

AFLAC INC
Form 10-Q
May 08, 2008

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

(Mark One)

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

For the quarterly period ended March 31, 2008

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 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. (Check one):

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

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

May 2, 2008

Common Stock, \$.10 Par Value

475,337,623 shares

**Aflac Incorporated and Subsidiaries
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REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The March 31, 2008, and 2007, financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

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

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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 March 31, 2008, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income for the three-month periods ended March 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management.

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

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

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

Atlanta, Georgia
May 8, 2008

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings**

| (In millions, except for share and per-share amounts - Unaudited) | Three Months Ended March | |
|---|--------------------------|----------|
| | 2008 | 2007 |
| | | 31, |
| Revenues: | | |
| Premiums, principally supplemental health insurance | \$ 3,635 | \$ 3,156 |
| Net investment income | 627 | 566 |
| Realized investment gains (losses) | (7) | 13 |
| Other Income | 12 | 16 |
| Total revenues | 4,267 | 3,751 |
| Benefits and expenses: | | |
| Benefits and claims | 2,538 | 2,258 |
| Acquisition and operating expenses: | | |
| Amortization of deferred policy acquisition costs | 192 | 154 |
| Insurance commissions | 358 | 329 |
| Insurance expenses | 413 | 337 |
| Interest expense | 7 | 8 |
| Other operating expenses | 33 | 29 |
| Total acquisition and operating expenses | 1,003 | 857 |
| Total benefits and expenses | 3,541 | 3,115 |
| Earnings before income taxes | 726 | 636 |
| Income taxes | 252 | 220 |
| Net earnings | \$ 474 | \$ 416 |
| Net earnings per share: | | |
| Basic | \$.99 | \$.85 |
| Diluted | .98 | .84 |
| Common shares used in computing earnings per share (In thousands): | | |
| Basic | 478,138 | 490,554 |
| Diluted | 484,417 | 496,658 |
| Cash dividends per share | \$.24 | \$.185 |

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

| (In millions) | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|--|-------------------------|
| Assets: | | |
| Investments and cash: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities (amortized cost \$32,875 in 2008 and \$29,399 in 2007) | \$ 33,290 | \$ 30,511 |
| Perpetual debentures (amortized cost \$4,703 in 2008 and \$4,272 in 2007) | 4,241 | 4,095 |
| Equity securities (cost \$18 in 2008 and \$16 in 2007) | 23 | 22 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities (fair value \$18,619 in 2008 and \$16,191 in 2007) | 19,723 | 16,819 |
| Perpetual debentures (fair value \$4,425 in 2008 and \$3,934 in 2007) | 4,532 | 3,985 |
| Other investments | 71 | 61 |
| Cash and cash equivalents | 908 | 1,563 |
| | | |
| Total investments and cash | 62,788 | 57,056 |
| Receivables, primarily premiums | 665 | 732 |
| Accrued investment income | 569 | 561 |
| Deferred policy acquisition costs | 7,354 | 6,654 |
| Property and equipment, at cost less accumulated depreciation | 548 | 496 |
| Other | 345 | 306 |
| | | |
| Total assets | \$ 72,269 | \$ 65,805 |

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

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Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

| | March 31, 2008 | December 31, 2007 |
|--|---------------------------|-------------------------|
| (In millions, except for share and per-share amounts) | (Unaudited) | |
| Liabilities and shareholders equity: | | |
| Liabilities: | | |
| Policy liabilities: | | |
| Future policy benefits | \$ 52,142 | \$ 45,675 |
| Unpaid policy claims | 2,694 | 2,455 |
| Unearned premiums | 781 | 693 |
| Other policyholders funds | 2,179 | 1,853 |
| | | |
| Total policy liabilities | 57,796 | 50,676 |
| Notes payable | 1,606 | 1,465 |
| Income taxes | 2,097 | 2,531 |
| Payables for return of cash collateral on loaned securities | 991 | 808 |
| Other | 1,645 | 1,530 |
| Commitments and contingent liabilities (Note 9) | | |
| | | |
| Total liabilities | 64,135 | 57,010 |
| | | |
| Shareholders equity: | | |
| Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 659,197 shares in 2008 and 658,604 shares in 2007 | 66 | 66 |
| Additional paid-in capital | 1,090 | 1,054 |
| Retained earnings | 10,997 | 10,637 |
| Accumulated other comprehensive income: | | |
| Unrealized foreign currency translation gains | 463 | 129 |
| Unrealized gains on investment securities | 235 | 874 |
| Pension liability adjustment | (71) | (69) |
| Treasury stock, at average cost | (4,646) | (3,896) |
| | | |
| Total shareholders equity | 8,134 | 8,795 |
| | | |
| Total liabilities and shareholders equity | \$ 72,269 | \$ 65,805 |
| | | |
| Shareholders equity per share | \$ 17.12 | \$ 17.37 |

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| (In millions, except for per-share amounts - Unaudited) | 2008 | 2007 |
| Common stock: | | |
| Balance, beginning of period | \$ 66 | \$ 66 |
| Exercise of stock options | | |
| Balance, end of period | 66 | 66 |
| Additional paid-in capital: | | |
| Balance, beginning of period | 1,054 | 895 |
| Exercise of stock options, including income tax benefits | 17 | 11 |
| Share-based compensation | 7 | 8 |
| Gain on treasury stock reissued | 12 | 10 |
| Balance, end of period | 1,090 | 924 |
| Retained earnings: | | |
| Balance, beginning of period | 10,637 | 9,304 |
| Net earnings | 474 | 416 |
| Dividends to shareholders (\$.24 per share in 2008 and \$.185 per share in 2007) | (114) | |
| Balance, end of period | 10,997 | 9,720 |
| Accumulated other comprehensive income: | | |
| Balance, beginning of period | 934 | 1,426 |
| Change in unrealized foreign currency translation gains during period, net of income taxes | 334 | 10 |
| Change in unrealized (losses) on investment securities during period, net of income taxes | (639) | (79) |
| Pension liability adjustment during period, net of income taxes | (2) | |
| Balance, end of period | 627 | 1,357 |
| Treasury stock: | | |
| Balance, beginning of period | (3,896) | (3,350) |
| Purchases of treasury stock | (764) | (241) |
| Cost of shares issued | 14 | 13 |
| Balance, end of period | (4,646) | (3,578) |
| Total shareholders' equity | \$ 8,134 | \$ 8,489 |

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) | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 474 | \$ 416 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Change in receivables and advance premiums | 134 | 39 |
| Increase in deferred policy acquisition costs | (102) | (97) |
| Increase in policy liabilities | 783 | 796 |
| Change in income tax liabilities | (117) | 59 |
| Realized investment (gains) losses | 7 | (13) |
| Other, net | 17 | (24) |
| Net cash provided by operating activities | 1,196 | 1,176 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | 192 | 284 |
| Fixed maturities matured or called | 232 | 305 |
| Perpetual debentures sold | 99 | 3 |
| Costs of investments acquired: | | |
| Securities available for sale: | | |
| Fixed maturities | (1,156) | (1,359) |
| Securities held to maturity: | | |
| Fixed maturities | (550) | (686) |
| Cash received as collateral on loaned securities, net | 97 | 174 |
| Other, net | (16) | (9) |
| Net cash used by investing activities | \$ (1,102) | \$ (1,288) |

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) | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2008 | 2007 |
| Cash flows from financing activities: | | |
| Purchases of treasury stock | \$ (764) | \$ (241) |
| Change in investment-type contracts, net | 60 | 53 |
| Dividends paid to shareholders | (109) | (86) |
| Treasury stock reissued | 9 | 8 |
| Principal payments under debt obligations | (1) | (1) |
| Other, net | 16 | 8 |
| Net cash used by financing activities | (789) | (259) |
| Effect of exchange rate changes on cash and cash equivalents | 40 | 2 |
| Net change in cash and cash equivalents | (655) | (369) |
| Cash and cash equivalents, beginning of period | 1,563 | 1,203 |
| Cash and cash equivalents, end of period | \$ 908 | \$ 834 |
| Supplemental disclosures of cash flow information: | | |
| Income taxes paid | \$ 295 | \$ 155 |
| Interest paid | 5 | 3 |
| Noncash financing activities: | | |
| Treasury shares issued for: | | |
| Associate stock bonus | 10 | 8 |
| Shareholder dividend reinvestment | 5 | 5 |
| Shared-based compensation grants | 2 | 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 March 31, | |
|--|---------------------------------|--------|
| | 2008 | 2007 |
| Net earnings | \$ 474 | \$ 416 |
| Other comprehensive income (loss) before income taxes: | | |
| Foreign currency translation adjustments: | | |
| Change in unrealized foreign currency translation gains (losses) during period | 77 | (10) |
| Unrealized gains (losses) on investment securities: | | |
| Unrealized holding gains (losses) arising during the period | (957) | (106) |
| Reclassification adjustment for realized (gains) losses included in net earnings | 7 | (13) |
| Unrealized gains (losses) on derivatives: | | |
| Unrealized holding gains (losses) arising during the period | (1) | |
| Pension liability adjustment during period | (4) | |
| Total other comprehensive income (loss) before income taxes | (878) | (129) |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | (571) | (60) |
| Other comprehensive income (loss), net of income taxes | (307) | (69) |
| Total comprehensive income (loss) | \$ 167 | \$ 347 |

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. BASIS OF PRESENTATION

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

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

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

New Accounting Pronouncements:

In March 2008, the FASB issued Statement of Financial Accounting Standards (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.

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To meet those objectives, this Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this standard to have any effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The purpose of SFAS 160 is to improve relevance, comparability, and transparency of the financial information in consolidated financial statements of reporting entities that hold noncontrolling interests in one or more subsidiaries. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, with earlier adoption prohibited. We do not expect the adoption of this standard to have any effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 allows entities to choose to measure many financial instruments and certain other items at fair value. The majority of the provisions of this standard apply only to entities that elect the fair value option (FVO). The FVO may be applied to eligible items on an instrument-by-instrument basis; is irrevocable unless a new election date occurs; and may only be applied to an entire financial instrument, and not portions thereof. This standard requires a business enterprise to report unrealized gains and losses on items for which the FVO has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier application permitted under limited circumstances. In connection with our adoption of SFAS 159 as of January 1, 2008, we did not elect the FVO for any of our financial assets or liabilities. Accordingly, the adoption of this standard did not have any impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, expands disclosures about fair value measurements and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data corroborated by independent sources while unobservable inputs reflect market assumptions that are not observable in an active market or are developed internally. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market.

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

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

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

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 for the three months ended March 31 follows:

| (In millions) | 2008 | 2007 |
|--|-----------------|----------|
| Revenues: | | |
| Aflac Japan: | | |
| Earned premiums | \$ 2,585 | \$ 2,196 |
| Net investment income | 496 | 436 |
| Other income | (1) | 9 |
| Total Aflac Japan | 3,080 | 2,641 |
| Aflac U.S.: | | |
| Earned premiums | 1,050 | 961 |
| Net investment income | 123 | 122 |
| Other income | 3 | 2 |
| Total Aflac U.S. | 1,176 | 1,085 |
| Other business segments | 10 | 9 |
| Total business segment revenues | 4,266 | 3,735 |
| Realized investment gains (losses) | (7) | 13 |
| Corporate | 29 | 29 |
| Intercompany eliminations | (21) | (26) |
| Total revenues | \$ 4,267 | \$ 3,751 |

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| (In millions) | 2008 | 2007 |
|--|-------|-------|
| Pretax earnings: | | |
| Aflac Japan | \$554 | \$465 |
| Aflac U.S. | 191 | 169 |
| Other business segments | (3) | |
| Total business segments | 742 | 634 |
| Interest expense, noninsurance operations | (7) | (5) |
| Corporate and eliminations | (7) | (6) |
| Pretax operating earnings | 728 | 623 |
| Realized investment gains (losses) | (7) | 13 |
| Impact from SFAS 133 | 5 | |
| Total earnings before income taxes | \$726 | \$636 |
| Income taxes applicable to pretax operating earnings | \$253 | \$216 |
| Effect of foreign currency translation on operating earnings | 25 | (4) |

Assets were as follows:

| (In millions) | March 31, 2008 | December 31, 2007 |
|---------------------------|-------------------|-------------------------|
| Assets: | | |
| Aflac Japan | \$ 61,326 | \$ 54,153 |
| Aflac U.S. | 10,483 | 10,415 |
| Other business segments | 124 | 117 |
| Total business segments | 71,933 | 64,685 |
| Corporate | 9,817 | 10,364 |
| Intercompany eliminations | (9,481) | (9,244) |
| Total assets | \$ 72,269 | \$ 65,805 |

3. INVESTMENTS

During the quarter ended March 31, 2008, we realized pretax investment losses of \$7 million (after-tax, \$4 million, or \$.01 per diluted share) primarily as a result of securities sold or redeemed in the normal course of business compared with realized pretax gains of \$13 million (after-tax, \$9 million, or \$.02 per diluted share) for the quarter ended March 31, 2007. Impairment charges were immaterial during the three months ended March 31, 2008 and 2007.

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

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| (In millions) | March 31, 2008 | December 31, 2007 |
|--|-------------------------------|-------------------------|
| Unrealized gains (losses) on securities available for sale | \$ (42) | \$ 941 |
| Unamortized unrealized gains on securities transferred to held to maturity | 376 | 343 |
| Deferred income taxes | (99) | (410) |
| Shareholders' equity, net unrealized gains on investment securities | \$ 235 | \$ 874 |

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As a result of result of widening credit spreads globally and to a lesser extent, foreign exchange rates, the unrealized gains on securities available for sale have declined during the period reflecting an unrealized loss as of March 31, 2008.

Our total investment in the banks and financial institutions sector including those classified as perpetual debentures as of March 31, 2008 is \$25,911 million, or 43% of our total investment portfolio at fair value (\$27,407 million, or 44% at amortized cost) compared with \$23,348 million, or 43% of our total investment portfolio at fair value (\$23,941 million, or 44% at amortized cost) as of December 31, 2007. We invest in the top financial institutions globally because we believe this sector has a very desirable risk profile. The banks and financial institutions sector is a highly regulated industry and plays a strategic role in the global economy. While this is our largest sector concentration, we achieve some degree of diversification through a geographically diverse universe of credit exposures.

The following table reflects the market value of our aggregate investments in the banks and financial institutions sector that are in an unrealized loss position as a percentage of the market value of our total investments across all sectors that are in an unrealized loss position and the respective unrealized losses in the banks and financial institutions sector as a percentage of total unrealized losses across all sectors of our investment portfolio.

| | 2008 | | 2007 | |
|----------------------|--|---|---|---|
| | Percentage of Total Investments in an Unrealized Loss Position | Percentage of Total Unrealized Losses | Percentage of Total Investments in an Unrealized Loss Position | Percentage of Total Unrealized Losses |
| Fixed maturities | 36% | 39% | 40% | 41% |
| Perpetual debentures | 16% | 22% | 14% | 22% |
| Total | 52% | 61% | 54% | 63% |

Ford Motor Credit (FMC) is a wholly owned subsidiary of Ford Motor Company. The unrealized loss on Aflac Japan's \$299 million (30.0 billion yen) investment in FMC increased \$47 million to \$95 million during the period as compared to \$48 million at December 31, 2007. The increase in the unrealized loss for FMC related to foreign currency is \$12 million. The remaining increase in the unrealized loss on FMC is related to sharply lower reported earnings in 2007, compared with 2006 due to higher borrowing and other operating costs in 2007 and widening credit spreads globally as a result of the contraction in the liquidity in the global capital markets over the past several quarters. However, FMC remains profitable with substantial stand-alone liquidity and a stable credit outlook. Accordingly, based on our reviews of FMC, we believe we will collect all amounts due under the contractual terms of our investment. Because we have the ability and intent to hold this investment until a recovery of fair value, which may be maturity, we do not consider this investment to be other than temporarily impaired as of March 31, 2008.

For further information on unrealized losses on debt securities, see Note 3 to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2007.

As part of our investment activities, we own investments in qualified special purpose entities (QSPEs). At March 31, 2008, available-for-sale QSPEs totaled \$3.8 billion at fair value (\$3.9 billion at amortized cost, or 6.4% of total debt securities), compared with \$3.2 billion at fair value (\$3.3 billion at amortized cost, or 6.0% of total debt securities) at December 31, 2007. We have no equity interests in any of the QSPEs, nor do we have control over these

entities. Therefore, our loss exposure is limited to the cost of our investment.

We also own investments in variable interest entities (VIEs). We are the primary beneficiary of VIEs totaling \$1.5 billion at fair value (\$1.8 billion at amortized cost) and have consolidated our interests in these VIEs in accordance with FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. The activities of these VIEs are limited to holding debt securities and utilizing the cash flows from the debt securities to service our investments therein. The terms of the debt securities held by these VIEs mirror the terms of the notes held by Aflac. The consolidation of these investments does not impact our financial position or results of operations.

We have interests in VIEs in which we are not the primary beneficiary and are therefore not required to consolidate totaling \$.9 billion at fair value (\$1.1 billion at amortized cost) as of March 31, 2008. Included in these VIEs are collateralized debt obligations (CDOs) totaling \$427 million at fair value (\$660 million at amortized cost) as of March 31, 2008. The assets and funding of these VIEs are generally static in nature. The VIEs are limited to holding the underlying collateral and credit default swap (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 forms of funding to support their activities beyond the underlying collateral and CDS contracts. We have no continuing obligation to fund these VIEs nor do we guarantee any of the VIEs in any manner. Our involvement with these VIEs began in 2006 and we have continued to invest in this type of financing vehicle from time to time. Our risk of loss associated with our interest in these VIEs is limited to our current investment therein.

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The remaining VIEs that we are not required to consolidate totaled \$449 million at fair value (\$469 million at amortized cost) at March 31, 2008. Our investment in these VIEs is limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are used to raise financing for their parent companies in the international capital markets. These VIEs do not rely on outside or ongoing forms of funding to support their activities beyond the guarantees of their corporate parents. We have no continuing obligation to fund these VIEs nor do we guarantee any of the VIEs in any manner. Our involvement with these VIEs began in 2004 and we have continued to invest in these financing vehicles from time to time. Our risk of loss associated with our interest in these VIEs is limited to our current investment therein.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These short-term security lending arrangements increase investment income with minimal risk. Our security lending policy requires that the fair value of the securities and/or cash received as collateral be 102% or more of the fair value of the loaned securities. At March 31, 2008, we had security loans outstanding with a fair value of \$965 million, and we held cash in the amount of \$991 million as collateral for these loaned securities. At December 31, 2007, we had security loans outstanding with a fair value of \$790 million, and we held cash in the amount of \$808 million as collateral for these loaned securities.

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

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

4. FINANCIAL INSTRUMENTS

We have outstanding cross-currency swap agreements related to the \$450 million senior notes and interest-rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes (see Note 5). The components of the fair value of the cross-currency and interest-rate swap agreements were reflected as an asset or (liability) in the balance sheet as follows:

| (In millions) | March 31, 2008 | December 31, 2007 |
|--|-------------------------------|-------------------------|
| Interest rate component | \$ 11 | \$ 7 |
| Foreign currency component | (108) | (47) |
| Accrued interest component | 10 | 5 |
| Total fair value of cross-currency and interest-rate swaps | \$ (87) | \$ (35) |

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The following is a reconciliation of the foreign currency component of the cross-currency swaps included in accumulated other comprehensive income for the three-month periods ended March 31.

| (In millions) | 2008 | 2007 |
|--|----------|---------|
| Balance, beginning of period | \$ (47) | \$ (17) |
| Increase (decrease) in fair value of cross-currency swaps | (51) | 2 |
| Interest rate component not qualifying for hedge accounting reclassified to net earnings | (10) | (6) |
| Balance, end of period | \$ (108) | \$ (21) |

The fair value of the interest-rate swap agreements and related changes in fair value, included in accumulated other comprehensive income, were immaterial during the three-month period ended March 31, 2008 and year ended December 31, 2007.

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

| (In millions) | Level 1 | Level 2 | Level 3 | Total |
|--|----------|-----------|---------|-----------|
| Assets: | | | | |
| Fixed maturities | \$ 8,567 | \$ 24,623 | \$ 100 | \$ 33,290 |
| Perpetual debentures | | 4,241 | | 4,241 |
| Equity securities | 19 | | 4 | 23 |
| Total assets | \$ 8,586 | \$ 28,864 | \$ 104 | \$ 37,554 |
| Liabilities: | | | | |
| Cross-currency and interest-rate swaps | | 87 | | 87 |
| Total liabilities | \$ | \$ 87 | \$ | \$ 87 |

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 debentures categorized as Level 2 is determined using three techniques depending on the source and availability of market inputs. Approximately 41% of these securities is valued by obtaining quoted prices from our custodian. The custodian obtains price quotes from various pricing services who estimate their fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 44% of our Level 2 fixed maturities and perpetual debentures is determined using discounted cash flow (DCF) pricing models that employ observable and corroborated market inputs from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads are derived based on pricing data tables 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

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there are quoted market prices from active markets or, in the alternative, are quoted by our custodian. For the remaining Level 2 fixed maturities and perpetual debentures that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from a minimum of three brokers and use the average of the three quotes to estimate the fair value of the securities.

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

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

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

| (In millions) | Fixed maturities | Equity securities | Total |
|---|---------------------|----------------------|--------|
| Balance, beginning of period | \$ 109 | \$ 3 | \$ 112 |
| Net unrealized gains included in other comprehensive income | (9) | 1 | (8) |
| Balance, end of period | \$ 100 | \$ 4 | \$ 104 |

There were no gains or losses included in net realized losses attributable to the change in unrealized gains or losses during the period relating to assets still held.

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

Table of Contents**5. NOTES PAYABLE**

A summary of notes payable follows:

| (In millions) | March 31, 2008 | December 31, 2007 |
|---|---------------------------|-------------------------|
| 6.50% senior notes due April 2009 | \$ 450 | \$ 450 |
| Yen-denominated Uridashi notes: | | |
| 1.52% notes due September 2011 (principal amount 15 billion yen) | 150 | 131 |
| 2.26% notes due September 2016 (principal amount 10 billion yen) | 100 | 88 |
| Variable interest rate notes due September 2011 (1.25% at March 31, 2008, principal amount 20 billion yen) | 200 | 175 |
| Yen-denominated Samurai notes: | | |
| .71% notes due July 2010 (principal amount 40 billion yen) | 399 | 350 |
| 1.87% notes due June 2012 (principal amount 30 billion yen) | 299 | 263 |
| Capitalized lease obligations payable through 2013 | 8 | 8 |
| Total notes payable | \$ 1,606 | \$ 1,465 |

We were in compliance with all of the covenants of our notes payable at March 31, 2008. No events of default or defaults occurred during the three months ended March 31, 2008.

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

6. SHAREHOLDERS EQUITY

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

| (In thousands of shares) | 2008 | 2007 |
|---|----------------|----------------|
| Common stock issued: | | |
| Balance, beginning of period | 658,604 | 655,715 |
| Exercise of stock options and issuance of restricted shares | 593 | 573 |
| Balance, end of period | 659,197 | 656,288 |
| Treasury stock: | | |
| Balance, beginning of period | 172,074 | 163,165 |
| Purchases of treasury stock: | | |
| Open market | 12,500 | 5,062 |
| Other | 103 | |
| Disposition of treasury stock: | | |
| Shares issued to AFL Stock Plan | (324) | (357) |
| Exercise of stock options | (177) | (297) |
| Other | (70) | (117) |
| Balance, end of period | 184,106 | 167,456 |

| | | |
|-----------------------------------|----------------|---------|
| Shares outstanding, end of period | 475,091 | 488,832 |
|-----------------------------------|----------------|---------|

We exclude outstanding restricted-share-based awards from the calculation of weighted-average shares used in the computation of basic earnings per share. For the quarter ended March 31, 2008,

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stock options to purchase approximately 800 thousand shares, on a weighted-average basis, were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share, compared with 2.7 million for the quarter ended March 31, 2007.

In February 2006, the board of directors authorized the purchase of 30.0 million shares of our common stock. In January 2008, the board of directors authorized the purchase of an additional 30.0 million shares of our common stock. As of March 31, 2008, approximately 43.1 million shares were available for purchase under our share repurchase programs.

On February 4, 2008, we entered into an agreement for an accelerated share repurchase (ASR) program with an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch). Under the agreement, we purchased 12.5 million shares of our outstanding common stock at \$60.58 (\$60.61 including commissions) per share for a total purchase price of \$757 million. The repurchase was funded with internal capital. The shares were acquired as a part of previously announced share repurchase authorizations by our board of directors and are held in treasury. Under the agreement, Merrill Lynch plans to purchase shares of our common stock in the open market over the life of the agreement. At the end of this period, we may receive, or may be required to remit, a purchase price adjustment based upon the volume weighted average price of our common stock during the ASR program period. Under the terms of the ASR we may elect to receive or pay any settlement amount in cash or shares of our common stock at our option. The settlement of the ASR program is expected to occur during the second quarter of 2008. The dilutive impact of the settlement of the ASR contract was insignificant as of March 31, 2008, and has been included in the calculation of weighted average shares outstanding for the quarter then ended.

7. SHARE-BASED TRANSACTIONS

The Company has two long-term incentive compensation plans. The first plan is a stock option plan, which allows for grants of both incentive stock options (ISOs) and non-qualifying stock options (NQSOs). This plan expired in February 2007 (although options granted before that date remain outstanding in accordance with their terms). The second plan is a long-term incentive compensation plan that allows for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. At March 31, 2008, approximately 21.2 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 March 31, 2008.

| (In thousands of shares) | Stock Option Shares | Weighted-Average Exercise Price Per Share |
|--------------------------|------------------------------------|--|
| Outstanding | 17,134 | \$ 36.64 |
| Exercisable | 13,188 | 32.30 |

As of March 31, 2008, the aggregate intrinsic value of stock options outstanding was \$485 million, with a weighted-average remaining term of 5.6 years. The aggregate intrinsic value of stock options exercisable at that same date was \$431 million, with a weighted-average remaining term of 4.6 years. We received cash from the exercise of stock options in the amount of \$13 million during the first quarter of 2008, compared with \$12 million in the first quarter of 2007. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$11 million in the first quarter of 2008, and \$6 million in the first quarter of 2007.

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As of March 31, 2008, total compensation cost not yet recognized in our financial statements related to restricted-share-based awards was \$33 million, of which \$16 million (503 thousand shares) was related to restricted-share-based awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately 1.8 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, 2007.

8. BENEFIT PLANS

| (In millions) | 2008 | | 2007 | |
|---|-------|------|-------|------|
| | Japan | U.S. | Japan | U.S. |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 3 | \$ 2 | \$ 2 | \$ 3 |
| Interest cost | 1 | 3 | 1 | 3 |
| Expected return on plan assets | (1) | (3) | | (3) |
| Amortization of net actuarial loss | | 1 | | 1 |
| Net periodic benefit cost | \$ 3 | \$ 3 | \$ 3 | \$ 4 |

During the three months ended March 31, 2008, Aflac Japan contributed approximately \$3 million (using the March 31, 2008, exchange rate) to the Japanese pension plan, and Aflac U.S. did not make a contribution to the U.S. pension plan.

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

9. COMMITMENTS AND CONTINGENT LIABILITIES

We have three outsourcing agreements with IBM. The first agreement provides mainframe computer operations and support for Aflac Japan. It has a remaining term of eight years and an aggregate remaining cost of 23.5 billion yen (\$234 million using the March 31, 2008, exchange rate). The second agreement provides distributed computer operations and support for Aflac Japan. It has a term of eight years and an aggregate cost of 29.4 billion yen (\$293 million using the March 31, 2008, exchange rate). The third agreement provides application maintenance and development services for Aflac Japan. It has a term of four years and a remaining aggregate cost of 8.3 billion yen (\$83 million using the March 31, 2008, exchange rate).

We have entered into two additional outsourcing agreements to provide application maintenance and development services for our Japanese operation. The first agreement with Accenture has a remaining term of seven years with an aggregate remaining cost of 6.8 billion yen (\$67 million using the March 31, 2008, exchange rate). The second agreement with NTT DATA has a remaining term of

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three years with an aggregate remaining cost of .9 billion yen (\$9 million using the March 31, 2008, exchange rate).

We lease office space and equipment under various agreements that expire in various years through 2022. For further information regarding lease commitments, see Note 13 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2007.

In 2005, we announced a multiyear building project for additional office space in Columbus, Georgia. The initial phase was completed in 2007 at a cost of \$27 million. The second phase of the expansion is to be completed in 2009 and is expected to cost approximately \$48 million.

We are a defendant in various lawsuits considered to be in the normal course of business. Senior legal and financial management 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.

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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:

legislative and regulatory developments, including changes to health care and health insurance delivery

assessments for insurance company insolvencies

competitive conditions in the United States and Japan

new product development and customer response to new products and new marketing initiatives

ability to attract and retain qualified sales associates and employees

ability to repatriate profits from Japan

changes in U.S. and/or Japanese tax laws or accounting requirements

credit and other risks associated with Aflac's investment activities

significant changes in investment yield rates

fluctuations in foreign currency exchange rates

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deviations in actual experience from pricing and reserving assumptions including, but not limited to, morbidity, mortality, persistency, expenses, and investment yields
level and outcome of litigation

downgrades in the Company's credit rating

changes in rating agency policies or practices

subsidiary's ability to pay dividends to Parent Company

ineffectiveness of hedging strategies

catastrophic events

general economic conditions in the United States and Japan, including increased uncertainty in the U.S. and international financial markets

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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.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the period from December 31, 2007, to March 31, 2008. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2007.

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

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CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac's results of operations and financial condition are those related to investments, deferred policy acquisition costs and policy liabilities. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 96% of our assets and 85% of our liabilities are reported and thus have a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

In 2007, our unpaid policy claims liability for prior years declined by approximately \$400 million.

More than 70% of the release of our unpaid policy claims liability resulted from IBNR that is estimated using a claim cost and completion factor method. During the first 12 months after a claim is incurred, we estimate the ultimate cost of the claim based on initial expected claim cost factors that reflect our experience in prior periods. In the thirteenth month after incurral, we change the estimating basis to a completion factor method because the actual cash payments to date for claims 13 or more months old are deemed to have sufficient credibility on which to base the remaining liability estimate. Prior to the thirteenth month, the historical claim cost method is deemed to have more credibility. The difference in estimate between the two methods is routinely recognized in our financial statements in the thirteenth month after a claim is incurred.

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

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

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

New Accounting Pronouncements

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.

We adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) effective January 1, 2008. The adoption of this standard did not have any impact on our financial position or results of operations. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market. The vast majority of our financial instruments subject to the classification provisions of SFAS 157 relate to our investment securities classified as securities available for sale in our investment portfolio.

We determine the value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities. For those securities classified as Level 1, we obtain quoted market prices in the active market in which they are traded.

For those securities classified as level 2, we first obtain quoted prices from our custodian. The custodian obtains price quotes from various pricing services who estimate their fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

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

Our investment in securities classified as Level 3 is not significant. The fair value of our securities classified as Level 3 is estimated by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market flows. We consider these inputs unobservable.

We estimate the fair values of our securities available for sale on a monthly basis. We monitor the estimated fair values from each of the sources described above for consistency from month to month and based on current market conditions. We also periodically discuss with our custodian and pricing brokers the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. See Note 3 to the Consolidated Financial Statements for the classification of our securities available for sale under the provisions of SFAS 157 as of March 31, 2008.

For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents**RESULTS OF OPERATIONS**

The following table is a presentation of items impacting net earnings and net earnings per diluted share for the three-month periods ended March 31.

Items Impacting Net Earnings

| | In Millions | | Per Diluted Share | |
|---|-------------|--------|-------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings | \$ 474 | \$ 416 | \$.98 | \$.84 |
| Items impacting net earnings, net of tax: | | | | |
| Realized investment gains (losses) | (4) | 9 | (.01) | .02 |
| Impact from SFAS 133 | 3 | | .01 | |

Realized Investment Gains and Losses

Our investment strategy is to invest in fixed-income securities in order to provide a reliable stream of investment income, which is one of the drivers of the Company's profitability. We do not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio maintenance and rebalancing. The realization of investment gains and losses is independent of the underwriting and administration of our insurance products, which are the principal drivers of our profitability. Realized investment losses in the first quarter of 2008 and realized investment gains in the same period in 2007 primarily resulted from sales transactions in the normal course of business.

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior notes, which mature in 2009, into a yen-denominated obligation. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), requires that the change in the fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, be reflected in net earnings (other income). The impact from SFAS 133 includes the change in fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting.

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

We have entered into interest-rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. 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). The impact from SFAS 133 would include any ineffectiveness associated with these interest-rate swaps. These hedges were effective during the three-month period ended March 31, 2008; therefore, there was no impact on net earnings.

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

Foreign Currency Translation

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

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

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 34.7% for the three-month period ended March 31, 2008, compared with 34.6% for the same period in 2007.

Earnings Guidance

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management's control may have a significant impact on actual results. Therefore, our comparison of net earnings includes certain assumptions to reflect the limitations that are inherent in projections of net earnings. In comparing period-over-period results, we exclude the effect of realized investment gains and losses, the impact from SFAS 133 and nonrecurring items. We also assume no impact from foreign currency 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 and first quarter results, our objective for 2008 is to increase net earnings per diluted share by 14% to 15% over 2007, narrowing our previously communicated objective of a 13% to 15% increase in net earnings per diluted share. If we achieve this objective, the following table shows the likely results for 2008 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

Table of Contents**2008 Net Earnings Per Share (EPS) Scenarios***

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

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

** Actual 2007 weighted-average exchange rate

INSURANCE OPERATIONS

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

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

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

Table of Contents**AFLAC JAPAN SEGMENT****Aflac Japan Pretax Operating Earnings**

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

Aflac Japan Summary of Operating Results

| (In millions) | Three Months Ended March 31, | |
|---|------------------------------|----------|
| | 2008 | 2007 |
| Premium income | \$ 2,585 | \$ 2,196 |
| Net investment income: | | |
| Yen-denominated investment income | 315 | 267 |
| Dollar-denominated investment income | 181 | 169 |
| Net investment income | 496 | 436 |
| Other income | (1) | 9 |
| Total operating revenues | 3,080 | 2,641 |
| Benefits and claims | 1,922 | 1,686 |
| Operating expenses: | | |
| Amortization of deferred policy acquisition costs | 96 | 74 |
| Insurance commissions | 239 | 209 |
| Insurance and other expenses | 269 | 207 |
| Total operating expenses | 604 | 490 |
| Total benefits and expenses | 2,526 | 2,176 |
| Pretax operating earnings* | \$ 554 | \$ 465 |
| Weighted-average yen/dollar exchange rate | 105.06 | 119.48 |

| Percentage change over previous period: | In Dollars | | In Yen | |
|---|------------|------|--------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Premium income | 17.7% | 2.6% | 3.6% | 4.9% |
| Net investment income | 13.7 | 6.9 | .2 | 9.2 |
| Total operating revenues | 16.6 | 3.4 | 2.7 | 5.7 |
| Pretax operating earnings* | 19.2 | 9.3 | 4.8 | 11.8 |

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

The percentage increases in premium income reflect the growth of premiums in force. Annualized premiums in force in yen increased 3.7% to 1.13 trillion yen as of March 31, 2008, compared with 1.09 trillion yen a year ago, and

reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were \$11.3 billion at March 31, 2008, compared with \$9.3 billion a year ago.

Aflac Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 37% of Aflac Japan's investment income in the first three months of 2008, compared with 39% a year ago. In periods when the yen strengthens in relation to the dollar, as it did in the first quarter of 2008, translating Aflac Japan's dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues,

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

Aflac Japan Percentage Changes Over Previous Period

Three Months Ended March 31,
(Yen Operating Results)

| | Including Foreign Currency Changes | | Excluding Foreign Currency Changes | |
|----------------------------|---------------------------------------|------|---------------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Net investment income | .2% | 9.2% | 5.1% | 8.3% |
| Total operating revenues | 2.7 | 5.7 | 3.8 | 5.5 |
| Pretax operating earnings* | 4.8 | 11.8 | 10.6 | 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.

| Ratios to total revenues, in dollars: | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2008 | 2007 |
| Benefits and claims | 62.4% | 63.9% |
| Operating expenses: | | |
| Amortization of deferred policy acquisition costs | 3.1 | 2.8 |
| Insurance commissions | 7.7 | 7.9 |
| Insurance and other expenses | 8.8 | 7.8 |
| Total operating expenses | 19.6 | 18.5 |
| Pretax operating earnings* | 18.0 | 17.6 |

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

The benefit ratio has declined over the past several years, reflecting the impact of newer products with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders and the impact of favorable claim trends. The operating expense ratio increased in the first quarter in line with our expectations and reflects the increased costs associated with our preparation for the opening of the bank channel. As a result, we expect the operating expense ratio to increase modestly for the year in relation to 2007. Due to improvement in the benefit ratio, the pretax operating profit margin expanded from 17.6% to 18.0%. We expect this expanded profit margin to continue through the remainder of 2008.

Table of Contents**Aflac Japan Sales**

Aflac Japan's total new annualized premium sales exceeded our expectations in the first quarter of 2008, increasing 5% over the same period a year ago. The following table presents Aflac Japan's total new annualized premium sales for the three-month periods ended March 31.

| (In millions of dollars and billions of yen) | In Dollars | | In Yen | |
|--|------------|---------|--------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Total new annualized premium sales | \$ 264 | \$ 221 | 27.6 | 26.3 |
| Percentage change over previous period | 19.5% | (12.3)% | 5.0% | (10.6)% |

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

| | 2008 | 2007 |
|------------------|------|------|
| Medical policies | 36% | 32% |
| Cancer life | 32 | 32 |
| Ordinary life | 22 | 21 |
| Rider MAX | 5 | 9 |
| Other | 5 | 6 |
| Total | 100% | 100% |

Medical sales improved sharply during the quarter, rising 17.6% over a year ago. Medical sales were helped by sales of Gentle EVER, our nonstandard medical product for customers that do not qualify for our standard EVER product. Sales also benefited from cancer product sales which were up 2.8% in the first quarter.

As we expected, sales growth from the recently opened bank channel was slow, accounting for only 1% of total new sales in the first quarter. However, as the year progresses, we expect to see further sales gains in the bank channel. By the end of March, we had agreements with 55 banks to sell our products in their branches. That number rose to 90 on April 1st and we expect that number to grow to approximately 150 by mid-year.

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

Benefiting from a strong start to the year and the prospects of our two new distribution channels, we believe we are well positioned to achieve our sales objective of a 3% to 7% increase in 2008.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, timing of and yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has invested in privately issued securities to secure higher yields than Japanese government or other public corporate bonds would have provided, while still adhering to prudent standards for credit quality. All of our privately issued securities are rated investment grade at

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the time of purchase. These securities are generally issued with standard documentation for medium-term note programs and have appropriate covenants.

The following table presents the results of Aflac Japan's investment activities for the three-month periods ended March 31.

| | 2008 | 2007 |
|---|--------------|-------|
| New money yield - yen only | 3.41% | 3.16% |
| New money yield - blended | 3.85 | 3.36 |
| Return on average invested assets, net of investment expenses | 3.85 | 4.10 |

At March 31, 2008, the yield on Aflac Japan's investment portfolio, including dollar-denominated investments, was 3.99%, compared with 4.12% a year ago. The increase in new money yields in both the yen only and blended categories is reflective of the widening credit spreads globally. The decline in the return on average invested assets and in the overall yield on Japan's investment portfolio during the quarter as compared to the same period a year ago is the result of higher yielding securities maturing or being called over the last 12 months. See Investments and Cash section of this MD&A for additional information.

Japanese Economy

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

Japanese Regulatory Environment

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

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

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

| (In millions) | Three Months Ended March | |
|---|--------------------------|--------|
| | 2008 | 2007 |
| Premium income | \$ 1,050 | \$ 961 |
| Net investment income | 123 | 122 |
| Other income | 3 | 2 |
| Total operating revenues | 1,176 | 1,085 |
| Benefits and claims | 616 | 572 |
| Operating expenses: | | |
| Amortization of deferred policy acquisition costs | 95 | 80 |
| Insurance commissions | 120 | 119 |
| Insurance and other expenses | 154 | 145 |
| Total operating expenses | 369 | 344 |
| Total benefits and expenses | 985 | 916 |
| Pretax operating earnings* | \$ 191 | \$ 169 |

Percentage changes over previous period:

| | | |
|----------------------------|------|-------|
| Premium income | 9.3% | 10.9% |
| Net investment income | 1.3 | 10.3 |
| Total operating revenues | 8.4 | 10.7 |
| Pretax operating earnings* | 12.6 | 15.4 |

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

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 9.1% in the first quarter of 2008 and 10.7% for the same period of 2007 were favorably affected by sales at the worksite primarily through cafeteria plans and a slight improvement in the persistency of several products. Annualized premiums in force at March 31, 2008, were \$4.5 billion, compared with \$4.2 billion a year ago.

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

| | Three Months Ended March | |
|---|--------------------------|-------|
| | 2008 | 2007 |
| Ratios to total revenues: | | |
| Benefits and claims | 52.4% | 52.7% |
| Operating expenses: | | |
| Amortization of deferred policy acquisition costs | 8.1 | 7.4 |
| Insurance commissions | 10.2 | 11.0 |
| Insurance and other expenses | 13.1 | 13.3 |
| Total operating expenses | 31.4 | 31.7 |
| Pretax operating earnings* | 16.2 | 15.6 |

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

The benefit ratio declined in the first quarter of 2008. As a percentage of premium income, the benefit ratio was 58.7% in the first quarter, compared with 59.5% in the first quarter of 2007. We expect the benefit ratio to decline slightly in 2008 compared to 2007 due to favorable claim cost trends. We expect the operating ratios to remain relatively stable compared to 2007.

Aflac U.S. Sales

As we had anticipated, U.S. sales results in the first quarter were weak, with total new annualized premium sales rising .4%. The following table presents Aflac's U.S. total new annualized premium sales for the three-month periods ended March 31.

| (In millions) | 2008 | 2007 |
|--|---------------|--------|
| Total new annualized premium sales | \$ 353 | \$ 352 |
| Percentage change over previous period | 0.4% | 10.6% |

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

| | 2008 | 2007 |
|-------------------------------|-------------|------|
| Accident/disability coverage | 50% | 52% |
| Cancer expense insurance | 18 | 16 |
| Hospital indemnity products | 15 | 13 |
| Fixed-benefit dental coverage | 6 | 6 |
| Other | 11 | 13 |
| Total | 100% | 100% |

As previously disclosed, we effectively transferred \$8 million of sales from the first quarter of this year to the fourth quarter of last year due to an administrative change in processing conversions. This administrative change resulted in sales declining sharply in the month of January. However, sales recovered to mid-single digit growth in February and March.

Accident/disability total sales decreased 3.4% in the first quarter of 2008, while cancer expense insurance increased 8.2% and our hospital indemnity group increased 14.3%.

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We remain satisfied with our progress in the ongoing expansion of our U.S. sales force. The number of newly recruited sales associates was up 8.6% to almost 6,500 new associates as compared to the same period a year ago. The number of average weekly producing sales associates rose .2% to approximately 10,900 in the first quarter of 2008, compared with the same period a year ago. We believe that the average weekly producing sales associates metric allows our sales management to actively monitor progress on a real-time basis. Furthermore, we believe the increase in producing sales associates reflects the success of the training programs we implemented over the last few years.

Our objective for the year is to achieve an 8% to 12% increase in new annualized premium sales. However, due to slower sales in the first quarter, achieving this objective will be more challenging than originally expected.

Aflac U.S. Investments

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

| | 2008 | 2007 |
|---|--------------|-------|
| New money yield | 7.03% | 6.27% |
| Return on average invested assets, net of investment expenses | 6.78 | 6.82 |

The increase in the U.S. new money yield reflects widening credit spreads. At March 31, 2008, the portfolio yield on Aflac's U.S. portfolio was 7.01%, compared with 7.07% a year ago. See the Investments and Cash section of this MD&A for additional information.

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The exchange rate at March 31, 2008, was 100.19 yen to one dollar, a 13.9% increase over the December 31, 2007, exchange rate of 114.15. The stronger yen increased reported investments and cash by \$6.2 billion; total assets by \$7.0 billion; and total liabilities by \$6.9 billion, compared with the amounts that would have been reported for the first quarter of 2008 if the exchange rate had remained unchanged from December 31, 2007.

Market Risks of Financial Instruments

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

Currency Risk

The functional currency of Aflac Japan's insurance operation is the Japanese yen. All of Aflac Japan's premiums, claims and commissions are received or paid in yen, as are most of its investment income and other expenses. Furthermore, most of Aflac Japan's investments, cash and liabilities are

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yen-denominated. When yen-denominated securities mature or are sold, the proceeds are generally reinvested in yen-denominated securities. Aflac Japan holds these yen-denominated assets to fund its yen-denominated policy obligations. In addition, Aflac Incorporated has yen-denominated notes payable and cross-currency swaps related to its dollar-denominated senior notes.

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

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

| (In millions) | March 31, 2008 | December 31, 2007 |
|--|---------------------------|-------------------------|
| Aflac Japan yen-denominated net assets | \$ 2,340 | \$ 2,415 |
| Parent Company yen-denominated net liabilities | (1,706) | (1,496) |
| Consolidated yen-denominated net assets subject to foreign currency translation fluctuations | \$ 634 | \$ 919 |

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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 as of March 31, 2008.

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

| (In millions) | March 31, 2008 | | | December 31, 2007 | | |
|---|----------------|----------------|---------------|-------------------|----------|----------|
| Yen/dollar exchange rates | 85.19 | 100.19* | 115.19 | 99.15 | 114.15* | 129.15 |
| Yen-denominated financial instruments: | | | | | | |
| Assets: | | | | | | |
| Securities available for sale: | | | | | | |
| Fixed maturities | \$26,735 | \$22,732 | \$19,772 | \$23,190 | \$20,143 | \$17,803 |
| Perpetual debentures | 4,491 | 3,819 | 3,322 | 4,218 | 3,664 | 3,238 |
| Equity securities | 26 | 23 | 20 | 25 | 22 | 20 |
| Securities held to maturity: | | | | | | |
| Fixed maturities | 23,172 | 19,703 | 17,137 | 19,341 | 16,799 | 14,848 |
| Perpetual debentures | 5,330 | 4,532 | 3,941 | 4,588 | 3,985 | 3,522 |
| Cash and cash equivalents | 318 | 270 | 235 | 369 | 321 | 284 |
| Other financial instruments | 75 | 63 | 55 | 60 | 52 | 46 |
| Subtotal | 60,147 | 51,142 | 44,482 | 51,791 | 44,986 | 39,761 |
| Liabilities: | | | | | | |
| Notes payable | 1,360 | 1,156 | 1,005 | 1,169 | 1,015 | 898 |
| Cross-currency swaps | 652 | 554 | 482 | 560 | 487 | 430 |
| Japanese policyholder protection fund | 187 | 159 | 139 | 174 | 151 | 133 |
| Subtotal | 2,199 | 1,869 | 1,626 | 1,903 | 1,653 | 1,461 |
| Net yen-denominated financial instruments | 57,948 | 49,273 | 42,856 | 49,888 | 43,333 | 38,300 |
| Other yen-denominated assets | 7,206 | 6,127 | 5,329 | 6,310 | 5,480 | 4,844 |
| Other yen-denominated liabilities | 64,409 | 54,766 | 47,634 | 55,140 | 47,894 | 42,331 |
| Consolidated yen-denominated net assets subject to foreign currency fluctuation | \$ 745 | \$ 634 | \$ 551 | \$ 1,058 | \$ 919 | \$ 813 |

* 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 done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits were

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

Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt securities. Reflecting the impact of widening credit spreads globally, we had net unrealized losses on total debt securities of \$1.3 billion at March 31, 2008, compared with \$.3 billion of net unrealized gains on total debt securities at December 31, 2007. We estimate that the reduction in

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the fair value of debt securities we own resulting from a 100 basis point increase in market interest rates, based on our portfolios as of March 31, 2008 and December 31, 2007, would be as follows:

| (In millions) | March 31, 2008 | December 31 2007 |
|--|---------------------------|------------------------|
| Effect on yen-denominated debt securities | \$ (5,443) | \$ (4,872) |
| Effect on dollar-denominated debt securities | (881) | (919) |
| Effect on total debt securities | \$ (6,324) | \$ (5,791) |

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. We attempt to match the duration of our assets with the duration of our liabilities. Currently, when debt 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 the negative investment spread. Despite negative investment spreads, adequate overall profit margins still exist in Aflac Japan's aggregate block of business because of profits that have emerged from changes in mix of business and favorable experience from mortality, morbidity, and expenses. For additional information, see the Interest Rate Risk section of MD&A in our annual report to shareholders for the year ended December 31, 2007.

Investments and Cash

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 debt securities markets.

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The following table details investment securities by segment.

Investment Securities by Segment

| | Aflac Japan | | Aflac U.S. | |
|--|----------------------|-------------------------|----------------------|-------------------------|
| | March 31, 2008 | December 31, 2007 | March 31, 2008 | December 31, 2007 |
| (In millions) | | | | |
| Securities available for sale, at fair value: | | | | |
| Fixed maturities | \$26,476 | \$ 23,532 | \$6,708* | \$ 6,874* |
| Perpetual debentures | 3,919 | 3,764 | 322 | 331 |
| Equity securities | 23 | 22 | | |
| Total available for sale | 30,418 | 27,318 | 7,030 | 7,205 |
| Securities held to maturity, at amortized cost: | | | | |
| Fixed maturities | 19,703 | 16,799 | 20 | 20 |
| Perpetual debentures | 4,532 | 3,985 | | |
| Total held to maturity | 24,235 | 20,784 | 20 | 20 |
| Total investment securities | \$54,653 | \$ 48,102 | \$7,050 | \$ 7,225 |

* Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of \$106 in 2008 and \$105 in 2007.

We have investments in both publicly issued and privately issued securities. However, the status of issuance should not be viewed as an indicator of liquidity or as a limitation on the determination of fair value. The outstanding amount(s) of a particular issuance, as well as the level of activity in a particular issuance and the state of the market, including credit events and the interest rate environment, affect liquidity regardless of type of issuance. We routinely assess the fair value of all of our investments. This process includes evaluating quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources, as described more fully in the Critical Accounting Estimates section of this MD&A and in Note 3 of the Notes to the Consolidated Financial Statements. The following table details investment securities by type of issuance.

Investment Securities by Type of Issuance

| | March 31, 2008 | | December 31, 2007 | |
|------------------------------------|-------------------|---------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| (In millions) | | | | |
| Publicly issued securities: | | | | |
| Fixed maturities | \$17,327 | \$18,259 | \$15,986 | \$16,919 |
| Perpetual debentures | 173 | 152 | 173 | 157 |
| Equity securities | 14 | 19 | 13 | 19 |
| Total publicly issued | 17,514 | 18,430 | 16,172 | 17,095 |

Privately issued securities:

| | | | | |
|-----------------------------|-----------------|-----------------|----------|----------|
| Fixed maturities | 35,271 | 33,650 | 30,232 | 29,783 |
| Perpetual debentures | 9,062 | 8,514 | 8,084 | 7,872 |
| Equity securities | 4 | 4 | 3 | 3 |
| Total privately issued | 44,337 | 42,168 | 38,319 | 37,658 |
| Total investment securities | \$61,851 | \$60,598 | \$54,491 | \$54,753 |

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Privately issued securities accounted for 71.7% of total debt securities, at amortized cost, at March 31, 2008, compared with 70.3% at December 31, 2007. Privately issued securities held by Aflac Japan at amortized cost accounted for \$42.0 billion, or 67.9%, of total debt securities at March 31, 2008, and \$36.0 billion, or 66.0%, of total debt securities at December 31, 2007. Reverse-dual currency debt securities accounted for \$13.0 billion, or 29.3%, of total privately issued securities at March 31, 2008, compared with \$11.1 billion, or 29.2%, of total privately issued securities at December 31, 2007. Aflac Japan has invested in privately issued securities to secure higher yields than those available from Japanese government 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.

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 the 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

| | Three Months Ended March 31, 2008 | Twelve Months Ended December 31, 2007 | Three Months Ended March 31, 2007 |
|-----|--|--|--|
| AAA | 12.4% | 18.4% | 38.4% |
| AA | 52.3 | 44.1 | 27.9 |
| A | 15.9 | 30.2 | 23.8 |
| BBB | 19.4 | 7.3 | 9.9 |
| | 100.0% | 100.0% | 100.0% |

The percentage increase of securities purchased in the BBB-rated category during the period was due to the attractive relative value these securities presented while still meeting our investment policy guidelines for liquidity, safety and quality. The percentage increase of securities purchased in the AAA-rated category in the first quarter of 2007 primarily reflects the purchase of U.S. Treasury bills by Aflac Japan, pending repatriation of profits to Aflac U.S. in the third quarter of 2007.

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

Composition by Credit Rating

| | March 31, 2008 | | December 31, 2007 | |
|-------------|---------------------------|-----------------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AAA | 6.2% | 6.2% | 6.3% | 6.2% |
| AA | 45.2 | 46.6 | 44.3 | 45.3 |
| A | 29.2 | 28.7 | 30.7 | 30.4 |
| BBB | 17.5 | 17.0 | 16.8 | 16.6 |
| BB or lower | 1.9 | 1.5 | 1.9 | 1.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

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

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Once we designate a security as below investment grade, we intensify our monitoring of the issuer. We do not automatically recognize an impairment if the security's amortized cost exceeds its fair value. Our investment management starts by reviewing its credit analysis. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the issuer. We then obtain fair value information from at least three independent pricing sources. Upon determining the fair value, we move our focus to an analysis of whether or not the decline in fair value, if any, is other than temporary. For securities with an amortized cost in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section of MD&A and in Note 3 in our annual report to shareholders for the year ended December 31, 2007. Securities classified as below investment grade were as follows:

Below-Investment-Grade Securities

March 31, 2008

December 31, 2007

* *Investment grade at respective reporting date*

** *Sold during 2008*

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Occasionally a debt 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. Split-rated securities as of March 31, 2008, represented .7% of total debt securities at amortized cost and were as follows:

Split-Rated Securities

| (In millions) | Amortized Cost | Moody's Rating | S&P Rating | Fitch Rating | Investment-Grade Status |
|-------------------------|-------------------|-------------------|---------------|-----------------|----------------------------|
| Signum (Ahold) | \$ 320 | Baa3 | BB+ | BB+ | Below Investment Grade |
| Tennessee Gas Pipeline | 31 | Baa3 | BB | BBB- | Investment Grade |
| Sprint Capital Corp. | 18 | Baa3 | BBB- | BB+ | Investment Grade |
| Union Carbide Corp. | 15 | Ba2 | BBB- | BBB | Investment Grade |
| Ahold Finance USA Inc. | 15 | Baa3 | BB+ | BB+ | Below Investment Grade |
| Oncor Electric Delivery | 11 | Ba1 | BBB- | BBB- | Investment Grade |
| Bell Canada | 9 | Baa1 | BB+ | BB- | Investment Grade |

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt securities by rating status as of March 31, 2008.

| (In millions) | Total Amortized Cost | Total Fair Value | Percent of Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|-----------------------------------|----------------------------|------------------------|-----------------------------|------------------------------|-------------------------------|
| Available-for-sale securities: | | | | | |
| Investment-grade securities | \$ 36,401 | \$36,634 | 60.5% | \$ 1,872 | \$ 1,639 |
| Below-investment-grade securities | 1,177 | 897 | 1.5 | 3 | 283 |
| Held-to-maturity securities: | | | | | |
| Investment-grade securities | 24,255 | 23,044 | 38.0 | 415 | 1,626 |
| Total | \$ 61,833 | \$60,575 | 100.0% | \$ 2,290 | \$ 3,548 |

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

Aging of Unrealized Losses

| (In millions) | Total Amortized Cost | Total Unrealized Loss | Six Months | | | | | |
|-------------------------------------|-------------------------------------|--------------------------------------|---------------------------------|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
| | | | Less than Six Months | | to 12 Months | | Over 12 Months | |
| | | | Amortized Cost | Unrealized Loss | Amortized Cost | Unrealized Loss | Amortized Cost | Unrealized Loss |
| Available-for-sale securities: | | | | | | | | |
| Investment-grade securities | \$ 17,157 | \$ 1,639 | \$ 5,785 | \$ 273 | \$ 3,841 | \$ 460 | \$ 7,531 | \$ 906 |
| Below- investment- grade securities | 1,144 | 283 | 18 | 2 | | | 1,126 | 281 |
| Held-to-maturity securities: | | | | | | | | |
| Investment-grade securities | 16,823 | 1,626 | 2,235 | 104 | 4,362 | 254 | 10,226 | 1,268 |
| Total | \$ 35,124 | \$ 3,548 | \$ 8,038 | \$ 379 | \$ 8,203 | \$ 714 | \$ 18,883 | \$ 2,455 |

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

Percentage Decline From Amortized Cost

| (In millions) | Total Amortized Cost | Total Unrealized Loss | Percentage Decline From Amortized Cost | | | | | |
|------------------------------------|-------------------------------------|--------------------------------------|---|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
| | | | Less than 20% | | 20% to 50% | | Greater than 50% | |
| | | | Amortized Cost | Unrealized Loss | Amortized Cost | Unrealized Loss | Amortized Cost | Unrealized Loss |
| Available-for-sale securities: | | | | | | | | |
| Investment-grade securities | \$ 17,157 | \$ 1,639 | \$ 15,608 | \$ 1,224 | \$ 1,539 | \$ 409 | \$ 10 | \$ 6 |
| Below-investment- grade securities | 1,144 | 283 | 370 | 28 | 774 | 255 | | |
| Held-to-maturity securities: | | | | | | | | |
| Investment-grade securities | 16,823 | 1,626 | 15,131 | 987 | 1,392 | 458 | 300 | 181 |
| Total | \$ 35,124 | \$ 3,548 | \$ 31,109 | \$ 2,239 | \$ 3,705 | \$ 1,122 | \$ 310 | \$ 187 |

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

| (In millions) | Credit Rating | Amortized Cost | Fair Value | Unrealized Loss |
|---------------------|---------------|----------------|------------|-----------------|
| SLM Corp. | BBB | \$ 331 | \$ 140 | \$ 191 |
| Ford Motor Credit | B | 299 | 204 | 95 |
| Nordea Bank | AA | 399 | 304 | 95 |
| CSAV | BB | 240 | 162 | 78 |
| Credit Suisse Group | A | 604 | 532 | 72 |
| KBC Group | A | 266 | 201 | 65 |
| Unicredito Italiano | A | 513 | 450 | 63 |
| Erste Bank | A | 449 | 392 | 57 |
| Sultanate of Oman | A | 349 | 293 | 56 |
| IKB Deutsche | BBB | 130 | 74 | 56 |

The fair value of our investments in debt securities can fluctuate as a result of changes in interest rates, foreign currency exchange rates, and credit issues. Declines in fair value noted above resulted from changes in interest rates, yen/dollar exchange rates, and issuer credit status. However, we believe that it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary. Based on our evaluation and analysis of specific issuers in accordance with our impairment policy, impairment charges recognized during the three-month periods ended March 31, 2008 and 2007, were immaterial.

Realized losses on debt securities were as follows for the three months ended March 31, 2008.

Realized Losses on Debt Securities

| (In millions) | Proceeds | Realized Loss |
|---|----------|---------------|
| Investment-grade securities, length of consecutive unrealized loss: | | |
| Less than six months | \$36 | \$ 1 |
| Six months to 12 months | 32 | 8 |
| Over 12 months | 10 | |
| Total | \$78 | \$ 9 |

Sales of below-investment-grade securities and related realized losses were immaterial during the first quarter of 2008.

Cash, cash equivalents, and short-term investments totaled \$.9 billion, or 1.4% of total investments and cash, as of March 31, 2008, compared with \$1.6 billion, or 2.7%, at December 31, 2007.

For additional information concerning our investments, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements and Notes 3 and 4 to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2007.

Table of Contents**Deferred Policy Acquisition Costs**

The following table presents deferred policy acquisition costs by segment.

| (In millions) | March 31, 2008 | December 31, 2007 |
|---------------|---------------------------|----------------------|
| Aflac Japan | \$ 4,928 | \$ 4,269 |
| Aflac U.S. | 2,426 | 2,385 |
| Total | \$ 7,354 | \$ 6,654 |

Total deferred policy acquisition costs increased 10.5% during the period as compared to December 31, 2007. Aflac Japan's deferred policy acquisition costs increased 15.4% (1.3% increase in yen) for the three months ended March 31, 2008. The stronger yen at March 31, 2008 increased reported deferred policy acquisition costs by \$603 million. Deferred policy acquisition costs of Aflac U.S. increased 1.7% for the three-month period ended March 31, 2008. The increase in deferred policy acquisition costs was primarily driven by total new annualized premium sales.

Policy Liabilities

The following table presents policy liabilities by segment.

| (In millions) | March 31, 2008 | December 31, 2007 |
|-------------------------|---------------------------|----------------------|
| Aflac Japan | \$ 51,647 | \$ 44,694 |
| Aflac U.S. | 6,147 | 5,979 |
| Other business segments | 2 | 3 |
| Total | \$ 57,796 | \$ 50,676 |

Total policy liabilities increased 14.1% during the period as compared to December 31, 2007. Aflac Japan's policy liabilities increased 15.6% (1.4% increase in yen) for the three months ended March 31, 2008. The stronger yen at March 31, 2008, increased reported policy liabilities by \$6.3 billion. Policy liabilities of Aflac U.S. increased 2.8% for the three-month period ended March 31, 2008. The increase in total policy liabilities is the result of the growth and aging of our in-force business.

Notes Payable

Notes payable totaled \$1.6 billion at March 31, 2008, compared with \$1.5 billion at December 31, 2007. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 16.9% as of March 31, 2008, compared with 15.6% as of December 31, 2007. The increase in Notes Payable and the ratio of debt to capitalization are primarily the result of the stronger yen. See Note 5 of the Notes to the Consolidated Financial Statements for additional information.

Benefit Plans

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 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, 2007.

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Policyholder Protection Corporation

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. See the Policyholder Protection Corporation section of MD&A in our annual report to shareholders for the year ended December 31, 2007, 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 and cross-currency swaps) as a hedge of our investment in Aflac Japan. If the total of these yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the hedge that exceeds our investment in Aflac Japan would be deemed ineffective. As required by SFAS 133, we would then recognize the foreign exchange effect on the ineffective portion in net earnings (other income). We estimate that if the ineffective portion was 10 billion 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. At March 31, 2008, our hedge was effective with yen-denominated assets exceeding yen-denominated liabilities by 63.8 billion yen, compared with 105.2 billion yen at December 31, 2007. The decrease in our yen-denominated net asset position resulted from the continuing decline in the market value of our yen-denominated available-for-sale investment securities as a result of widening credit spreads globally.

We have entered into interest-rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. 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). The impact from SFAS 133 would include any ineffectiveness associated with these interest-rate swaps. These hedges were effective during the three-month period ended March 31, 2008; therefore, there was no impact on net earnings.

Off-Balance Sheet Arrangements

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

CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. Aflac declared dividends to the Parent Company in the amount of \$116 million in the first quarter of 2008, compared with \$72 million for the same period in 2007. During the first quarter of 2008, Aflac paid \$17 million to the Parent Company for management fees, compared with \$21 million for the same period in 2007. The primary uses of cash by the Parent Company are shareholder dividends and our share repurchase program. The Parent Company's sources and uses of cash are reasonably predictable and are not expected to change materially in the future.

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The Parent Company also accesses debt security markets to provide additional sources of capital. Capital is primarily used to fund business expansion and capital expenditures. We have a Shelf Registration Statement (SRS) on file with Japanese regulatory authorities to issue up to 100 billion yen (approximately \$998 million using the March 31, 2008, exchange rate) of yen-denominated Samurai notes in Japan. In June 2007, the Parent Company issued 30 billion of yen-denominated Samurai notes from this SRS. If issued, the remaining 70 billion yen (approximately \$699 million using the March 31, 2008 period-end exchange rate) of these securities will not be available to U.S. persons. We also have an SRS on file with Japanese regulatory authorities to issue up to 100 billion yen of Uridashi notes in Japan. As of March 31, 2008, the Parent Company had issued 45 billion yen of yen-denominated Uridashi notes from this SRS. If issued, the remaining 55 billion yen (approximately \$549 million using the March 31, 2008, period-end exchange rate) of yen-denominated Uridashi notes will not be available to U.S. persons. We believe outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 5 of the Notes to the Consolidated Financial Statements.

The principal sources of cash for our insurance operations are premiums and investment income. The primary uses of cash by our insurance operations are 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 three-month periods ended March 31.

Consolidated Cash Flows by Activity

| (In millions) | 2008 | 2007 |
|--|-----------------|----------|
| Operating activities | \$ 1,196 | \$ 1,176 |
| Investing activities | (1,102) | (1,288) |
| Financing activities | (789) | (259) |
| Exchange effect on cash and cash equivalents | 40 | 2 |
| Net change in cash and cash equivalents | \$ (655) | \$ (369) |

Table of Contents**Operating Activities**

In the first three months of 2008, consolidated cash flow from operations increased 1.7%, compared with the first three months of 2007. The following table summarizes operating cash flows by source for the three-month periods ended March 31.

Net Cash Provided by Operating Activities

| (In millions) | 2008 | 2007 |
|---------------------------------|---------|---------|
| Aflac Japan | \$ 984 | \$ 882 |
| Aflac U.S. and Other Operations | 212 | 294 |
| Total | \$1,196 | \$1,176 |

Investing Activities

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

Net Cash Provided by (Used in) Investing Activities

| (In millions) | 2008 | 2007 |
|---------------------------------|------------|------------|
| Aflac Japan | \$ (1,123) | \$ (1,032) |
| Aflac U.S. and Other Operations | 21 | (256) |
| Total | \$ (1,102) | \$ (1,288) |

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when debt securities we own 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 securities that are available for sale to improve the duration matching of our assets and liabilities and/or improve future investment yields. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 1% of the year-to-date average investment portfolio of debt securities available for sale during the three-month periods ended March 31, 2008 and 2007.

Financing Activities

Consolidated cash used by financing activities was \$789 million in the first three months of 2008, compared with \$259 million for the same period of 2007. Cash provided by investment-type contracts was \$60 million in the first three months of 2008, compared with \$53 million a year ago.

The following table presents a summary of treasury stock activity during the three-month periods ended March 31. Cash returned to shareholders through share repurchases and dividends was \$873 million during the period as compared to \$327 million for the same period a year ago.

Treasury Stock Purchased

| (In millions of dollars and thousands of shares) | 2008 | 2007 |
|--|--------|--------|
| Treasury stock purchases | \$ 764 | \$ 241 |
| Shares purchased: | | |
| Open market | 12,500 | 5,062 |
| Other | 103 | |
| Total shares purchased | 12,603 | 5,062 |

Treasury Stock Issued

| (In millions of dollars and thousands of shares) | 2008 | 2007 |
|--|------|------|
| Stock issued from treasury | \$ 9 | \$ 8 |
| Shares issued | 324 | 771 |

Dividends paid to shareholders in the first quarter of 2008 of \$.24 per share increased 29.7% over the same period of 2007. The following table presents the sources of dividends paid to shareholders for the three-month periods ended March 31.

| (In millions) | 2008 | 2007 |
|---|--------|-------|
| Dividends paid in cash | \$ 109 | \$ 86 |
| Dividends through issuance of treasury shares | 5 | 5 |
| Total dividends to shareholders | \$ 114 | \$ 91 |

On February 4, 2008, we entered into an agreement for an accelerated share repurchase (ASR) program with an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch). Under the agreement, we purchased 12.5 million shares of our outstanding common stock at \$60.58 (\$60.61 including commissions) per share for a total purchase price of \$757 million. The repurchase was funded with internal capital. The shares were acquired as a part of previously announced share repurchase authorizations by our board of directors and are held in treasury. Under the agreement, Merrill Lynch plans to purchase shares of our common stock in the open market over the life of the agreement. At the end of this period, we may receive, or may be required to remit, a purchase price adjustment based upon the volume weighted average price of our common stock during the ASR program period. Under the terms of the ASR we may elect to receive or pay any settlement amount in cash or shares of our common stock at our option. The settlement of the ASR program is expected to occur during the second quarter of 2008.

Regulatory Restrictions

Aflac is domiciled in Nebraska and is subject to its regulations. 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.

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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. During the first three months of 2008, Aflac Japan paid \$6 million to the Parent Company for management fees, compared with \$10 million for the same period in 2007. Expenses allocated to Aflac Japan were \$11 million for the three-month period ended March 31, 2008 compared with \$10 million for the same period in 2007.

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, 2007.

Rating Agencies

Aflac is rated AA by both Standard & Poor's and Fitch Ratings and Aa2 (Excellent) by Moody's for financial strength. A.M. Best assigned Aflac an A+ (Superior) rating for financial strength and operating performance. Aflac Incorporated's senior debt, Samurai notes and Uridashi notes are rated A by Standard & Poor's, A+ by Fitch Ratings, and A2 by Moody's.

Other

In April 2008, the board of directors declared the second quarter cash dividend of \$.24 per share. The dividend is payable on June 2, 2008, to shareholders of record at the close of business on May 21, 2008. In February 2006, the board of directors authorized the purchase of 30.0 million shares of our common stock. In January 2008, the board authorized the purchase of an additional 30.0 million shares of our common stock. As of March 31, 2008, approximately 43.1 million shares were available for purchase under our share repurchase programs.

For information regarding commitments and contingent liabilities, see Note 10 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 first fiscal quarter of 2008 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.**

During the first quarter of 2008, we repurchased shares of Aflac stock as follows:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|---|---|---|---|
| January 1 - January 31 | | \$ | | |
| February 1 - February 28 | 12,587,433 | 60.61 | 12,500,000 | 43,070,920 |
| March 1 - March 31 | | | | |
| Total | 12,587,433 | \$ 60.61 | 12,500,000 | 43,070,920 |

The 43,070,920 shares available for purchase relate to a 30,000,000 share repurchase authorization by the Board of Directors announced in February 2006 and a January 2008 repurchase authorization of an additional 30,000,000 shares of our common stock.

The remaining 87,433 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

Table of Contents**Item 6. Exhibits.****(b) EXHIBIT INDEX**

- 3.0 - Articles of Incorporation, as amended incorporated by reference from Form 10-Q for June 30, 2000, Exhibit 3.0 (File No. 001-07434).
- 3.1 - Bylaws of the Corporation, as amended incorporated by reference from Form 10-Q for September 30, 2006, Exhibit 3.1 (File No. 001-07434).
- 4 - There are no long-term debt instruments in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 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 * - Aflac Incorporated Supplemental Executive Retirement Plan, as amended April 1, 2003 incorporated by reference from 2003 Form 10-K, Exhibit 10.4 (File No. 001-07434).
- 10.2 * - Third Amendment to the Aflac Incorporated Supplemental Executive Retirement Plan (incorporated by reference from 2003 Form 10-K, Exhibit 10.4), dated January 1, 2007 incorporated by reference from Form 10-Q for March 31, 2007, Exhibit 10.2 (File No. 001-07434).
- 10.3 * - Fourth Amendment to the Aflac Incorporated Supplemental Executive Retirement Plan (incorporated by reference from 2003 Form 10-K, Exhibit 10.4), dated December 6, 2007. incorporated by reference from 2007 Form 10-K, Exhibit 10.3 (File No. 001-07434).
- 10.4 * - Aflac Incorporated Executive Deferred Compensation Plan, as amended, effective January 1, 1999 incorporated by reference from Form S-8 Registration Statement No. 333-135327, Exhibit 4.1.
- 10.5 * - Fourth Amendment to the Aflac Incorporated Executive Deferred Compensation Plan (incorporated by reference from Form S-8 Registration Statement No. 333-135327, Exhibit 4.1), dated December 29, 2005 incorporated by reference from 2005 Form 10-K, Exhibit 10.30 (File No. 001-07434).
- 10.6 * - Fifth Amendment to the Aflac Incorporated Executive Deferred Compensation Plan (incorporated by reference from Form S-8 Registration Statement No. 333-135327, Exhibit 4.1), dated June 27, 2007 incorporated by reference from Form 10-Q for June 30, 2007, Exhibit 10.5 (File No. 001-07434).
- 10.7 * - Aflac Incorporated Amended and Restated Management Incentive Plan, effective January 1, 1999 incorporated by reference from the 2003 Shareholders Proxy Statement, Exhibit A (File No. 001-07434).
- 10.8 * - Aflac Incorporated Sales Incentive Plan. incorporated by reference from the 2007 Form 10-K, Exhibit 10.8 (File No. 001-07434).
- 10.9 * - 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).
- 10.10 * - Aflac Incorporated 1997 Stock Option Plan incorporated by reference from the 1997 Shareholders Proxy Statement, Appendix B (File No. 001-07434).
- 10.11 * - 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).
- 10.12 * -

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Form of Officer Stock Option Agreement (Incentive Stock Option) under the Aflac Incorporated 1997 Stock Option Plan - incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.6 (File No. 001-07434).

- 10.13 * - 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).
- 10.14 * - 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).
- 10.15 * - First Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan (incorporated by reference from the 2004 Notice and Proxy Statement, Exhibit B), dated May 2, 2005 incorporated by reference from Form 10-Q for March 31, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.16 * - Second Amendment to the 2004 Aflac Incorporated Long-Term Incentive Plan (incorporated by reference from the 2004 Notice and Proxy Statement, Exhibit B), dated February 14, 2006 incorporated by reference from Form 10-Q for March 31, 2006, Exhibit 10.32 (File No. 001-07434).

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- 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 * - 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).
- 10.28 * - Aflac Incorporated Employment Agreement with Akitoshi Kan, dated April 1, 2001, and amended February 1, 2005 incorporated by reference from Form 8-K dated February 7, 2005, Exhibit 10.1 (File No. 001-07434).
- 10.29 * - 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).
- 10.30 * - 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).
- 10.31 * - Aflac Consulting Arrangement with E. Stephen Purdom incorporated by reference from 2006 Form 10-K, Exhibit 10.28 (File No. 001-07434).
- 10.32 * - Aflac Consulting Arrangement with E. Stephen Purdom. incorporated by reference from 2007 Form 10-K, Exhibit 10.33 (File No. 001-07434).
- 10.33 - Aflac Incorporated Accelerated Share Repurchase Agreement with Merrill Lynch, Pierce, Fenner & Smith, dated February 4, 2008 incorporated by reference from Form 8-K dated

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February 6, 2008, Exhibit 10.1 (File No. 001-07434)

- 11 - Statement regarding the computation of per-share earnings for the Registrant.
 - 12 - Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.
 - 15 - Letter from KPMG LLP regarding unaudited interim financial information.
 - 31.1 - Certification of CEO dated May 8, 2008, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
 - 31.2 - Certification of CFO dated May 8, 2008, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
 - 32 - Certification of CEO and CFO dated May 8, 2008, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Management contract or compensatory plan agreement

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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

May 8, 2008

/s/ *Kriss Cloninger III*

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

May 8, 2008

/s/ *Ralph A. Rogers Jr.*

(Ralph A. Rogers Jr.)
Senior Vice President, Senior Vice
President, Accounting Officer