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)

þ **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

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

For the transition period from __________ to __________

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

706.323.3431

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

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Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues:				
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
Benefits and expenses:				
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
Net earnings per share:				
Basic	**$ .67**	$ 1.02	**$ 1.89**	$ 2.01

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

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

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

See the accompanying Notes to the Consolidated Financial Statements.
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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	**June 30, 2009** (Unaudited)	December 31, 2008
Liabilities and shareholders equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$57,788**	$59,310
Unpaid policy claims	**3,128**	3,118
Unearned premiums	**847**	874
Other policyholders funds	**3,032**	2,917
Total policy liabilities	**64,795**	66,219
Notes payable	**1,992**	1,721
Income taxes	**880**	1,201
Payables for return of cash collateral on loaned securities	**593**	1,733
Other	**1,431**	1,818
Commitments and contingent liabilities (Note 9)		
Total liabilities	**69,691**	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	**66**	66
Additional paid-in capital	**1,201**	1,184
Retained earnings	**12,058**	11,306
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	**591**	750
Unrealized gains (losses) on investment securities:		
Unrealized gains (losses) on securities not other-than- temporarily impaired	**(2,121)**	(1,211)
Unrealized gains (losses) on other-than-temporarily impaired securities	**(5)**	
Total unrealized gains (losses) on investment securities	**(2,126)**	(1,211)
Pension liability adjustment	**(117)**	(121)
Treasury stock, at average cost	**(5,323)**	(5,335)
Total shareholders equity	**6,350**	6,639
Total liabilities and shareholders equity	**$76,041**	$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, **2009**	2008
Common stock:		
Balance, beginning of period	**$ 66**	$ 66
Exercise of stock options		
Balance, end of period	**66**	66
Additional paid-in capital:		
Balance, beginning of period	**1,184**	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
Retained earnings:		
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
Accumulated other comprehensive income:		
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
Treasury stock:		
Balance, beginning of period	**(5,335)**	(3,896)
Purchases of treasury stock	**(2)**	(805)
Cost of shares issued	**14**	27

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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Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Six Months Ended June 30, **2009**	2008
Cash flows from operating activities:		
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
Cash flows from investing activities:		
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.
(continued)

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

(In millions - Unaudited)	Six Months Ended June 30, **2009**	2008
Cash flows from financing activities:		
Purchases of treasury stock	**$ (2)**	$ (805)
Proceeds from borrowings	**844**	
Principal payments under debt obligations	**(548)**	(2)
Dividends paid to shareholders	**(262)**	(218)
Change in investment-type contracts, net	**169**	133
Treasury stock reissued	**4**	20
Other, net	**(2)**	31
Net cash provided (used) by financing activities	**203**	(841)
Effect of exchange rate changes on cash and cash equivalents	**(21)**	25
Net change in cash and cash equivalents	**748**	(176)
Cash and cash equivalents, beginning of period	**941**	1,563
Cash and cash equivalents, end of period	**$1,689**	$1,387
Supplemental disclosures of cash flow information:		
Income taxes paid	**304**	362
Interest paid	**15**	13
Impairment losses included in realized investment gains (losses)	**619**	
Noncash financing activities:		
Capitalized lease obligations	**1**	2
Treasury stock issued for:		
Associate stock bonus	**6**	23
Shareholder dividend reinvestment		10
Share-based compensation grants	**4**	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, **2009**	Three Months Ended June 30, 2008	Six Months Ended June 30, **2009**	Six Months Ended June 30, 2008
Net earnings	**$ 314**	$ 483	**$ 882**	$ 957
Other comprehensive income (loss) before income taxes:				
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) during period	**58**	(43)	**(51)**	34
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	**945**	(710)	**(1,818)**	(1,667)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	**384**	1	**396**	8
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) on derivatives during period	**(1)**	2		2
Pension liability adjustment during period		3	**6**	(1)
Total other comprehensive income (loss) before income taxes	**1,386**	(747)	**(1,467)**	(1,624)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**431**	(129)	**(397)**	(699)
Other comprehensive income (loss), net of income taxes	**955**	(618)	**(1,070)**	(925)
Total comprehensive income (loss)	**$1,269**	$ (135)	**$ (188)**	$ 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™ 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™ (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.

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 issuers 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 25th 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.

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

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

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

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Assets were as follows:

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

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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.

(In millions)	June 30, 2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$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)	June 30, 2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	**$ 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)	December 31, 2008 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$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)	December 31, 2008 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$ 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.

Contractual and Economic Maturities

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

(In millions)	Aflac Japan Amortized Cost	Aflac Japan Fair Value	Aflac U.S. Amortized Cost	Aflac U.S. Fair Value
Available for sale:				
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
Held to maturity:				
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 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at June 30, 2009, were as follows:

(In millions)	Aflac Japan Amortized Cost	Aflac Japan Fair Value	Aflac U.S. Amortized Cost	Aflac U.S. 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

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:

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

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Realized Investment Gains and Losses

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

Three Months Ended