investments. Through the first six months of its current fiscal year ended December 31, 2008, ISA's FoHF proprietary investments steadily declined amid the turmoil in the markets. The company reported a net loss of \$511 million as a result of write-downs across its portfolio of investments, mostly concentrated in its FoHF proprietary investment positions. After the fiscal third quarter ended March 31, 2009, management cited a rebound in the performance of FoHF proprietary investments as markets started to function more normally. The company also stated it had \$1.3 billion in total liquidity, enough to cover all debt obligations over the next 18 months.

In May of 2009, ISA was downgraded and remains on negative watch pending further capital raises and overall improvement in operating performance given the difficult environment for alternative asset investors and providers. ISA is taking steps to increase its eroded capital base, by raising additional capital, targeting a minimum of \$250 million. ISA is also approaching its bank lending relationships to refinance its debt facilities coming due in 2009 and 2010. We continue to monitor the operating environment for ISA, but believe the steps it has taken to improve its financial position are adequate at this time.

### **SLM Corporation (SLM)**

We had an unrealized loss of \$205 million on our investment of \$343 million in SLM. Our investment in SLM is senior unsecured obligations. SLM, more commonly known as Sallie Mae, is the largest originator, servicer, and collector of student loans in the United States, a majority of which are guaranteed by the U.S. government.

We believe that the unrealized loss on our SLM investment was related to the funding pressures related to the company's constrained ability to raise debt in both the secured and unsecured markets and Congress' evaluation of proposals that threaten the role of private-sector student loan companies in originating government-guaranteed loans. The U.S. Department of Education has provided some funding relief to student lenders by agreeing to purchase existing and newly originated FFELP (Federal Family Education Loan Program) student loans, which has benefited SLM by allowing them to make profitable loans. While SLM has focused on building its private loan portfolio, the company has maintained a high quality book of loans, and a vast majority of SLM's loans carry an explicit government guarantee. Considering this environment and the government backing of a majority of its loans, SLM has demonstrated an adequate liquidity profile.

### **Banco Espirito Santo, S.A. (BES)**

We had an unrealized loss of \$150 million on our investment of \$313 million in bonds issued by BES. BES is a leading commercial bank in Portugal providing commercial and investment banking services, trade finance and pension plan asset management. BES has expanded its operations abroad to Brazil, Angola and Spain.

We believe that the increase in the unrealized loss on BES was principally related to the current economic pressures on Portuguese banks' profitability, liquidity and capital amid the weakened credit environment and within the context of the global economic downturn. Although BES maintains capital levels in excess of regulatory minima, BES is vulnerable within the competitive Portuguese market and against the backdrop of a weakened economy with challenging earnings prospects. Earnings have been challenged most recently due to heavier trading and investing in the debt and equity markets. BES has successfully increased its capital position through a fully subscribed 1.2 billion euro stock offering.

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### **Bayerische Hypo-und Vereinsbank AG (HVB)**

We had an unrealized loss totaling \$118 million related to our \$532 million investment in UniCredit S.p.A.'s German subsidiary HVB. Our HVB investments include both Tier I and Tier II instruments that are subordinated fixed maturity securities. UniCredit, the parent company of HVB, is a financial services holding company based in Italy where it maintains a strong franchise with a significant presence in Germany, Austria, Poland and Central Eastern Europe. HVB is a key part of UniCredit with well-positioned retail and corporate banking franchises in the south and north of Germany. HVB also houses the Markets and Investment Banking Division of UniCredit.

We believe the fair value of our investment in HVB was negatively impacted by the downturn in the European economic environment. The downturn was most pronounced in HVB's Markets and Investment Banking division, which sustained pre-tax losses in 2008 of 2 billion euros due to the negative impact of trading losses, the increase in loan write-downs, and the negative net investment income driven by impairments and a loss on investment properties. Most recently, HVB reported a profit for the first quarter of 2009 versus a loss for 2008. This improvement was mainly in the Markets and Investment Banking division.

Perpetual securities have suffered price erosion due to the global financial crisis and the uncertainty regarding coupon payments. Also negatively impacting HVB's fair value is its parent company's marginal capital levels in 2008. In contrast, despite the losses noted above, HVB reported much stronger capital levels than its parent company at the end of 2008. HVB reported even stronger capital levels for the first quarter of 2009 than at the end of 2008. HVB specifically stated in its 2008 earnings release that HVB will make payments on its participating certificates and hybrid capital instruments.

### ***Other Corporate Investments***

As of June 30, 2009, 62% of the securities in the other corporate sector in an unrealized loss position was investment grade, compared with 70% at the end of 2008. For any credit-related declines in market value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuers' continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the other corporate sector were caused by widening credit spreads globally. Also impacting the unrealized losses in this sector is the decline in credit worthiness of certain issuers in the other corporate sector. However, consistent with our discussions below of specific issuers within this sector, we have determined that the ability of these issuers to service our investments has not been impaired by these factors.

The following summarizes our evaluation of specific securities in the other corporate sector which are in an unrealized loss position as of June 30, 2009.

#### **UPM-Kymmene Corporation (UPM)**

We had an unrealized loss of \$159 million on our investment of \$322 million in UPM, one of the world's largest forest product companies. UPM and its peers have been negatively impacted by both weakening demand due to poor economic conditions and the significant excess capacity present in the sector. While UPM has been a leader among its peers in capacity reductions, the sector needs significantly more reductions in capacity so as to improve producer pricing power.



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During the first quarter of 2009, our investment in UPM was downgraded to below investment grade, reflecting its continued stressed operating environment. Despite the negative outlook for the forest product sector, we believe UPM possesses an above-average competitive profile, compared with its forest product peers. Through its successful efforts to control costs, reduce capacity, improve its position in energy self-sufficiency, and diversify its products, UPM has maintained acceptable earnings ratios and liquidity.

### **Compania Sudamericana de Vapores S.A. (CSAV)**

We had an unrealized loss of \$122 million on our investment of \$250 million in Tollo Shipping Company S.A. This investment is a loan to Tollo Shipping Company S.A., guaranteed by the borrower's parent, CSAV. CSAV is the largest shipping company in Latin America, and the 16<sup>th</sup> largest shipping company in the world. CSAV provides liner and specialized cargo services to clients worldwide with an emphasis on container shipping to and from its key markets of Chile and Brazil. Strong ties with Chile's top exporters and a well-developed logistics service are CSAV's main competitive advantages compared with other shippers with greater capacity.

We believe the decline in fair value of the security was primarily caused by two factors: depressed revenue due to competitive pricing pressures and weaker operating margins due to higher legacy fixed costs, including costs associated with ship charters. However, CSAV management reported an improved liquidity position in the second quarter of 2009 compared to the first quarter of 2009, and benefits from a benign debt maturity profile, and a substantial undrawn credit facility. In addition, CSAV announced that it is now in the process of raising additional equity capital over the next 12 to 24 months, which will further strengthen its financial profile.

### **Ford Motor Credit Company (FMCC) and Sultanate of Oman (Oman)**

Subsequent to December 31, 2008, the unrealized losses in our investment in FMCC and our investment issued by Oman have decreased significantly. FMCC's improvement was due to higher profits in the second quarter of 2009 driven by lower depreciation expense for leased vehicles, net gains on currency exposure, and lower operating costs. Oman's improvement is related to their increase in public spending in the first half of 2009 over the comparable period for 2008 to stimulate overall economic activity, with an overall GDP growth forecast at 3% for 2009.

### ***Perpetual Securities Investments***

At June 30, 2009, 55% of our total perpetual securities investments in an unrealized loss position was investment grade, compared with 96% at December 31, 2008. The decrease in investment-grade securities was related to downgrades of investments we own. The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly-rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer's capital structure and the regulatory jurisdiction of the issuer.

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Details of our holdings of perpetual securities as of June 30, 2009, were as follows:

**Perpetual Securities**

(In millions)	<b>Credit Rating</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Unrealized Gain (Loss)</b>
Upper Tier II:				
	AA	\$1,239	\$1,257	\$ 18
	A	2,828	2,779	(49)
	BBB	586	578	(8)
	BB	1,343	789	(554)
Total Upper Tier II		5,996	5,403	(593)
Tier I:				
	AA	845	599	(246)
	A	985	781	(204)
	BBB	209	160	(49)
	BB or lower	275	283	8
Total Tier I		2,314	1,823	(491)
Total		\$8,310	\$7,226	\$(1,084)

With the exception of the Icelandic bank securities that we impaired in the fourth quarter of 2008, all of the perpetual securities we own were current on interest and principal payments at June 30, 2009. Based on amortized cost as of June 30, 2009, the geographic breakdown by issuer was as follows: Europe (63%); the United Kingdom (21%); and Japan (12%). For any credit-related declines in market value, we perform a more focused review of the related issuer's credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer's continued ability to service our investment.

We have determined that the majority of our unrealized losses in the perpetual security category was principally due to widening credit spreads globally, largely as the result of the contraction of liquidity in the capital markets. Credit spreads for this category were also impacted by the uncertain outlook for the accounting classification of subordinated securities in certain regulatory environments. Based on our reviews, we concluded that the ability of the issuers to service our investment has not been compromised by these factors. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as the investments near economic maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analyses, we believe that our investments in this sector have the ability to service their obligation to us.

The following summarizes our evaluation of specific perpetual securities which are in an unrealized loss position as of June 30, 2009.

**Lloyds Banking Group PLC (Lloyds)**

We had an unrealized loss of \$309 million on our investment of \$835 million issued by Lloyds and its subsidiaries, which now include HBOS and Bank of Scotland (BOS). Included in our total investment in Lloyds was \$828 million of Upper Tier II perpetual securities and \$7 million in Tier I perpetual securities.

Lloyds Banking Group PLC was formed in January 2009 following the merger between Lloyds TSB Group PLC and HBOS PLC. Lloyds is the largest retail bank in the UK, with the largest branch network, and holds a number of leading market positions. Lloyds serves over 30 million people in retail banking, mortgage lending, pension services, asset management, insurance services, corporate banking and treasury services.

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We believe the unrealized loss in Lloyds is primarily related to the negative view of perpetual securities issued by banks and financial institutions due to the uncertainty regarding coupon payment especially for institutions such as Lloyds that have received government support. In particular, there is a concern that the capital support provided by HM Treasury will not extend to all levels of Lloyds' capital and that European Union approval for any government support packages will be contingent upon suspension of all coupon payments. HM Treasury is the UK department responsible for developing and executing the UK's public finance and economic policy. Lloyds has raised 14 billion pounds of capital through the UK government's HM Treasury and is participating in the Asset Protection Scheme (APS). The APS allows participating banks to insure problem assets in return for accepting a first loss and payment of a fee. The goal of the APS is to restore confidence in the UK banking system and enable lending capacity to help stimulate a recovery of the economy.

Despite a significant rise in impairment levels in Lloyd's loan portfolio, Lloyds has benefited from the APS by reducing risk-weighted assets by approximately 194 billion pound sterling. As a result of Lloyd's participation in the APS and other balance sheet liability management transactions, Lloyds has significantly increased its capital ratios. For the first quarter of 2009, Lloyds reported capital adequacy ratios well in excess of regulatory requirements. In light of the negative outlook for Lloyds, these investments were downgraded to below investment grade during the first quarter of 2009 and, in line with our current impairment policy, we began evaluating our investment in the Lloyds perpetual securities for other-than-temporary impairments using our equity impairment model at that time. Our equity impairment model, which focuses on severity and duration of impairment, reflected that a portion of our Lloyds investment was other-than-temporarily impaired. In response to this evaluation, we recognized an other-than-temporary impairment charge related to these perpetual securities totaling \$65 million (\$42 million after-tax) in the first quarter of 2009. There were no further impairments of Lloyds in the second quarter of 2009. The remaining unrealized losses on our Lloyds perpetual securities may result in additional other-than-temporary impairment charges in future quarters in the event the fair value of our Lloyds investments does not recover.

During the second quarter of 2009, we considered risks common to perpetual securities, the UK government's commitment to support UK banks, along with the leading position Lloyds commands within the UK, its diverse revenue sources and profit generation, strong asset quality, and adequate capitalization. Based upon a review of these factors, we currently believe that Lloyds has the ability to service its obligation to us.

#### Royal Bank of Scotland Group PLC (RBSG)

We had an unrealized loss of \$123 million on our investments of \$242 million in RBSG. RBSG, including The Royal Bank of Scotland PLC (RBS), is a large global banking and financial services group, and one of the largest UK banking groups. Headquartered in Edinburgh, the holding company RBSG operates in the UK, the United States and internationally through its two principal subsidiaries, RBS and National Westminster Bank (NatWest). In the United States, RBSG's subsidiary Citizens Financial Group Inc. is a large commercial banking organization. RBS conducts its operations in Ireland through the Ulster Bank Group. RBSG has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers. RBSG most recently led the tri-party acquisition of ABN AMRO (ABN), which positioned RBS as a global leading player in investment banking and capital markets via certain acquired ABN assets. Those ABN assets identified as core to the bank, like ABN AMRO Bank NV, should be integrated with RBSG from RFS Holdings in the fourth quarter of 2009, and the ABN brand will go to the Dutch state. All of the ABN AMRO Bank's senior unsecured debt has been economically allocated to RBSG's businesses.

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We believe that the unrealized loss on RBSG was related to the negative impact of the overall view of perpetual securities issued by banks and financial institutions due to the global financial crisis and due to the uncertainty regarding coupon payments especially for institutions such as RBSG that have received government support. The downturn in the UK economy has also negatively impacted all UK banks. The economic outlook in the markets in which RBSG operates is negative over the short- to medium-term and there remains significant uncertainty over the depth and length of the current recession in these areas. However, RBSG's management is taking appropriate steps to refocus operations on the core business, and is doing so with significant support from the UK government. The UK government currently owns 70% of RBSG. Additionally, the problems that accompany certain RBSG assets should be largely alleviated by the APS and the reinforced capital position of RBSG and its subsidiaries. The UK Government has made a strong effort and commitment to support the UK banks through capital injections, debt guarantees and asset insurance. We believe that RBSG will continue to benefit from government support, considering its importance to the UK banking system and the government's large stake in it. Based upon a review of these factors, we currently believe that RBSG has the ability to service its obligation to us.

#### Nordea Bank AB (Nordea)

Since December 31, 2008, the unrealized loss on our investment in perpetual securities issued by Nordea and its subsidiaries has decreased. The improvement in the unrealized loss associated with Nordea is partly related to the bank's profitability despite adverse market conditions and a relatively strong capital position.

#### Effect on Shareholders' Equity

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

(In millions)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Unrealized gains (losses) on securities available for sale	<b>\$(3,441)</b>	<b>\$ (2,046)</b>
Unamortized unrealized gains on securities transferred to held to maturity	<b>152</b>	<b>179</b>
Deferred income taxes	<b>1,166</b>	<b>659</b>
Other	<b>(3)</b>	<b>(3)</b>
Shareholders' equity, net unrealized gains (losses) on investment securities	<b>\$(2,126)</b>	<b>\$ (1,211)</b>

The unrealized gains declined and the unrealized losses increased on securities available for sale during the six-month period ended June 30, 2009. We believe the declines in unrealized gains and the increases in unrealized losses primarily resulted from widening of credit spreads globally and increases in interest rates globally.

**Table of Contents****Qualified Special Purpose Entities (QSPEs) and Variable Interest Entities (VIEs)**

As part of our investment activities, we own investments in QSPEs and VIEs. The following table details our investments in these vehicles.

**Investments in Qualified Special Purpose Entities  
and Variable Interest Entities**

(In millions)	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>QSPEs:</b>				
Total QSPEs	<b>\$4,226*</b>	<b>\$3,859</b>	\$4,458*	\$4,372
<b>VIEs:</b>				
Consolidated:				
Total VIEs consolidated	<b>\$1,755</b>	<b>\$1,376</b>	\$1,842	\$1,392
Not consolidated:				
CDOs	<b>759</b>	<b>571</b>	908	433
Other	<b>698</b>	<b>650</b>	517	499
Total VIEs not consolidated	<b>1,457</b>	<b>1,221</b>	1,425	932
Total VIEs	<b>\$3,212**</b>	<b>\$2,597</b>	\$3,267**	\$2,324

\* *Total QSPEs represent 6.3% of total debt and perpetual securities in 2009 and 6.4% in 2008.*

\*\* *Total VIEs represent 4.8% of total debt and perpetual securities in 2009 and 4.7% in 2008.*

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

We evaluate our involvement with VIEs at inception to determine our beneficial interests in the VIE and, accordingly, our beneficiary status. As a condition to our involvement or investment in a VIE, we enter into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of our investment or our beneficial interest in the VIE. We would reevaluate our beneficiary status should a reconsideration event occur. However, due to the static nature of these VIEs and our protective rights entered into as a condition of investing in the VIEs, there are few, if any, scenarios that would constitute a reconsideration event in our VIEs. To date, we have not had any reconsideration events in any of our VIEs. If we determine that we own less than

50% of the variable interest created by a VIE, we are not considered to be a primary beneficiary of the VIE and therefore are not required to consolidate the VIE.

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

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

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

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

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

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

Consistent with our other debt securities, we are exposed to credit losses within these CDOs that could result in principal losses to our investments. We have mitigated our risk of credit loss through the structure of the VIE, which contractually requires the subordinated tranches within these VIEs to absorb the majority of the expected losses from the underlying credit default swaps. Based on our statistical analysis models, each of the VIEs can sustain a reasonable number of defaults in the underlying CDS pools with no loss to our CDO investments.

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

Included in the CDOs described above are variable interest rate CDOs purchased with the proceeds from \$200 million of variable interest rate funding agreements issued to third party investors during the second quarter of 2008. We earn a spread between the coupon received on the CDOs and the interest credited on the funding agreements. Our obligation under these funding agreements is included in other policyholder funds.

The remaining VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicle used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We invest in less than 50% of the security interests issued by these VIEs and therefore participate in less than 50% of the variable interests created by them. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them.

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



**Table of Contents****Securities Lending**

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

(In millions)	<b>June 30, 2009</b>	December 31, 2008
Security loans outstanding, fair value	<b>\$577</b>	\$ 1,679
Cash collateral on loaned securities	<b>593</b>	1,733

All of the cash collateral received from borrowers for securities loaned is callable at the discretion of the borrowers. All security lending agreements are callable by us at any time.

For general information regarding our investment accounting policies, see Note 1.

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**4. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS**

**Fair Value Measurement**

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

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

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

During 2008 and through the first half of 2009, we noted a continued reduction in the availability of pricing data from market sources. This decline is due largely to the contraction of liquidity in the global markets and a reduction in the overall number of sources to provide pricing data. As a result, we have noted that available pricing data has become more volatile. The reduction in available pricing sources coupled with the increase in price volatility has increased the degree of management judgment required in the final determination of fair values. We continually assess the reasonableness of the pricing data we receive by comparing it to historical results. In addition to historical comparisons, we evaluate the reasonableness of the pricing data in light of current market trends and events. The final pricing data used to determine fair values is based on management's judgment.

**Fair Value Hierarchy**

SFAS No. 157, Fair Value Measurements (SFAS 157), specifies a hierarchy of valuation techniques based on whether the inputs to those valuations techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market. The vast majority of our financial instruments subject to the classification provisions of SFAS 157 relate to our investment securities classified as securities available for sale in our investment portfolio. We determine the fair value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities.

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The following tables present 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.

	June 30, 2009			
(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Fixed maturities:</b>				
Government and agencies	\$8,783	\$ 1,920	\$	\$10,703
Municipalities	11	183		194
Mortgage- and asset-backed securities		920	33	953
Public utilities		3,197	457	3,654
Collateralized debt obligations	109	157	111	377
Sovereign and supranational		822	272	1,094
Banks/financial institutions	84	5,045	1,117	6,246
Other corporate		8,679	1,082	9,761
Total fixed maturities	8,987	20,923	3,072	32,982
<b>Perpetual securities:</b>				
Banks/financial institutions		5,870	1,063	6,933
Other corporate		293		293
Total perpetual securities		6,163	1,063	7,226
<b>Equity securities</b>	17		9	26
Total assets	\$9,004	\$27,086	\$4,144	\$40,234
<b>Liabilities:</b>				
Interest rate swaps	\$	\$ 3	\$	\$
Total liabilities	\$	\$ 3	\$	\$

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(In millions)	December 31, 2008			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Fixed maturities:</b>				
Government and agencies	\$ 10,182	\$ 2,214	\$	\$ 12,396
Municipalities		106		106
Mortgage- and asset-backed securities		1,020	35	1,055
Public utilities		3,157	502	3,659
Collateralized debt obligations	116	140	19	275
Sovereign and supranational		994	260	1,254
Banks/financial institutions		5,674	876	6,550
Other corporate		8,819	898	9,717
Total fixed maturities	10,298	22,124	2,590	35,012
<b>Perpetual securities:</b>				
Banks/financial institutions		7,328	412	7,740
Other corporate		307		307
Total perpetual securities		7,635	412	8,047
<b>Equity securities</b>	18	5	4	27
Total assets	\$ 10,316	\$ 29,764	\$ 3,006	\$ 43,086
<b>Liabilities:</b>				
Cross-currency and interest rate swaps	\$	\$ 158	\$	\$ 158
Total liabilities	\$	\$ 158	\$	\$ 158

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

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

Approximately 40% of our investments classified as Level 2 are valued by obtaining quoted market prices from our investment custodian. The custodian obtains price quotes from various pricing services who estimate their fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 55% of our Level 2 fixed maturities and perpetual securities is determined using our DCF pricing model. The significant valuation inputs to the DCF model are obtained from, or corroborated by, observable market sources from both active and inactive markets.

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

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

The fair value of our cross-currency and interest rate swap contracts is based on the amount we would expect to receive or pay to terminate the swaps. The prices used to determine the value of the swaps are obtained from the

respective swap counterparties and take into account current interest and foreign currency rates, duration, counterparty credit risk and our own credit rating.

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The fixed maturities classified as Level 3 consist of securities for which there are limited or no observable valuation inputs. We estimate the fair value of our Level 3 fixed maturities by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market flows. We consider these inputs unobservable. 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.

**Level 3 Rollforward**

The following tables present the changes in our securities available for sale classified as Level 3.

	Three Months Ended June 30, 2009						Unrealized gains
	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	
(In millions)							(losses) still held*
<b>Fixed maturities:</b>							
Mortgage- and asset-backed securities	\$ 34	\$	\$ (1)	\$	\$	\$ 33	\$
Banks/financial institutions	839	(53)	(26)		357	1,117	(53)
Collateralized debt obligations	74		18		19	111	
Other corporate	1,036		46			1,082	
Public utilities	462		(5)			457	
Municipalities							
Sovereign and supranational	209		63			272	
Total fixed maturities	2,654	(53)	95		376	3,072	(53)
<b>Perpetual securities:</b>							
Banks/financial institutions	636		72		355	1,063	
Other corporate							
Total perpetual securities	636		72		355	1,063	
<b>Equity securities</b>	10		(1)			9	
Total	\$3,300	\$ (53)	\$ 166	\$	\$ 731	\$4,144	\$ (53)

\* *Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at June 30, 2009.*

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	Three Months Ended June 30, 2008						Unrealized gains (losses) still held*
	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	
(In millions)							
<b>Fixed maturities:</b>							
Mortgage- and asset-backed securities	\$ 13	\$	\$	\$	\$ 10	\$ 23	\$
Banks/financial institutions	22	(2)	(3)	2		19	(2)
Collateralized debt obligations	65		(7)			58	
Other corporate					108	108	
Public utilities					86	86	
Municipalities							
Sovereign and supranational							
Total fixed maturities	100	(2)	(10)	2	204	294	(2)
<b>Equity securities</b>	4					4	
Total	\$104	\$ (2)	\$ (10)	\$ 2	\$ 204	\$298	\$ (2)

\* Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at June 30, 2008.



**Table of Contents**Six Months Ended  
June 30, 2009

	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	Unrealized gains (losses) still held*
(In millions)							
<b>Fixed maturities:</b>							
Mortgage- and asset-backed securities	\$ 35	\$	\$ (2)	\$	\$	\$ 33	\$
Banks/financial institutions	876	(53)	(151)		445	1,117	(53)
Collateralized debt obligations	19	(114)	165		41	111	(114)
Other corporate	898		(16)		200	1,082	
Public utilities	502		(45)			457	
Municipalities							
Sovereign and supranational	260		12			272	
Total fixed maturities	2,590	(167)	(37)		686	3,072	(167)
<b>Perpetual securities:</b>							
Banks/financial institutions	412		(61)		712	1,063	
Other corporate							
Total perpetual securities	412		(61)		712	1,063	
<b>Equity securities</b>	4		(1)		6	9	
Total	\$3,006	\$(167)	\$ (99)	\$	\$ 1,404	\$4,144	\$(167)

\* Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in

*unrealized gains  
(losses) relating  
to assets  
classified as  
Level 3 that  
were still held at  
June 30, 2009.*

Six Months Ended  
June 30, 2008

	Balance,	Realized	Unrealized	Purchases	Transfers	Balance,	Unrealized
	beginning	gains or	gains or	and	into and/or	end of	gains
(In millions)	of	losses	included	settlements	out of	period	(losses)
	period	included in	in other		Level 3		still
		earnings	comprehensive				held*
			income				
<b>Fixed maturities:</b>							
Mortgage- and							
asset-backed							
securities	\$ 13	\$	\$	\$	\$ 10	\$ 23	\$
Banks/financial							
institutions	20	(2)	(1)	2		19	(2)
Collateralized debt							
obligations	76		(28)	10		58	
Other corporate					108	108	
Public utilities					86	86	
Municipalities							
Sovereign and							
supranational							
Total fixed maturities	109	(2)	(29)	12	204	294	(2)
<b>Equity securities</b>	3		1			4	
Total	\$ 112	\$ (2)	\$ (28)	\$ 12	\$ 204	\$ 298	\$ (2)

\* *Represents the  
amount of total  
gains or losses  
for the period,  
included in  
earnings,  
attributable to  
the change in  
unrealized gains  
(losses) relating  
to assets*

*classified as  
Level 3 that  
were still held at  
June 30, 2008.*

During the first six months of 2009, we transferred investments totaling \$1.4 billion into Level 3 as a result of credit downgrades of the respective securities to below investment grade.

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Over the course of 2008, the inputs we received from pricing brokers for forward exchange rates and the credit spreads for certain issuers, including liquidity risk, became increasingly difficult for us to observe or corroborate in the markets for our investments in CDOs, callable reverse-dual currency securities (RDCs), securities rated below investment grade, and to a lesser extent less liquid sinking fund securities. This resulted in the transfer of affected fixed maturities available for sale from the Level 2 valuation category into the Level 3 valuation category in 2008.

**Fair Value of Financial Instruments**

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

(In millions)	June 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Fixed-maturity securities	\$56,541	\$55,046	\$59,448	\$58,096
Perpetual securities	7,226	7,226	8,047	8,047
Equity securities	26	26	27	27
<b>Liabilities:</b>				
Notes payable (excluding capitalized leases)	1,985	1,922	1,713	1,561
Cross-currency and interest rate swaps*	3	3	158	158
Obligation to Japanese policyholder protection corporation	138	138	161	161

\* Cross-currency swaps expired in April 2009

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

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

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

**DCF Sensitivity**

Our DCF pricing model utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Management believes that under normal market conditions, a movement of 50 basis points (bps) in the key assumptions used to estimate these fair values would be reasonably likely. Therefore, we selected a uniform magnitude of movement (50 bps) and provided both upward and downward movements in the assumptions. Since the changes in fair value are relatively

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linear, the reader of these financial statements can make their own judgment as to the movement in interest rates and the change in fair value based upon this data. The following scenarios provide a view of the sensitivity of our securities priced by our DCF pricing model.

The fair values of our available-for-sale fixed maturity and perpetual securities valued by our DCF pricing model totaled \$15.0 billion at June 30, 2009. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	\$(754)	+50 bps	\$(740)	+50 bps	\$(32)
-50 bps	804	-50 bps	797	-50 bps	31

The fair values of our held-to-maturity fixed maturity securities valued by our DCF pricing model totaled \$20.8 billion at June 30, 2009. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	\$(1,436)	+50 bps	\$(1,290)	+50 bps	\$(327)
-50 bps	1,441	-50 bps	1,316	-50 bps	305

The two tables above illustrate the differences on the fair values of our investment portfolio among each of the inputs for interest rates, credit spreads and interest volatility. These differences are driven principally by the securities in our portfolio that have call features. These call features cause the fair values of the affected securities to react differently depending on the inputs used to price these securities.

**Derivative Hedges**

We have limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions.

As of December 31, 2008 and until April 2009, we had outstanding cross-currency interest rate swap agreements related to our \$450 million senior notes (see Note 5). We had designated the foreign currency component of these cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. The notional amounts and terms of the swaps matched the principal amount and terms of the senior notes. We entered into cross-currency swaps to minimize the impact of foreign currency translation on shareholders' equity and to reduce interest expense by economically converting the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations. By entering into these cross-currency swaps, we economically converted our \$450 million liability into a 55.6 billion yen liability, and we reduced our interest rate from 6.5% in dollars to 1.67% in yen. We included the fair value of the cross-currency swaps in other liabilities on the balance sheet as of December 31, 2008. The net investment hedge was effective from its inception through the first quarter of 2009, therefore we reported the change in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income during that period of time. In April 2009, our cross-currency swap agreements expired in conjunction with the maturity of the corresponding senior notes (see Note 5). At the beginning of the second quarter of 2009 and prior to their expiration, we de-designated these swaps as a hedge of our net investment in Aflac Japan. Upon de-designation and until the swaps expired, we recorded the change in fair value of the foreign currency portion

of the cross-currency swaps in net earnings

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(other income). The interest rate component of the swaps did not qualify for hedge accounting, therefore the change in fair value of the interest rate component was reflected in net earnings. See further discussion below.

We have interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes (see Note 5). By entering into these contracts, we have been able to lock in the interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes. The swaps had no value at inception. Changes in the fair value of the swap contracts are recorded in other comprehensive income so long as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that value would be reported in net earnings (other income). This hedge was effective during the six-month periods ended June 30, 2009, and 2008, therefore there was no impact on net earnings.

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

(In millions)	June 30, 2009	December 31, 2008
Interest rate component	\$ (3)	\$ 2
Foreign currency component		(164)
Accrued interest component		4
Total fair value of cross-currency and interest rate swaps	\$ (3)	\$ (158)

The cross-currency swaps expired in April 2009, at which time we paid off the foreign exchange liability balance of \$106 million for these swaps to the applicable swap counterparties.

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)	2009	2008
Balance, beginning of period	\$ (164)	\$ (47)
Increase (decrease) in fair value of cross-currency swaps	51	(28)
Interest rate component not qualifying for hedge accounting reclassified to net earnings		
Balance, end of period	\$ (113)	\$ (75)

Because the cross-currency swaps were de-designated as a hedge of the net investment in Aflac Japan for the second quarter of 2009 prior to their expiration, the foreign exchange loss recorded in accumulated other comprehensive income for these swaps remained unchanged from the balance as of March 31, 2009. This unrealized loss would need to be reversed out of accumulated other comprehensive income and recognized in earnings if we ever divested of our investment in Aflac Japan. Subsequent to March 31, 2009 and upon expiration of these swaps, the fair value of the foreign currency component of the cross-currency swaps increased by \$7 million, therefore we realized this amount as a foreign exchange gain in earnings during the quarter ended June 30, 2009.

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, 2009, and 2008.

Our exposure to credit risk in the event of nonperformance by counterparties to our derivatives as of June 30, 2009, was immaterial.





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**Nonderivative Hedges**

We have designated our yen-denominated Samurai and Uridashi notes (see Note 5) as nonderivative hedges of the foreign currency exposure of our investment in Aflac Japan.

For additional information on our cross-currency and interest rate swaps and other financial instruments, see Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2008.

**Table of Contents****5. NOTES PAYABLE**

A summary of notes payable follows:

(In millions)	<b>June 30, 2009</b>	December 31, 2008
8.50% senior notes due May 2019	<b>\$ 850</b>	\$
6.50% senior notes paid April 2009		450
Yen-denominated Uridashi notes:		
1.52% notes due September 2011 (principal amount 15 billion yen)	<b>156</b>	165
2.26% notes due September 2016 (principal amount 8 billion yen in 2009 and 10 billion yen in 2008)	<b>83</b>	110
Variable interest rate notes due September 2011 (1.01% at June 2009, principal amount 20 billion yen)	<b>209</b>	220
Yen-denominated Samurai notes:		
.71% notes due July 2010 (principal amount 39.4 billion yen in 2009 and 40 billion yen in 2008)	<b>410</b>	439
1.87% notes due June 2012 (principal amount 26.6 billion yen in 2009 and 30 billion yen in 2008)	<b>277</b>	329
Capitalized lease obligations payable through 2014	<b>7</b>	8
Total notes payable	<b>\$1,992</b>	\$ 1,721

During the first six months of 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We extinguished 2.0 billion yen (par value) of our Uridashi notes due September 2016 at a cost of 1.4 billion yen, yielding a gain of .6 billion yen. We extinguished 3.4 billion yen (par value) of our Samurai notes due June 2012 at a cost of 2.5 billion yen, yielding a gain of .9 billion yen. We extinguished .6 billion yen (par value) of our Samurai notes due July 2010 at a cost of .5 billion yen, yielding a gain of .1 billion yen. Through these transactions, we realized a total gain from extinguishment of debt of 1.6 billion yen, or \$17 million (\$11 million after-tax), which we included in other income.

In April 2009, we used internally generated cash flow to pay off our \$450 million senior notes upon their maturity. In May 2009, we issued \$850 million of senior notes through a U.S. public debt offering. These notes pay interest semi-annually and have a 10-year maturity. The notes are redeemable at our option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the principal amount of the notes or (ii) the present value of the remaining scheduled payments of principal and interest to be redeemed, discounted to the redemption date, plus accrued and unpaid interest.

In July 2009, we executed a 10 billion yen loan (approximately \$104 million using the June 30, 2009, exchange rate) at an interest rate of 3.60%. Interest on the loan is payable semiannually, and the loan has a six-year maturity.

We were in compliance with all of the covenants of our notes payable at June 30, 2009. No events of default or defaults occurred during the six months ended June 30, 2009.

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, 2008.

**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)	2009	2008
<b>Common stock issued:</b>		
Balance, beginning of period	660,035	658,604
Exercise of stock options and issuance of restricted shares	452	997
Balance, end of period	660,487	659,601
<b>Treasury stock:</b>		
Balance, beginning of period	193,420	172,074
Purchases of treasury stock:		
Open market		12,500
Other	89	109
Disposition of treasury stock:		
Shares issued to AFL Stock Plan	(355)	(688)
Exercise of stock options	(17)	(352)
Other	(134)	(69)
Balance, end of period	193,003	183,574
Shares outstanding, end of period	467,484	476,027

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Anti-dilutive stock options and restricted share awards	11,011	1,262	13,189	1,025

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

As of June 30, 2009, a remaining balance of 32.4 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors. The 32.4 million shares were comprised of 2.4 million shares remaining from a board authorization in 2006 and 30.0 million shares remaining from an authorization by the board of directors for purchase in January 2008.



**Table of Contents****7. SHARE-BASED TRANSACTIONS**

The Company has two long-term incentive compensation plans. The first plan, which expired in February 2007, is a stock option plan which allowed grants for incentive stock options (ISOs) to employees and non-qualifying stock options (NQSOs) to employees and non-employee directors. Options granted before the plan's expiration date remain outstanding in accordance with their terms. The second long-term incentive plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. As of June 30, 2009, approximately 18.5 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, 2009.

	<b>Stock Option Shares (in thousands)</b>	<b>Weighted-Average Remaining Term (in years)</b>	<b>Aggregate Intrinsic Value (in millions)</b>	<b>Weighted-Average Exercise Price Per Share</b>
Outstanding	17,868	5.2	\$ 43	\$ 36.52
Exercisable	13,087	3.9	28	34.67

We received cash from the exercise of stock options in the amount of \$1.7 million during the first six months of 2009, compared with \$27 million in the first six months of 2008. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$3 million in the first six months of 2009, compared with \$18 million in the first six months of 2008.

As of June 30, 2009, total compensation cost not yet recognized in our financial statements related to restricted-share-based awards was \$24 million, of which \$11 million (599 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 1.8 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, 2008.

**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:

(In millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
	Japan	U.S.	Japan	U.S.	Japan	U.S.	Japan	U.S.
<b>Components of net periodic benefit cost:</b>								
Service cost	\$3	\$ 3	\$2	\$ 3	\$ 6	\$ 5	\$ 5	\$ 5
Interest cost	1	3	1	2	2	6	2	5
Expected return on plan assets		(3)		(3)	(1)	(6)	(1)	(6)
Amortization of net actuarial loss		1	1		1	2	1	1
Net periodic benefit cost	\$4	\$ 4	\$4	\$ 2	\$ 8	\$ 7	\$ 7	\$ 5

During the six months ended June 30, 2009, Aflac Japan contributed approximately \$8 million (using the June 30, 2009, 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, 2008.

**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.

**10. SUBSEQUENT EVENTS**

We evaluated events that occurred subsequent to June 30, 2009, for recognition or disclosure in our financial statements and notes to our financial statements. We performed our subsequent event review through August 7, 2009, the date that these second quarter 2009 financials were issued.

In July 2009, we executed a loan for 10 billion yen. See Note 5 for further discussion.

On July 29, 2009, we entered into a definitive agreement to purchase for \$100 million Continental American Insurance Group, Inc., which includes its wholly-owned subsidiary Continental American Insurance Company (CAIC). The purchase will be funded with internal capital, and the transaction is expected to close in the fourth quarter of 2009. CAIC, which is currently privately owned and headquartered in Columbia, South Carolina, specializes in offering voluntary group insurance products that are distributed by insurance brokers at the worksite.

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

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

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

- difficult conditions in global capital markets and the economy generally
- governmental actions for the purpose of stabilizing the financial markets
- defaults and downgrades in certain securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac's investment in perpetual securities
- differing judgments applied to investment valuations
- subjective determinations of amount of impairments taken on our investments
- realization of unrealized losses
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular sector
- concentration of business in Japan
- ongoing changes in our industry
- exposure to significant financial and capital markets risk
- fluctuations in foreign currency exchange rates
- significant changes in investment yield rates
- deviations in actual experience from pricing and reserving assumptions

subsidiaries ability to pay dividends to the Parent Company

changes in law or regulation by governmental authorities

ability to attract and retain qualified sales associates and employees

ability to continue to develop and implement improvements in information technology systems

changes in U.S. and/or Japanese accounting standards

decreases in our financial strength or debt ratings

level and outcome of litigation

ability to effectively manage key executive succession

catastrophic events

failure of internal controls or corporate governance policies and procedures



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**COMPANY OVERVIEW**

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

**MD&A OVERVIEW**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the period from December 31, 2008, to June 30, 2009. 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, 2008. This MD&A is divided into the following sections:

Critical accounting estimates

Results of operations, consolidated and by segment

Analysis of financial condition, including discussion of market risks of financial instruments

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

**Table of Contents****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 87% of our liabilities are reported as of June 30, 2009, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

There have been no changes in the items that we have identified as critical accounting estimates during the six months ended June 30, 2009. 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, 2008.

**New Accounting Pronouncements**

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

**RESULTS OF OPERATIONS**

The following 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,			
	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
	In Millions		Per Diluted Share		In Millions		Per Diluted Share	
Net earnings	<b>\$ 314</b>	\$483	<b>\$ .67</b>	\$1.00	<b>\$ 882</b>	\$957	<b>\$1.89</b>	\$1.98
Items impacting net earnings, net of tax:								
Realized investment gains (losses)	<b>(249)</b>	(1)	<b>(.53)</b>		<b>(255)</b>	(5)	<b>(.54)</b>	(.01)
Impact from SFAS 133		(3)		(.01)	<b>(3)</b>		<b>(.01)</b>	
Gain on extinguishment of debt	<b>1</b>				<b>11</b>		<b>.02</b>	

**Realized Investment Gains and Losses**

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

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During the first six months of 2009, sales and redemptions of securities resulted in realized pretax investment gains of \$227 million (\$148 million after-tax). These gains were primarily the result of bond swaps that took advantage of tax loss carryforwards from previously incurred investment losses. We realized total pretax investment losses of \$619 million (\$402 million after-tax) as a result of the recognition of other-than-temporary impairment losses. The following table details our pretax impairment losses by investment category.

(In millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Perpetual securities	\$ 144	\$ 209
Corporate bonds	238	288
Collateralized debt obligations		113
Collateralized mortgage obligations	3	9
Total other-than-temporary impairments	\$ 385	\$ 619

Realized investment losses in the first six months of 2008 primarily resulted from securities sold or redeemed in the normal course of business.

See Note 3 of the Notes to the Consolidated Financial Statements for more information on our realized investment gains and losses.

**Impact from SFAS 133**

We had cross-currency swap agreements which economically converted our dollar-denominated senior notes, which matured in April 2009, into a yen-denominated obligation. Until April 2009, we designated the foreign currency component of these cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. The effect of issuing fixed-rate, dollar-denominated debt and swapping it into fixed-rate, yen-denominated debt has the same economic impact on Aflac as if we had issued yen-denominated debt of a like amount. However, the accounting treatment for cross-currency swaps is different from issuing yen-denominated Samurai and Uridashi notes. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, (SFAS 133), requires that the change in the fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, be reflected in net earnings. This change in fair value is determined by relative dollar and yen interest rates and has no cash impact on our results of operations. At maturity, the fair value equaled initial contract fair value, and the cumulative impact of gains and losses from the changes in fair value of the interest component was zero. We had the ability and intent to retain the cross-currency swaps until they expired in April 2009. The impact from SFAS 133 includes the change in fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, and is included in other income. Prior to the expiration of the swaps in April 2009, we de-designated the swaps as a hedge of our net investment in Japan when we performed our hedge designations at the beginning of second quarter 2009.

We have 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 exceeds our investment in Aflac Japan, we would be required to recognize the foreign currency effect on the excess in net earnings (other income). The foreign currency gain or loss on the excess liabilities would be included in the impact from SFAS 133. At the beginning of second quarter of 2009 when we performed our hedge designations, the notional amount of our yen-denominated liabilities exceeded our yen net asset position in Aflac Japan, therefore we de-designated this excess portion of our yen-denominated liabilities from our net investment hedge. An immaterial loss was recorded in net earnings (other income) and included in the impact from SFAS 133 during the quarter ended June 30, 2009, as a result of the negative foreign currency effect on the portion of our yen-denominated liabilities that was not designated as a hedge. Our net investment hedge was effective during the six-month period ended June 30, 2008; therefore, there was no impact on net earnings.

We have 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

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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, 2009 and 2008; 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, 2008.

**Debt Extinguishment**

During the first six months of 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We realized a total gain from extinguishment of debt of 1.6 billion yen, or \$17 million (\$11 million after-tax), which we included in other income.

**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 34.3% for the six-month period ended June 30, 2009, compared with 34.7% for the same period in 2008.

**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.

Subject to the preceding assumptions, our objective for 2009 is to increase net earnings per diluted share by 13% to 15% over 2008. If we achieve this objective, the following table shows the likely results for 2009 net

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earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

**2009 Net Earnings Per Share (EPS) Scenarios\***

<b>Weighted-Average Yen/Dollar Exchange Rate</b>	<b>Net Earnings Per Diluted Share</b>		<b>% Growth Over 2008</b>		<b>Yen Impact on EPS</b>
85.00	\$5.04	5.12	26.3	28.3%	\$ .53
90.00	4.87	4.96	22.1	24.3	.37
95.00	4.73	4.81	18.5	20.6	.22
100.00	4.59	4.68	15.0	17.3	.09
103.46 **	4.51	4.59	13.0	15.0	
105.00	4.47	4.55	12.0	14.0	(.04)
110.00	4.37	4.44	9.5	11.3	(.15)

\* *Excludes realized investment gains/losses, impact from SFAS 133 and nonrecurring items in 2009 and 2008*

\*\* *Actual 2008 weighted-average exchange rate*

Our objective for 2010 is to increase net earnings per diluted share by 9% to 12%, 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**

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	<b>2009</b>	2008	<b>2009</b>	2008
Premium income	<b>\$2,901</b>	\$ 2,620	<b>\$5,913</b>	\$ 5,205
Net investment income:				
Yen-denominated investment income	<b>357</b>	322	<b>728</b>	637
Dollar-denominated investment income	<b>187</b>	186	<b>377</b>	367
Net investment income	<b>544</b>	508	<b>1,105</b>	1,004
Other income	<b>15</b>	14	<b>22</b>	13
Total operating revenues	<b>3,460</b>	3,142	<b>7,040</b>	6,222
Benefits and claims	<b>2,092</b>	1,946	<b>4,294</b>	3,868
Operating expenses:				
Amortization of deferred policy acquisition costs	<b>121</b>	100	<b>245</b>	196
Insurance commissions	<b>256</b>	239	<b>523</b>	478
Insurance and other expenses	<b>312</b>	284	<b>617</b>	553
Total operating expenses	<b>689</b>	623	<b>1,385</b>	1,227
Total benefits and expenses	<b>2,781</b>	2,569	<b>5,679</b>	5,095
Pretax operating earnings*	<b>\$ 679</b>	\$ 573	<b>\$1,361</b>	\$ 1,127
Weighted-average yen/dollar exchange rate	<b>97.53</b>	104.50	<b>95.44</b>	104.77

	<b>In Dollars</b>				<b>In Yen</b>			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
<b>Percentage change over previous period:</b>	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
Premium income	<b>10.7%</b>	19.7%	<b>13.6%</b>	18.7%	<b>3.1%</b>	3.6%	<b>3.3%</b>	3.6%
Net investment income	<b>7.2</b>	14.8	<b>10.0</b>	14.3	<b>(.2)</b>	(.7)	<b>.2</b>	(.3)
Total operating revenues	<b>10.1</b>	18.9	<b>13.1</b>	17.8	<b>2.5</b>	2.9	<b>2.9</b>	2.8
Pretax operating earnings*	<b>18.6</b>	24.3	<b>20.7</b>	21.7	<b>10.7</b>	7.5	<b>10.0</b>	6.1



\* *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 in yen of 2.9% in the first six months of 2009 and 3.6% for the same period of 2008 reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized premiums in force at June 30, 2009, were 1.18 trillion yen, compared with 1.14 trillion yen a year ago. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were \$12.2 billion at June 30, 2009, compared with \$10.7 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 34% of Aflac Japan's investment income in the first six months of 2009, compared with 37% a year ago. In periods when the yen strengthens in relation to the dollar, translating Aflac

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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 36% of Aflac Japan's investment income during the first six months of 2009. 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Net investment income	(.2)%	(.7)%	.2%	(.3)%	2.3%	5.0%	3.4%	5.0%
Total operating revenues	2.5	2.9	2.9	2.8	3.0	3.7	3.4	3.8
Pretax operating earnings*	10.7	7.5	10.0	6.1	13.1	11.3	12.2	11.0

\* 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,	
	2009	2008	2009	2008
<b>Ratios to total revenues:</b>				
Benefits and claims	60.4%	61.9%	61.0%	62.2%

## Operating expenses:

Amortization of deferred policy acquisition costs	<b>3.5</b>	3.2	<b>3.5</b>	3.1
Insurance commissions	<b>7.4</b>	7.6	<b>7.4</b>	7.7
Insurance and other expenses	<b>9.0</b>	9.1	<b>8.8</b>	8.9
Total operating expenses	<b>19.9</b>	19.9	<b>19.7</b>	19.7
Pretax operating earnings*	<b>19.7</b>	18.2	<b>19.3</b>	18.1

\* 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 and riders with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the improvement in the benefit ratio to continue as we shift to newer products and riders and benefit from the impact of favorable claim trends. However, this improvement is partially offset by the effect of low investment yields, which impacts our profit margin by reducing the spread between investment yields and required interest on policy reserves. The operating expense ratio has remained stable in the first six months of 2009, compared with the same period a year ago. We expect the operating expense ratio to increase slightly in 2009 in relation to prior year. Due to continued improvement in the benefit ratio, the pretax operating profit margin expanded in the three- and six-month periods ended June 30, 2009. We expect the expansion in the profit margin to hold through the remainder of 2009.

**Table of Contents****Aflac Japan Sales**

The following table presents Aflac Japan's total new annualized premium sales for the periods ended June 30.

(In millions of dollars and billions of yen)	In Dollars				In Yen			
	Three Months		Six Months		Three Months		Six Months	
	2009	2008	2009	2008	2009	2008	2009	2008
Total new annualized premium sales	\$ 309	\$274	\$ 602	\$ 537	30.1	28.7	57.6	56.3
Increase (decrease) over comparable period in prior year	12.9%	9.9%	12.0%	14.4%	5.0%	(4.9)%	2.3%	(.3)%

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	
	2009	2008	2009	2008
Medical policies	31%	34%	33%	35%
Cancer life	32	34	33	33
Ordinary life	30	23	27	22
Rider MAX	4	5	4	5
Other	3	4	3	5
Total	100%	100%	100%	100%

Cancer insurance sales were down 1.7% during the second quarter of 2009, compared with the same period a year ago.

Medical sales were down 2.7% during the second quarter of 2009, compared with the same period a year ago. We will be introducing a revised EVER product in August 2009. This will be the first major revision that we have made to this popular medical product since 2002. The most notable change is an enhanced surgical benefit. Due to our early announcement of this product, we do not expect to sell much medical insurance until the new product is rolled out.

Ordinary life product sales increased 38.7% during the second quarter of 2009, compared with the same period in 2008. The increase in our ordinary life products was driven by a favorable consumer response to our child endowment product that was released at the end of first quarter 2009. Although this product has a lower margin than our health insurance products, its margins significantly exceed the margins of the fixed annuity coverage that we offer. We believe that the child endowment product, as well as our other new life product, called GIFT, will provide opportunities for us to sell our third sector cancer and medical products.

We continue to believe that sales of cancer and medical insurance will benefit from the recently opened bank channel. In the second quarter of 2009, bank channel sales were 1.4 billion yen, a 39% increase compared with the first quarter of 2009. Bank channel sales were 106.4% higher in the second quarter of 2009, compared with the same period a year ago. At June 30, 2009, we had agreements with 346 banks to sell our products in their branches. We have significantly more selling agreements with banks than any of our competitors. We believe our longstanding relationships within the Japan banking sector have given us an advantage in developing this channel. Furthering our reach into the banking channel has been the endorsement of Aflac's products by the National Association of Shinkin Banks. This association of about 280 shinkin banks, which are similar to credit unions, has chosen Aflac as one of only four providers



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of third sector insurance products to its member banks. Aflac was the only foreign company chosen. In addition, Aflac was the only company selected for both cancer and medical insurance. We believe we are well-positioned to see continued improvement in bank channel sales.

We believe that there is still a strong need for our products in Japan. Although we have a cautious outlook for sales in 2009 due to the current global economic uncertainty, we believe our objective for sales to be flat to up 5% in Japan remains achievable. Our sales objective could change if the Japanese economy experiences further deterioration.

**Aflac Japan Investments**

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

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

	Three Months		Six Months	
	2009	2008	2009	2008
New money yield yen only	<b>3.04%</b>	3.27%	<b>3.27%</b>	3.31%
New money yield blended	<b>3.25</b>	3.46	<b>3.57</b>	3.57
Return on average invested assets, net of investment expenses	<b>3.70</b>	3.83	<b>3.70</b>	3.84

At June 30, 2009, the yield on Aflac Japan's investment portfolio, including dollar-denominated investments, was 3.85%, compared with 3.98% a year ago. See Note 3 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments.

**Japanese Economy**

Japan's economy has been impacted by the global economic downturn. We believe that the Japanese economic situation is uncertain and that growth may not return until confidence is restored to the global financial markets. For additional information, see the Japanese Economy section of MD&A in our annual report to shareholders for the year ended December 31, 2008.

**Japanese Regulatory Environment**

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

**Table of Contents****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)	<b>2009</b>	2008	<b>2009</b>	2008
Premium income	<b>\$1,094</b>	\$1,064	<b>\$2,197</b>	\$2,114
Net investment income	<b>127</b>	125	<b>252</b>	248
Other income	<b>2</b>	2	<b>4</b>	5
Total operating revenues	<b>1,223</b>	1,191	<b>2,453</b>	2,367
Benefits and claims	<b>631</b>	628	<b>1,240</b>	1,245
Operating expenses:				
Amortization of deferred policy acquisition costs	<b>104</b>	85	<b>230</b>	180
Insurance commissions	<b>125</b>	123	<b>246</b>	242
Insurance and other expenses	<b>165</b>	165	<b>335</b>	320
Total operating expenses	<b>394</b>	373	<b>811</b>	742
Total benefits and expenses	<b>1,025</b>	1,001	<b>2,051</b>	1,987
Pretax operating earnings*	<b>\$ 198</b>	\$ 190	<b>\$ 402</b>	\$ 380

**Percentage changes over previous period:**

Premium income	<b>2.8%</b>	9.5%	<b>3.9%</b>	9.4%
Net investment income	<b>1.8</b>	.1	<b>1.6</b>	.7
Total operating revenues	<b>2.7</b>	8.4	<b>3.7</b>	8.4
Pretax operating earnings*	<b>4.0</b>	11.1	<b>5.6</b>	11.8

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

Annualized premiums in force increased 2.7% in the first six months of 2009 and 8.9% for the same period of 2008. Annualized premiums in force at June 30, 2009, were \$4.7 billion, compared with \$4.6 billion a year ago. Net

investment income was relatively flat during the three- and six-month periods ended June 30, 2009, compared with the same periods a year ago, primarily due to lack of growth in the investment portfolio as a result of excess capital used in our share repurchase program during 2008.



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

	Three Months Ended June 30,		Six Months Ended June 30,	
<b>Ratios to total revenues:</b>	<b>2009</b>	2008	<b>2009</b>	2008
Benefits and claims	<b>51.6%</b>	52.8%	<b>50.5%</b>	52.6%
Operating expenses:				
Amortization of deferred policy acquisition costs	<b>8.5</b>	7.1	<b>9.4</b>	7.6
Insurance commissions	<b>10.2</b>	10.3	<b>10.0</b>	10.2
Insurance and other expenses	<b>13.6</b>	13.9	<b>13.7</b>	13.5
Total operating expenses	<b>32.3</b>	31.3	<b>33.1</b>	31.3
Pretax operating earnings*	<b>16.1</b>	15.9	<b>16.4</b>	16.1

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

The benefit ratio declined and amortization of deferred policy acquisition costs increased in the first half of 2009, compared with the same period a year ago, due to lower persistency levels, compared with 2008. We expect the benefit ratio to decline modestly in 2009, however the impact of this decline will likely be partially offset by higher than planned amortization of deferred policy acquisition costs. Overall, we expect the pretax operating profit margin to increase slightly in 2009, compared with 2008.

**Aflac U.S. Sales**

Weak economic conditions continued to challenge Aflac's sales results in the United States. The following table presents Aflac's U.S. total new annualized premium sales for the periods ended June 30.

(In millions)	Three Months		Six Months	
	<b>2009</b>	2008	<b>2009</b>	2008
Total new annualized premium sales	<b>\$ 341</b>	\$383	<b>\$ 692</b>	\$736
Increase (decrease) over comparable period in prior year	<b>(10.9)%</b>	4.9%	<b>(6.0)%</b>	2.7%

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	
	<b>2009</b>	2008	<b>2009</b>	2008
Accident/disability coverage	<b>48%</b>	49%	<b>48%</b>	49%

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Cancer indemnity insurance	<b>17</b>	18	<b>17</b>	18
Hospital indemnity products	<b>17</b>	16	<b>17</b>	15
Life	<b>6</b>	6	<b>7</b>	6
Fixed-benefit dental coverage	<b>5</b>	6	<b>5</b>	6
Other	<b>7</b>	5	<b>6</b>	6
Total	<b>100%</b>	100%	<b>100%</b>	100%

Total new annualized premium sales for accident/disability insurance, our leading product category, decreased 11.6%, cancer indemnity insurance sales decreased 13.4%, and hospital indemnity insurance sales decreased 1.3% in the second quarter of 2009, compared with the same period a year ago.

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One aspect of our growth strategy is the continued enhancement of our product line. In 2008, we primarily directed our efforts to helping consumers broaden their coverage by pairing existing policies that complement one another's coverage. We launched a product portfolio initiative in 2008 that provided sales associates with the support and enrollment technology to offer defined combinations of products, or portfolios, that provide breadth and/or depth of coverage for diverse medical health events. In addition, we have streamlined the application process for life insurance when consumers purchase short-term disability by only asking two additional questions. As a result of these initiatives, more consumers are choosing to add life insurance when they purchase other Aflac products.

Another aspect of our growth strategy is our focus on growing and improving our U.S. sales force. We remain satisfied with our progress in the ongoing expansion of our U.S. sales force. We recruited more than 7,800 new sales associates in the second quarter of 2009, a 14.9% increase compared with the same period a year ago, resulting in more than 75,900 licensed sales associates at June 30, 2009. Newly established payroll accounts were 9.6% higher in the second quarter of 2009, compared with the same period in 2008, suggesting our brand message and business-to-business efforts are reaching employers across the country.

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

On July 29, 2009, we entered into a definitive agreement to purchase for \$100 million Continental American Insurance Group, Inc., which includes its wholly-owned subsidiary Continental American Insurance Company (CAIC). The purchase will be funded with internal capital, and the transaction is expected to close in the fourth quarter of 2009. CAIC, which is currently privately owned and headquartered in Columbia, South Carolina, specializes in offering voluntary group insurance products that are distributed by insurance brokers at the worksite. CAIC is rated A- (Excellent) by A.M. Best. After anticipated integration expenses, we expect the purchase to be modestly accretive to 2010 consolidated earnings.

Considering the decrease in new annualized premium sales for Aflac U.S. during the first half of 2009, we believe it will be difficult to achieve positive sales growth for the full year.

### **U.S. Economy**

Operating in the U.S. economy continues to be challenging. The weak economic environment has likely had an impact on some of our policyholders, potential customers and sales associates, and the recent stock market turmoil has added to consumer unease. 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. We believe that consumers' underlying need for our U.S. product line remains strong, and the United States remains a sizeable and attractive market for our products.

**Table of Contents****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	
	<b>2009</b>	2008	<b>2009</b>	2008
New money yield	<b>7.45%</b>	7.29%	<b>8.06%</b>	7.19%
Return on average invested assets, net of investment expenses	<b>6.80</b>	6.64	<b>6.80</b>	6.71

The increase in the U.S. new money yield reflects widening credit spreads. At June 30, 2009, the portfolio yield on Aflac's U.S. portfolio was 7.22%, compared with 7.04% a year ago. During the second quarter of 2008, we purchased \$200 million of variable interest rate CDOs that support \$200 million of variable interest rate funding agreements issued by Aflac U.S. Because these CDOs do not support our core policyholder benefit obligations, the yield on these CDOs is not included in the Aflac U.S. portfolio yield or in the yields listed in the above table. See Note 3 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments.

**Table of Contents****ANALYSIS OF FINANCIAL CONDITION**

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

The following table demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at June 30, 2009, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2008.

**Foreign Exchange Effectuated Balance Sheet Items**

(In millions)	As Reported	Exchange Effect	Net of Exchange Effect
Yen/dollar exchange rate*	96.01		91.03
Investments and cash	\$65,572	\$(2,994)	\$ 68,566
Deferred policy acquisition costs	8,089	(300)	8,389
Total assets	76,041	(3,373)	79,414
Policy liabilities	64,795	(3,166)	67,961
Total liabilities	69,691	(3,341)	73,032

\* *The exchange rate at June 30, 2009, was 96.01 yen to one dollar, or 5.2% weaker than the December 31, 2008, exchange rate of 91.03.*

**Market Risks of Financial Instruments**

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

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The following table details investment securities by segment.

**Investment Securities by Segment**

(In millions)	Aflac Japan		Aflac U.S.	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
<b>Securities available for sale, at fair value:</b>				
Fixed maturities	\$27,196	\$29,140	\$5,684*	\$5,772*
Perpetual securities	7,031	7,843	195	204
Equity securities	26	27		
Total available for sale	34,253	37,010	5,879	5,976
<b>Securities held to maturity, at amortized cost:</b>				
Fixed maturities	23,359	24,236	200	200
Total held to maturity	23,359	24,236	200	200
Total investment securities	\$57,612	\$61,246	\$6,079	\$6,176

\* Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of \$102 in 2009 and \$100 in 2008.

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

**Currency Risk**

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

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

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

(translated at end-of-period exchange rates):

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(In millions)	<b>June 30, 2009</b>	December 31, 2008
Aflac Japan yen-denominated net assets	<b>\$ 1,718</b>	\$ 2,528
Parent Company yen-denominated net liabilities	<b>(1,126)</b>	(1,876)
Consolidated yen-denominated net assets (liabilities) subject to foreign currency translation fluctuations	<b>\$ 592</b>	\$ 652

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

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)	<b>June 30, 2009</b>			December 31, 2008		
<b>Yen/dollar exchange rates</b>	<b>81.01</b>	<b>96.01*</b>	<b>111.01</b>	76.03	91.03*	106.03
<b>Yen-denominated financial instruments:</b>						
Assets:						
Securities available for sale:						
Fixed maturities	<b>\$28,305</b>	<b>\$23,884</b>	<b>\$20,656</b>	\$31,145	\$26,013	\$22,333
Perpetual securities	<b>8,283</b>	<b>6,989</b>	<b>6,044</b>	9,343	7,804	6,700
Equity securities	<b>24</b>	<b>21</b>	<b>18</b>	26	22	19
Securities held to maturity:						
Fixed maturities	<b>27,685</b>	<b>23,359</b>	<b>20,203</b>	29,018	24,236	20,808
Cash and cash equivalents	<b>461</b>	<b>388</b>	<b>336</b>	456	381	327
Other financial instruments	<b>98</b>	<b>82</b>	<b>72</b>	97	80	69
Subtotal	<b>64,856</b>	<b>54,723</b>	<b>47,329</b>	70,085	58,536	50,256
Liabilities:						
Notes payable	<b>1,354</b>	<b>1,142</b>	<b>988</b>	1,522	1,271	1,091
Cross-currency swaps				731	610	524
Japanese policyholder protection corporation	<b>163</b>	<b>138</b>	<b>119</b>	192	161	138
Subtotal	<b>1,517</b>	<b>1,280</b>	<b>1,107</b>	2,445	2,042	1,753
Net yen-denominated financial instruments	<b>63,339</b>	<b>53,443</b>	<b>46,222</b>	67,640	56,494	48,503
Other yen-denominated assets	<b>8,226</b>	<b>6,941</b>	<b>6,003</b>	8,605	7,187	6,170
Other yen-denominated liabilities	<b>70,863</b>	<b>59,792</b>	<b>51,712</b>	75,465	63,029	54,113



Consolidated  
yen-denominated net assets  
(liabilities) subject to foreign  
currency fluctuation

\$	<b>702</b>	\$	<b>592</b>	\$	<b>513</b>	\$	780	\$	652	\$	560
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\* *Actual  
period-end  
exchange rate*

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

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

**Interest Rate Risk**

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt and perpetual securities. We estimate that the reduction in the fair value of debt and perpetual securities we own resulting from a 100 basis point increase in market interest rates, based on our portfolios at June 30, 2009, and December 31, 2008, would be as follows:

(In millions)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Effect on yen-denominated debt and perpetual securities	<b>\$(5,697)</b>	<b>\$(6,192)</b>
Effect on dollar-denominated debt and perpetual securities	<b>(789)</b>	<b>(821)</b>
Effect on total debt and perpetual securities	<b>\$(6,486)</b>	<b>\$(7,013)</b>

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

We have entered into interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. These agreements effectively swap the variable interest rate Uridashi notes to fixed rate notes to mitigate our exposure to interest rate risk. For additional information, see the Interest Rate Risk section of MD&A in our annual report to shareholders for the year ended December 31, 2008.

**Credit Risk**

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

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

**Composition of Purchases by Credit Rating**

	<b>Six Months Ended June 30, 2009</b>	<b>Twelve Months Ended December 31, 2008</b>	<b>Six Months Ended June 30, 2008</b>
AAA	<b>10.7%</b>	9.9%	13.4%
AA	<b>65.5</b>	36.4	48.2
A	<b>21.3</b>	42.0	25.5

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BBB	2.5	11.7	12.9
Total	100.0%	100.0%	100.0%

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The percentage increase of debt securities purchased in the AA rated category during the first six months of 2009 was due to the attractive relative value these securities presented while still meeting our investment policy guidelines for liquidity, safety and quality. We did not purchase any perpetual securities during the periods presented in the table above.

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

**Composition by Credit Rating**

	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	5.1%	5.5%	5.7%	5.8%
AA	33.5	35.6	39.8	42.2
A	38.0	38.5	34.1	33.2
BBB	16.9	16.1	18.6	17.6
BB or lower	6.5	4.3	1.8	1.2
Total	100.0%	100.0%	100.0%	100.0%

Although our investment portfolio continues to be of high credit quality, many downgrades occurred during the first six months of 2009 to cause a shift in composition by credit rating. The percentage of AA rated securities decreased as a result of downgrades of bank and financial institution investments. The percentage of A rated securities had an overall increase, which was the net result of purchases of A rated securities during the second quarter of 2009 offset by a decrease in this category caused by downgrades of certain securities. The percentage of BB or lower rated securities increased due to downgrades of higher rated securities.

As of June 30, 2009, our direct and indirect exposure to securities in our investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

***Subordination Distribution***

The majority of our total investments in debt and perpetual securities was senior debt at June 30, 2009 and December 31, 2008. We also maintained investments in subordinated financial instruments that primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities, listed in order of seniority. The Lower Tier II (LTII) securities are debt instruments with fixed maturities. Our Upper Tier II (UTII) and Tier I investments consisted of debt instruments with fixed maturities and perpetual securities, which have an economic maturity as opposed to a stated maturity.

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

**Subordination Distribution of Debt and Perpetual Securities**

(In millions)	June 30, 2009		December 31, 2008	
	Amortized Cost	Percentage of Total	Amortized Cost	Percentage of Total
Senior notes	<b>\$50,086</b>	<b>74.5%</b>	\$51,091	73.5%
Subordinated securities:				
Fixed maturities (stated maturity date):				
Lower Tier II	<b>7,405</b>	<b>11.0</b>	7,777	11.2
Upper Tier II	<b>202</b>	<b>.3</b>	340	.5
Tier I*	<b>733</b>	<b>1.1</b>	750	1.1
Surplus Notes	<b>339</b>	<b>.5</b>	374	.5
Trust Preferred Non-banks	<b>86</b>	<b>.1</b>	86	.1
Other subordinated Non-banks	<b>52</b>	<b>.1</b>	52	.1
Total fixed maturities	<b>8,817</b>	<b>13.1</b>	9,379	13.5
Perpetual securities (economic maturity date):				
Upper Tier II	<b>5,996</b>	<b>8.9</b>	6,532	9.4
Tier I	<b>2,314</b>	<b>3.5</b>	2,542	3.6
Total perpetual securities	<b>8,310</b>	<b>12.4</b>	9,074	13.0
Total debt and perpetual securities	<b>\$67,213</b>	<b>100.0%</b>	\$69,544	100.0%

\* Includes Trust Preferred securities

***Portfolio Composition***

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

***Investment Concentrations***

See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of our investment discipline and our largest investment industry sector concentration, banks and financial institutions.

Our 20 largest global investment exposures as of June 30, 2009, were as follows:

Table of Contents**Top 20 Global Investment Positions**

(In millions)	Amortized Cost	% of Total	Seniority	Moody's	Ratings S&P	Fitch
<b>Government of Japan*</b>	<b>\$ 9,671</b>	<b>14.4%</b>	Senior	Aa2	AA	AA-
<b>Israel Electric Corp Ltd.</b>	<b>858</b>	<b>1.3</b>	Senior	Baa2	BBB	
<b>Lloyds Banking Group PLC</b>	<b>836</b>	<b>1.2</b>				
Lloyds Banking Group PLC	8		Tier I	B3	CCC+	BB-
Lloyds Bank PLC	208	.3	UTII	Baa2	B	BB
Bank of Scotland	177	.2	UTII	Baa2	B	BB
HBOS PLC	443	.7	UTII	Baa3	B-	BB
<b>Republic of Tunisia</b>	<b>834</b>	<b>1.2</b>	Senior	Baa2	BBB	BBB
<b>HSBC Holdings PLC</b>	<b>764</b>	<b>1.1</b>				
HSBC Finance Corporation (fmrly Household Finance)	546	.8	Senior	A3	A	AA-
Republic New York Corp.	11		LTII	A2	A+	AA-
HSBC Bank PLC (RAV Int Ltd)	52	.1	UTII	A2	A	AA-
The Hongkong & Shanghai Banking Corporation Ltd (RAV Int Ltd)	104	.2	UTII	Aa2		
HSBC Holdings PLC	15		UTII	A1	A+	AA-
HSBC Holdings PLC (HSBC Capital Funding LP)	36		Tier I	A3	A-	AA-
<b>Republic of South Africa</b>	<b>639</b>	<b>1.0</b>	Senior	Baa1	BBB+	BBB+
<b>BNP Paribas</b>	<b>635</b>	<b>1.0</b>				
BNP Paribas	114	.2	Senior	Aa1	AA	AA
FORTIS (Fortis Bank SA-NV, Fortis Luxembourg Finance SA)	521	.8	UTII	A3	BBB+	A+
<b>Commerzbank AG</b>	<b>615</b>	<b>.9</b>				
Commerzbank AG	104	.2	LTII	A1	A-	A
Dresdner Bank AG	299	.4	LTII	A1	A-	A
Dresdner Bank AG (Dresdner Funding Trusts I & IV)	212	.3	Tier I	Baa3	CCC	CCC
<b>Takefuji Corp</b>	<b>588</b>	<b>.9</b>	Senior	Baa3	BB+	
<b>Bank of America</b>	<b>566</b>	<b>.8</b>				
Bank of America Corp (includes Fleet Financial Group Inc, Nationsbank Corporation)	249	.4	LTII	A3	A-	A
Bank of America Corp (NB Capital Trust, Bankamerica Instit-A)	18		Tier I	Baa3	B	BB-
Merrill Lynch & Co Inc	287	.4	Senior	A2	A	A+
Merrill Lynch & Co Inc	12		LTII	A3	A-	A
	<b>541</b>	<b>.8</b>				

**Mizuho Financial Group Inc.**

Mizuho Bank, Mizuho Finance Cayman &amp; Aruba

541 .8 UTII A1

**Unicredit SPA**

533 .8

Unicredito Bank Austria

11 LTII Aa3 AA+

Hypovereinsbank

208 .3 LTII A2 A-

Hypovereinsbank (HVB

Funding Trust I, III &amp; IV)

314 .5 Tier I A3 BBB BBB

**Sumitomo Mitsui Financial Group Inc.**

521 .8

Sumitomo Mitsui Banking Corporation

104 .2 LTII Aa3 A A-

Sumitomo Mitsui Banking Corporation (SMBC

International Finance)

417 .6 UTII Aa3 A-

**Commonwealth Bank of Australia**

510 .7

Commonwealth Bank of Australia

208 .3 LTII Aa2 AA-

Commonwealth Bank of

Australia

208 .3 UTII

Bankwest

94 .1 UTII Aa2 AA-

**Dexia SA**

497 .7

Dexia Bank Belgium (Dexia Overseas Ltd)

468 .7 UTII Baa2 B A

Insured Bonds (Financial Security Assurance)

29 Senior Aa3 AAA AA+

**Bank of Tokyo-Mitsubishi UFJ Ltd.**

469 .7

Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao

Holdings NV)

469 .7 LTII Aa3 A A-

**Erste Group Bank AG**

447 .7

Erste Group Bank

104 .2 LTII A1 A-

Erste Group Bank (Erste

Finance Jersey Ltd 3 &amp; 5)

343 .5 Tier I A2 BBB

**Metlife Inc.**

447 .7

Metlife Inc.

260 .4 Senior A2 A-

Metropolitan Life Global Funding I

187 .3 Senior Aa2 AA-

**Investcorp SA**

435 .7

Investcorp Capital Limited

435 .7 Senior Ba1 BB+

**J.P. Morgan Chase & Co.**

422 .6

JPMorgan Chase &amp; Co

(includes Bear Stearns)

364 .5 Senior Aa3 A+

JPMorgan Chase &amp; Co

(FNBC)

30 .1 Senior Aa1 AA-

JPMorgan Chase &amp; Co (Bank One Corp)

17 LTII A1 A A+

11 LTII Aa2 A+ A+

JPMorgan Chase & Co (NBD  
Bank)

Subtotal	\$20,828	31.0
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<b>Total debt and perpetual securities</b>	<b>\$67,213</b>	<b>100.0</b>
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\* *JGBs or  
JGB-backed  
securities*

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As previously disclosed, we own long-dated debt instruments in support of the long-dated obligations they support. Included in our top 20 holdings are legacy issues that date back many years. Additionally, the concentration of certain of our holdings of individual credit exposures has grown over time through merger and consolidation activity. Beginning in 2005, we have, as a general rule, limited our investment exposures to issuers to no more than 5% of total adjusted capital (TAC) on a statutory basis, with the exception of obligations of the Japan and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this rule was adopted or exposures that may exceed this threshold from time to time through merger and consolidation activity are not automatically reduced through sales of the issuers' securities but rather are reduced over time consistent with our investment policy.

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

The following table details investment securities by type of issuance.

**Investment Securities by Type of Issuance**

(In millions)	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Publicly issued securities:</b>				
Fixed maturities	\$18,335	\$18,133	\$19,292	\$19,525
Perpetual securities	115	101	156	104
Equity securities	13	17	15	18
Total publicly issued	18,463	18,251	19,463	19,647
<b>Privately issued securities:</b>				
Fixed maturities	40,568	36,913	41,178	38,571
Perpetual securities	8,195	7,125	8,918	7,943
Equity securities	9	9	9	9
Total privately issued	48,772	44,047	50,105	46,523
Total investment securities	\$67,235	\$62,298	\$69,568	\$66,170

The following table details our privately issued investment securities.

**Privately Issued Securities**

(Amortized cost, in millions)	June 30, 2009	December 31, 2008
Privately issued securities as a percentage of total debt and perpetual securities	72.5%	72.0%
Privately issued securities held by Aflac Japan	\$46,258	\$47,516
Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities	68.8%	68.3%
Privately issued reverse-dual currency securities*	\$13,745 28.2%	\$14,678 29.3%

Reverse-dual currency securities\* as a percentage of total privately issued securities

\* *Principal  
payments in yen  
and interest  
payments in  
dollars*

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

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

Debt and perpetual securities classified as below investment grade at June 30, 2009 and December 31, 2008, were all reported as available for sale and carried at fair value. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies.

Below-investment-grade debt and perpetual securities represented 6.5% of total debt and perpetual securities at June 30, 2009, compared with 1.8% of total debt and perpetual securities at December 31, 2008, at amortized cost. The below-investment-grade securities were as follows:

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**Table of Contents****Below-Investment-Grade Securities**

(In millions)	June 30, 2009			December 31, 2008		
	Par Value	Amortized Cost	Fair Value	Par Value	Amortized Cost	Fair Value
Lloyds Banking Group PLC (includes HBOS and Bank of Scotland)**	\$ 861	\$ 835	\$ 526	\$ *	\$ *	\$ *
Investcorp Capital Limited	435	435	225	*	*	*
Irish Life and Permanent PLC**	385	292	183	*	*	*
UPM-Kymmene	323	322	163	*	*	*
The Royal Bank of Scotland**	318	242	119	*	*	*
Ford Motor Credit Company	312	312	229	329	329	143
CSAV	250	250	128	264	264	157
CIT Group Inc.	245	84	84	*	*	*
Hella KG Hueck & Co.	229	229	141	*	*	*
KBC Group NV (Includes Kredietbank S.A. Lux, and KBC Bank Funding Trust III)**	223	123	179	*	*	*
Dresdner Funding Bank AG (part of Commerzbank)	209	211	134	*	*	*
Aiful Corporation	169	169	74	*	*	*
BAWAG**	146	126	65	154	133	88
IKB Deutsche Industriebank	135	135	47	143	143	47
Ford Motor Company				111	57	31
Beryl Finance Limited 2008-7*****	*	*	*	110	110	116
Finance for Danish Industry	104	104	50	*	*	*
Kommunalkredit Austria AG	104	26	17	*	*	*
Beryl Finance Limited 2007-14*****	*	*	*	82	53	53
Morgan Stanley Aces 2007-38*****	78	7	24	*	*	*
Morgan Stanley Aces 2006-31*****	63	12	13			
Beryl Finance Limited 2006-15*****	*	*	*	55	43	43
Beryl Finance Limited 2007-5*****	*	*	*	55	44	44
May Department Stores	53	58	41	*	*	*
Eirles Two Limited 310 A*****	52	52	19	*	*	*
Morgan Stanley Aces 2007-29*****	52	12	15	*	*	*
Morgan Stanley Aces 2007-21*****	52	3	11	55	3	3
Rinker Materials Corp	43	43	32	43	42	23
First Industrial LP	37	41	20	*	*	*
Security Benefit Life	33	3	3	*	*	*
Morgan Stanley Aces 2007-19*****	30	4	7	30	4	4
RFMSI 2007-S6 2A4***	25	23	9	*	*	*
Sprint Capital	23	24	19	22	24	16
Academica Charter Schools Finance LLC	22	24	16	22	24	17
Terra CDO LTD 2007-3*****	20	5	5	*	*	*
CWHL 2007-5 A2***	19	18	11	*	*	*
Bank of America	18	18	15	*	*	*
RFMSI 2006-S7 A9***	18	17	11	*	*	*
MBIA	16	17	7	*	*	*

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American General Capital II	15	19	6	*	*	*
Allied Capital Corp	15	13	8	*	*	*
CWHL 2007-14 A22***	13	13	6	*	*	*
Tiers Georgia****	11			11	1	1
CWHL 2006-13 1A19***	10	9	5	*	*	*
Morgan Stanley Aces 2006-23*****	10	2	2	*	*	*
CWHL 2006-16 3A4***	9	9	5	*	*	*
RFMSI 2006-S5 A12***	5	5	2	*	*	*
WFMBS 2007-19 1A7***	4	4	3	*	*	*
LMT 2006-3 1A5***	4	3	1	*	*	*
Total	\$5,198	\$4,353	\$2,680	\$1,486	\$1,274	\$786

\* *Investment  
grade at  
respective  
reporting date*

\*\* *Perpetual  
security*

\*\*\* *Collateralized  
mortgage  
obligation*

\*\*\*\* *Collateralized  
debt obligation*

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Occasionally, a debt or perpetual security will be split rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. Our policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the issuer's credit position as well as current market pricing and other factors, such as the issuer's or security's inclusion on a credit rating downgrade watch list. As of June 30, 2009, none of our CDOs were split rated. Split-rated securities as of June 30, 2009, were as follows:

**Table of Contents****Split-Rated Securities\***

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	Fitch Rating	Investment-Grade Status
Lloyds Banking Group PLC (includes HBOS and Bank of Scotland)**	\$ 828	Baa3	B-	BB	Below Investment Grade
Takefuji Corp.	588	Baa3	BB+		Investment Grade
Dexia Bank Belgium**	469	Baa2	B	A	Investment Grade
SLM Corp.	343	Ba1	BBB-	BBB	Investment Grade
Swedbank**	285	A2	BB	BBB+	Investment Grade
SEB AB**	260	A2	BB+	A	Investment Grade
Rohm & Haas Company	220	Ba1	BBB-	BBB	Investment Grade
Aiful Corp.	169	Ba2	BB	BBB-	Below Investment Grade
Dresdner Funding Trust 4	156	Baa3	CCC	CCC	Below Investment Grade
Arch Finance Limited (Alcoa) 2007-1	129	Ba1	BBB-	BBB-	Investment Grade
May Department Stores	58	Ba2	BB	BBB-	Below Investment Grade
Dresdner Funding Trust 1	55	Baa3	CCC	CCC	Below Investment Grade
Abbey National Capital Trust I	49	Ba1	A-	A+	Investment Grade
Morton International	37	Ba1	BBB-		Investment Grade
Mead Corp.	36	Ba1	BBB		Investment Grade
Tennessee Gas Pipeline	31	Baa3	BB	BBB-	Investment Grade
WFMB 2006-8 A10***	27	Ba1	AA+	AA	Investment Grade
RFMSI 2007-S6 2A4***	24	B3	AA	BB	Below Investment Grade
CWHL 2007-9 A11***	23		AAA	BB	Investment Grade
CWALT 2005-11CB 2A10***	21	Ba1	AAA		Investment Grade
Weyerhaeuser Co.	21	Ba1	BBB-	BBB-	Investment Grade
WFMB 2006-3 A5***	18	B1		AAA	Investment Grade
Peco Energy Capital Trust IV	17	Baa1	BB+	BBB+	Investment Grade
CWHL 2007-9 A12***	17		AAA	BB	Investment Grade
America West Airlines	15	Ba3	BBB		Investment Grade
BankAmerica Instit-A	13	Baa3	B	BB-	Below Investment Grade
CWHL 2006-21 A3***	12		CCC	BBB	Investment Grade
Union Carbide Chemicals and Plastic	11	Ba2	BBB-	BBB-	Investment Grade
CWHL 2005-16 A25***	9	Ba3		AA	Investment Grade
WFMB 2007-13 A10***	9		CCC	BBB	Investment Grade
RAST 2005-A10 A5***	8		AAA	BB	Investment Grade
Keycorp Capital VII	7	Baa2	BB	BBB	Investment Grade
WFMB 2007-7 A10***	6	B3		AA	Investment Grade
BOAMS 2007-1 1A30***	6	Ba3	AAA	BBB	Investment Grade
NB CAPITAL TRUST 4	5	Baa3	B	BB-	Below Investment Grade
WFMB 2006-8 A15***	5	B3		AA	Investment Grade
RFMSI 2006-S5 A12***	5	B3	CCC	BBB	Below Investment Grade
CWHL 2007-9 A11***	4		AAA	BB	Investment Grade
Union Carbide Corp.	4	Ba2	BBB-	BBB-	Investment Grade
MSM 2007-1XS 2A4A***	3	Caa1	BBB		Investment Grade

LMT 2006-3 1A5***	3	Caa2	A	CCC	Below Investment Grade
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\* *Split-rated securities represented 6.0% of total debt and perpetual securities at amortized cost at June 30, 2009.*

\*\* *Perpetual security*

\*\*\* *Collateralized mortgage obligation*



**Table of Contents****Other-than-temporary Impairment**

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

**Gross Realized Investment Losses**

Gross realized pretax investment losses on debt and perpetual securities, as a result of sales and impairment charges, were as follows:

**Three Months Ended June 30, 2009**

(In millions)	Sales Proceeds	Losses	Impairments	Total Gross Realized Losses
Investment-grade securities, length of consecutive unrealized loss:				
Less than six months	\$27	\$1	\$	\$ 1
Six months to 12 months				
Over 12 months			3	3
Below-investment-grade securities, length of consecutive unrealized loss:				
Less than six months	1			
Six months to 12 months			8	8
Over 12 months			374	374
Total	\$28	\$1	\$ 385	\$ 386

**Six Months Ended June 30, 2009**

(In millions)	Sales Proceeds	Losses	Impairments	Total Gross Realized Losses
Investment-grade securities, length of consecutive unrealized loss:				
Less than six months	\$67	\$2	\$	\$ 2
Six months to 12 months				
Over 12 months	7		7	7
Below-investment-grade securities, length of consecutive unrealized loss:				
Less than six months	1		10	10
Six months to 12 months			25	25
Over 12 months			577	577
Total	\$75	\$2	\$ 619	\$ 621

See Note 3 of the Notes to the Consolidated Financial Statements for additional information.



**Table of Contents****Unrealized Investment Gains and Losses**

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt and perpetual securities by investment-grade status as of June 30, 2009.

(In millions)	<b>Total Amortized Cost</b>	<b>Total Fair Value</b>	<b>Percent of Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Available-for-sale securities:					
Investment-grade securities	\$39,301	\$37,528	60.3%	\$1,362	\$3,135
Below-investment-grade securities	4,353	2,680	4.3	103	1,776
Held-to-maturity securities:					
Investment-grade securities	23,559	22,064	35.4	355	1,850
Total	\$67,213	\$62,272	100.0%	\$1,820	\$6,761

The following table presents an aging of securities in an unrealized loss position as of June 30, 2009.

**Aging of Unrealized Losses**

(In millions)					Six Months to Less		12 Months or Longer	
					than 12 Months			
	<b>Total Amortized Cost</b>	<b>Total Unrealized Loss</b>	<b>Less than Six Months Amortized Cost</b>	<b>Less than Six Months Unrealized Loss</b>	<b>Amortized Cost</b>	<b>Unrealized Loss</b>	<b>Amortized Cost</b>	<b>Unrealized Loss</b>
Available-for-sale securities:								
Investment-grade securities	\$22,054	\$3,135	\$ 5,577	\$ 202	\$3,227	\$ 320	\$13,250	\$2,613
Below-investment-grade securities	3,991	1,776	1,054	450	208	79	2,729	1,247
Held-to-maturity securities:								
Investment-grade securities	16,832	1,850	4,127	120	1,954	207	10,751	1,523
Total	\$42,877	\$6,761	\$10,758	\$ 772	\$5,389	\$ 606	\$26,730	\$5,383

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The following table presents a distribution of unrealized losses by magnitude as of June 30, 2009.

**Percentage Decline From Amortized Cost**

(In millions)	<b>Total</b>		<b>Less than 20 %</b>		<b>20% to 50%</b>		<b>Greater than 50%</b>	
	<b>Amortized Cost</b>	<b>Unrealized Loss</b>	<b>Amortized Cost</b>	<b>Unrealized Loss</b>	<b>Amortized Cost</b>	<b>Unrealized Loss</b>	<b>Amortized Cost</b>	<b>Unrealized Loss</b>
Available-for-sale securities:								
Investment-grade securities	\$22,054	\$3,135	\$16,723	\$1,363	\$4,868	\$1,510	\$ 463	\$ 262
Below-investment-grade securities	3,991	1,776	64	9	2,302	860	1,625	907
Held-to-maturity securities:								
Investment-grade securities	16,832	1,850	14,669	1,056	1,442	341	721	453
Total	\$42,877	\$6,761	\$31,456	\$2,428	\$8,612	\$2,711	\$2,809	\$1,622

The following table presents the 10 largest unrealized loss positions in our portfolio as of June 30, 2009.

(In millions)	<b>Credit Rating</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
Lloyds Banking Group PLC (includes HBOS and Bank of Scotland)**	BB	\$835	\$526	\$(309)
Takefuji Corp	BBB	588	351	(237)
Investcorp SA	BB	435	225	(210)
SLM Corp.	BBB	343	138	(205)
UPM-Kymmene	BB	322	163	(159)
Morgan Stanley Aces 2008-6*	BBB	200	42	(158)
Banco Espirito Santo	A	313	163	(150)
Royal Bank of Scotland**	BB	242	119	(123)
CSAV	B	250	128	(122)
Unicredito Italiano (includes HVB and Bank Austria)	A	532	414	(118)

\* CDO security

\*\* Perpetual security

Declines in fair value noted above resulted from changes in interest rates and credit spreads, yen/dollar exchange rates, and issuer credit status. However, we believe it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary.

**Investment Valuation and Cash**

We estimate the fair values of our securities available for sale on a monthly basis. We monitor the estimated fair values obtained from our custodian and pricing brokers and derived from our discounted cash flow (DCF) pricing model for consistency from month to month, while considering 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, 2009.



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Cash, cash equivalents and short-term investments totaled \$1.7 billion, or 2.6% of total investments and cash, as of June 30, 2009, compared with \$.9 billion, or 1.4%, at December 31, 2008. For a discussion of the factors causing the change in our cash balance, see the Operating Activities, Investing Activities and Financing Activities sections of this MD&A.

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

**Deferred Policy Acquisition Costs**

The following table presents deferred policy acquisition costs by segment.

(In millions)	June 30, 2009	December 31, 2008	% Change
Aflac Japan	\$ 5,481	\$ 5,644	(2.9)%*
Aflac U.S.	2,608	2,593	.6
Total	\$ 8,089	\$ 8,237	(1.8)%

\* *Aflac Japan's deferred policy acquisition costs increased 2.4% in yen during the six months ended June 30, 2009.*

The decrease in Aflac Japan's deferred policy acquisition costs was primarily driven by the weakening of the yen against the U.S. dollar.

**Policy Liabilities**

The following table presents policy liabilities by segment.

(In millions)	June 30, 2009	December 31, 2008	% Change
Aflac Japan	\$ 57,872	\$ 59,466	(2.7)%*
Aflac U.S.	6,920	6,750	2.5
Other	3	3	
Total	\$ 64,795	\$ 66,219	(2.2)%

\* *Aflac Japan's policy liabilities increased 2.6% in yen during the six months ended June 30, 2009.*

The decrease in Aflac Japan's policy liabilities was primarily the result of the weakening of the yen against the U.S. dollar.

**Notes Payable**

Notes payable totaled \$2.0 billion at June 30, 2009, compared with \$1.7 billion at December 31, 2008. In April 2009, we used internally generated cash flow to pay off our \$450 million senior notes upon their maturity. In May 2009, we issued \$850 million in senior notes that are due in May 2019. Except for our senior notes, our debt is primarily yen-denominated. During the first six months of 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We paid 4.4 billion yen to extinguish 6.0 billion yen of debt, yielding a realized gain from extinguishment of debt of 1.6 billion yen, or \$17 million (\$11 million after-tax), which we included in other income. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 19.0% as of June 30, 2009, compared with 18.0% at December 31, 2008.

In July 2009, we executed a 10 billion yen loan (approximately \$104 million using the June 30, 2009, exchange rate) at an interest rate of 3.60%. Interest on the loan is payable semiannually, and the loan has a six-year maturity.

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See Note 5 of the Notes to the Consolidated Financial Statements for additional information on our notes payable.

### **Benefit Plans**

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 8 of the Notes to the Consolidated Financial Statements and Note 12 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2008.

### **Policyholder Protection Corporation**

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

On October 10, 2008, a small life insurance company, Yamato Life Insurance, filed for bankruptcy. The LIPPC made a decision to provide funds to Yamato Life Insurance in the amount of 27.7 billion yen. Although our future assessments for the LIPPC cannot be determined at this time, we believe the bankruptcy will not have a material adverse effect on our financial position or results of operations.

See the Policyholder Protection Corporation section of MD&A in our annual report to shareholders for the year ended December 31, 2008, for additional information.

### **Hedging Activities**

Aflac has limited hedging activities. Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan maintains a portfolio of dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. Second, we have designated the Parent Company's yen-denominated liabilities (Samurai and Uridashi notes payable) as a hedge of our investment in Aflac Japan. At the beginning of each quarter, we perform our net investment hedge designation. If the total of our yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the liabilities that exceeds our investment in Aflac Japan would be de-designated as a hedge, and we would then recognize the foreign exchange effect on this excess portion in net earnings (other income). We estimate that if our yen-denominated liabilities exceeded our investment in Aflac Japan by 10 billion yen, we would report a foreign exchange gain/loss of approximately \$1 million for every one yen weakening/strengthening in the end-of-period yen/dollar exchange rate. For the second quarter of 2009, we de-designated 678 million yen of our yen-denominated liabilities, which was the amount by which our yen-denominated liabilities exceeded our yen net investment position in Aflac Japan. The 678 million yen was reduced by 600 million yen during the quarter when we extinguished a portion of our outstanding Samurai debt (see Note 5 of the Notes to the Consolidated Financial Statements for more information). We recognized an immaterial loss in net earnings (other income) during the quarter ended June 30, 2009, for the negative foreign exchange effect on the portion of our yen-denominated liabilities that was not designated as a hedge of our net investment in Japan. Our yen-denominated net asset position has decreased since the end of 2008 due to the decline in the market value of our yen-denominated available-for-sale investment securities as a result of widening credit spreads globally.



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We have interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. By entering into these contracts, we have been able to lock in our interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. SFAS 133 requires that the change in the fair value of the swap contracts be recorded in other comprehensive income so long as the hedge is deemed effective. Any ineffectiveness is recognized in net earnings (other income). These hedges were effective during the three- and six-month periods ended June 30, 2009 and 2008; therefore, there was no impact on net earnings. See Note 4 of the Notes to the Consolidated Financial Statements for additional information.

**Off-Balance Sheet Arrangements**

As of June 30, 2009, we had no material unconditional purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

**Table of Contents****CAPITAL RESOURCES AND LIQUIDITY**

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. The following presents the amounts provided for the six-month periods ending June 30:

**Liquidity Provided by Aflac to Parent Company**

(In millions)	2009	2008
Dividends declared or paid by Aflac	<b>\$132</b>	\$758
Management fees paid by Aflac	<b>44</b>	42

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

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

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

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

**Consolidated Cash Flows**

We translate cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The following table summarizes consolidated cash flows by activity for the six-month periods ended June 30.

**Consolidated Cash Flows by Activity**

(In millions)	2009	2008
Operating activities	<b>\$ 2,874</b>	\$ 2,454
Investing activities	<b>(2,308)</b>	(1,814)
Financing activities	<b>203</b>	(841)
Exchange effect on cash and cash equivalents	<b>(21)</b>	25
Net change in cash and cash equivalents	<b>\$ 748</b>	\$ (176)

**Table of Contents****Operating Activities**

In the first six months of 2009, consolidated cash flow from operations increased 17% compared with the first six months of 2008. The following table summarizes operating cash flows by source for the six-month periods ended June 30.

**Net Cash Provided by Operating Activities**

(In millions)	2009	2008
Aflac Japan	\$2,290	\$2,013
Aflac U.S. and other operations	584	441
Total	\$2,874	\$2,454

**Investing Activities**

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. The following table summarizes investing cash flows by source for the six-month periods ended June 30.

**Net Cash Used by Investing Activities**

(In millions)	2009	2008
Aflac Japan	\$(2,454)	\$(1,653)
Aflac U.S. and other operations	146	(161)
Total	\$(2,308)	\$(1,814)

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when our debt and perpetual securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt and perpetual securities that are available for sale to improve the duration matching of our assets and liabilities, improve future investment yields, and/or rebalance our portfolio. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 9% of the year-to-date average investment portfolio of debt and perpetual securities available for sale during the six-month period ended June 30, 2009, compared with 2% during the same period a year ago. The increase in dispositions before maturity was due to bond swaps that were executed in the first quarter of 2009 to take advantage of tax loss carryforwards from previously incurred investment losses.

**Financing Activities**

Consolidated cash provided by financing activities was \$203 million in the first six months of 2009, compared with \$841 million used by financing activities for the same period of 2008. In April 2009, we used internally generated cash flow to pay off our \$450 million senior notes and to settle the related cross-currency, interest rate swaps that were used to convert the original dollar-denominated debt obligation into yen. In May 2009, we issued \$850 million in senior notes that are due in May 2019. Cash returned to shareholders through dividends was \$262 million during the first six months of 2009, compared with cash returned to shareholders through dividends and treasury stock purchases of \$1.0 billion for the same period a year ago.

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The following tables present a summary of treasury stock activity during the six-month periods ended June 30.

**Treasury Stock Purchased**

(In millions of dollars and thousands of shares)	<b>2009</b>	2008
Treasury stock purchases	<b>\$ 2</b>	\$ 805
Number of shares purchased:		
Open market		12,500
Other	<b>89</b>	109
Total shares purchased	<b>89</b>	12,609

**Treasury Stock Issued**

(In millions of dollars and thousands of shares)	<b>2009</b>	2008
Stock issued from treasury	<b>\$ 4</b>	\$ 20
Number of shares issued	<b>506</b>	1,109

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

As of June 30, 2009, a remaining balance of 32.4 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors. The 32.4 million shares were comprised of 2.4 million shares remaining from a board authorization in 2006 and 30.0 million shares remaining from an authorization by the board of directors for purchase in January 2008. It is unlikely that we will purchase any shares of our common stock during 2009.

Cash dividends paid to shareholders in the second quarter of 2009 of \$.28 per share increased 16.7% over the same period of 2008. The following table presents the sources of dividends to shareholders for the six-month periods ended June 30.

(In millions)	<b>2009</b>	2008
Dividends paid in cash	<b>\$262</b>	\$218
Dividends through issuance of treasury shares		10
Total dividends to shareholders	<b>\$262</b>	\$228

In July 2009, the board of directors declared the third quarter cash dividend of \$.28 per share. The dividend is payable on September 1, 2009, to shareholders of record at the close of business on August 19, 2009.

During the first six months of 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We paid 4.4 billion yen to extinguish 6.0 billion yen of debt, yielding a realized gain from extinguishment of debt of 1.6 billion yen, or \$17 million (\$11 million after-tax), which we included

in other income.

In July 2009, we executed a 10 billion yen loan (approximately \$104 million using the June 30, 2009, exchange rate) at an interest rate of 3.60%. Interest on the loan is payable semiannually, and the loan has a six-year maturity.

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We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of our notes payable at June 30, 2009.

**Regulatory Restrictions**

Aflac is domiciled in Nebraska and is subject to its regulations. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency. The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital (RBC) formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. Aflac's company action level RBC ratio was approximately 459% as of June 30, 2009. Our RBC ratio remains high and reflects a strong capital and surplus position.

In addition to limitations and restrictions imposed by U.S. insurance regulators, Japan's FSA may not allow profit repatriations from Aflac Japan if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard. As of June 30, 2009, Aflac Japan's solvency margin ratio significantly exceeded regulatory minimums.

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. The following details Aflac Japan remittances for six-month periods ended June 30.

**Aflac Japan Remittances**

(In millions of dollars and billions of yen)	<b>2009</b>	2008
Aflac Japan management fees paid to Parent Company	<b>\$13</b>	\$ 13
Expenses allocated to Aflac Japan	<b>19</b>	19
Aflac Japan profit remittances to Aflac U.S. in dollars		301
Aflac Japan profit remittances to Aflac U.S. in yen		32

For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 11 of the Notes to the Consolidated Financial Statements and the Regulatory Restrictions section of MD&A, both in our annual report to shareholders for the year ended December 31, 2008.

**Rating Agencies**

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

**Other**

For information regarding commitments and contingent liabilities, see Note 9 of the Notes to the Consolidated Financial Statements.

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

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

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting.**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second fiscal quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Issuer Purchases of Equity Securities**

During the second quarter of 2009, we repurchased shares of Aflac common stock as follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1 - April 30		\$		32,370,254
May 1 - May 31	2,596	30.24		32,370,254
June 1 - June 30	1,044	36.26		32,370,254
Total	3,640**	\$31.97		32,370,254*

\* The total remaining shares available for purchase at June 30, 2009, consisted of:  
 (1) 2,370,254 shares related to a 30,000,000 share repurchase authorization by the board of directors announced in February 2006 and  
 (2) 30,000,000 shares related to a 30,000,000 share repurchase authorization by the board announced in January 2008.

\*\* During the second quarter of 2009, 3,640 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based



*awards during the  
period.*

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**Item 6. Exhibits.**

**(a) Exhibit Index:**

- 3.0 - Articles of Incorporation, as amended incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended incorporated by reference from 2008 Form 10-K, Exhibit 3.1 (File No. 001-07434).
- 4.1 - Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.1 (File No. 001-07434).
- 4.2 - First Supplemental Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of 8.500% Senior Note due 2019) incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.2 (File No. 001-07434).
- 10.0 - American Family Corporation Retirement Plan for Senior Officers, as amended and restated October 1, 1989 incorporated by reference from 1993 Form 10-K, Exhibit 10.2 (File No. 001-07434).
- 10.1 - Amendment to American Family Corporation Retirement Plan for Senior Officers, dated December 8, 2008 incorporated by reference from 2008 Form 10-K, (File No. 001-07434).
- 10.2 - Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 incorporated by reference from 2008 Form 10-K, Exhibit 10.5 (File No. 001-07434).
- 10.3 - Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2009 incorporated by reference from 2008 Form 10-K, Exhibit 10.9 (File No. 001-07434).
- 10.4 - First Amendment to the Aflac Incorporated Executive Deferred Compensation Plan dated June 1, 2009.
- 10.5 - Aflac Incorporated Amended and Restated 2009 Management Incentive Plan incorporated by reference from the 2008 Shareholders Proxy Statement, Appendix B (File No. 001-07434).
- 10.6 - First Amendment to the Aflac Incorporated Amended and Restated 2009 Management Incentive Plan, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.11 (File No. 001-07434).
- 10.7 - Aflac Incorporated Sales Incentive Plan incorporated by reference from 2007 Form 10-K, Exhibit 10.8 (File No. 001-07434).
- 10.8 - 1999 Aflac Associate Stock Bonus Plan, as amended, dated February 11, 2003 incorporated by reference from 2002 Form 10-K, Exhibit 99.2 (File No. 001-07434).
- 10.9 - Aflac Incorporated 1997 Stock Option Plan incorporated by reference from the 1997 Shareholders Proxy Statement, Appendix B (File No. 001-07434).
- 10.10 - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.5 (File No. 001-07434).
- 10.11 - Form of Officer Stock Option Agreement (Incentive Stock Option) under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.6 (File No. 001-07434).

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- 10.12 - Notice of grant of stock options and stock option agreement to officers under the Aflac Incorporated 1997 Stock Option Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.7 (File No. 001-07434).
- 10.13 - 2004 Aflac Incorporated Long-Term Incentive Plan, dated May 3, 2004 incorporated by reference from the 2004 Notice and Proxy Statement, Exhibit B (File No. 001-07434).
- 10.14 - First Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated May 2, 2005 incorporated by reference from Form 10-Q for March 31, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.15 - Second Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated February 14, 2006 incorporated by reference from Form 10-Q for March 31, 2006, Exhibit 10.32 (File No. 001-07434).
- 10.16 - Third Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.21 (File No. 001-07434).
- 10.17 - Form of Non-Employee Director Stock Option Agreement (NQSO) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.18 - Notice of grant of stock options to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.2 (File No. 001-07434).
- 10.19 - Form of Non-Employee Director Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.3 (File No. 001-07434).
- 10.20 - Notice of restricted stock award to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.4 (File No. 001-07434).
- 10.21 - Form of Officer Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.22 - Notice of restricted stock award to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.2 (File No. 001-07434).
- 10.23 - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.3 (File No. 001-07434).
- 10.24 - Form of Officer Stock Option Agreement (Incentive Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.4 (File No. 001-07434).
- 10.25 - Notice of grant of stock options to officers under the 2004 Aflac Incorporated Long-Term Incentive Plan incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.5 (File No. 001-07434).
- 10.26 - Aflac Incorporated Employment Agreement with Daniel P. Amos, dated August 1, 1993 incorporated by reference from 1993 Form 10-K, Exhibit 10.4 (File No. 001-07434).
- 10.27 - Amendment to Aflac Incorporated Employment Agreement with Daniel P. Amos, dated December 8, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.32 (File No. 001-07434).

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10.28	- Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated February 14, 1992, and as amended November 12, 1993 incorporated by reference from 1993 Form 10-K, Exhibit 10.6 (File No. 001-07434).
10.29	- Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated November 3, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.34 (File No. 001-07434).
10.30	- Amendment to Aflac Incorporated Employment Agreement with Kriss Cloninger III, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.35 (File No. 001-07434).
10.31	- Aflac Incorporated Employment Agreement with Paul S. Amos II, dated January 1, 2005 incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.2 (File No. 001-07434).
10.32	- Amendment to Aflac Incorporated Employment Agreement with Paul S. Amos II, dated December 19, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.39 (File No. 001-07434).
10.33	- Aflac Incorporated Employment Agreement with Joey Loudermilk, dated September 12, 1994 and as amended December 10, 2008 incorporated by reference from 2008 Form 10-K, Exhibit 10.40 (File No. 001-07434).
10.34	- Aflac Incorporated Employment Agreement with Tohru Tonoike, effective February 1, 2007 incorporated by reference from 2008 Form 10-K, Exhibit 10.41 (File No. 001-07434).
10.35	- Aflac Retirement Agreement with E. Stephen Purdom, dated February 15, 2000 incorporated by reference from 2000 Form 10-K, Exhibit 10.13 (File No. 001-07434).
<u>11</u>	- Statement regarding the computation of per-share earnings for the Registrant.
<u>12</u>	- Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.
<u>15</u>	- Letter from KPMG LLP regarding unaudited interim financial information.
<u>31.1</u>	- Certification of CEO dated August 7, 2009, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
<u>31.2</u>	- Certification of CFO dated August 7, 2009, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
<u>32</u>	- Certification of CEO and CFO dated August 7, 2009, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

**Aflac Incorporated**

August 7, 2009

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

August 7, 2009

*/s/ Ralph A. Rogers, Jr.*  
(Ralph A. Rogers, Jr.)  
Senior Vice President, Financial Services;  
Chief Accounting Officer