

Selected Financial Data

AFLAC Incorporated and Subsidiaries

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

For the Year	2000	1999	1998	1997
Revenues:				
Premiums, principally supplemental health insurance	\$ 8,239	\$ 7,264	\$ 5,943	\$ 5,874
Net investment income	1,550	1,369	1,138	1,078
Realized investment gains (losses)	(102)	(13)	(2)	(5)
Gain on sale of television business	—	—	—	267
Other income	33	20	25	37
Total revenues	9,720	8,640	7,104	7,251
Benefits and expenses:				
Benefits and claims	6,618	5,885	4,877	4,833
Expenses	2,090	1,977	1,676	1,553
Total benefits and expenses	8,708	7,862	6,553	6,386
Pretax earnings	1,012	778	551	865
Income taxes	325	207	64	280
Net earnings	\$ 687 ⁽¹⁾	\$ 571 ⁽²⁾	\$ 487 ⁽³⁾	\$ 585 ⁽⁴⁾

Per Common Share

Net earnings (basic)	\$ 1.30 ⁽¹⁾	\$ 1.07 ⁽²⁾	\$.91 ⁽³⁾	\$ 1.07 ⁽⁴⁾
Net earnings (diluted)	1.26 ⁽¹⁾	1.04 ⁽²⁾	.88 ⁽³⁾	1.04 ⁽⁴⁾
Cash dividends	.167	.147	.128	.112
Shareholders' equity	8.87	7.28	7.09	6.44
Price range:				
High	37.47	28.38	22.66	14.47
Low	16.78	19.50	11.35	9.38
Close	36.10	23.60	21.94	12.78
Price/earnings ratio:*				
High	31.2x	28.4x	29.1x	21.9x
Low	14.0	19.5	14.6	14.2
Common shares used for basic EPS (In thousands)	530,607	531,737	532,609	544,220
Common shares used for diluted EPS (In thousands)	544,906	550,845	551,745	563,192

At Year-End

Assets:				
Investments and cash	\$ 32,167	\$ 32,024	\$ 26,994	\$ 22,880
Other	5,065	5,017	4,228	6,590
Total assets	\$ 37,232	\$ 37,041	\$ 31,222	\$ 29,470
Liabilities and shareholders' equity:				
Policy liabilities	\$ 28,566	\$ 29,604	\$ 24,034	\$ 19,885
Notes payable	1,079	1,018	596	523
Income taxes	1,894	1,511	1,865	1,827
Other liabilities	999	1,040	957	3,805
Shareholders' equity	4,694	3,868	3,770	3,430
Total liabilities and shareholders' equity	\$ 37,232	\$ 37,041	\$ 31,222	\$ 29,470

Supplemental Data

Operating earnings**	\$ 657	\$ 550	\$ 429	\$ 374
Operating earnings per share (basic)**	1.24	1.03	.81	.69
Operating earnings per share (diluted)**	1.20	1.00	.78	.66
Pretax profit margin***	10.3%	9.9%	9.3%	8.6%
After-tax profit margin***	6.7%	6.4%	6.0%	5.4%
Operating return on equity****	21.7%	20.9%	18.7%	18.8%
Yen/dollar exchange rate at year-end	¥ 114.75	¥ 102.40	¥ 115.70	¥ 130.10
Average yen/dollar exchange rate	107.83	113.96	130.89	121.07

(1) Includes a benefit of \$99 (\$.19 per basic share, \$.18 per diluted share) from the termination of a retirement liability; (2) Includes gain of \$67 (\$.13 per basic share, \$.12 per diluted share) due to a reduction in deferred tax liabilities from a tax rate cut in Japan and a charge of \$41 (\$.08 per basic share, \$.07 per diluted share) for the policyholder protection fund in 1999 in Japan; (3) Includes gain of \$121 (\$.23 per basic share, \$.22 per diluted share) due to a reduction in deferred income tax liabilities from a tax rate cut in Japan and a charge of \$65 (\$.12 per basic and diluted share) for the policyholder protection fund in Japan in 1998; (4) Includes gain of \$211 (\$.39 per basic share, \$.38 per diluted share) from the sale of the broadcast business in 1997; (5) Includes gain of \$48 (\$.09 per basic share, \$.08 per diluted share) from the sale of the broadcast business in 1996; (6) Excludes gain of \$11 (\$.02 per basic and diluted share) from cumulative effect of accounting changes in 1993. Share and per-share amounts have been adjusted to reflect the two-for-one stock split payable on March 16, 2001.

1996	1995	1994	1993	1992	1991	1990
\$ 5,910	\$ 6,071	\$ 5,181	\$ 4,225	\$ 3,369	\$ 2,765	\$ 2,259
1,022	1,025	839	689	533	431	341
2	—	—	3	(3)	(1)	—
60	—	—	—	—	—	—
106	95	91	84	87	88	78
7,100	7,191	6,111	5,001	3,986	3,283	2,678
4,896	5,034	4,257	3,423	2,692	2,189	1,759
1,554	1,556	1,350	1,150	970	829	703
6,450	6,590	5,607	4,573	3,662	3,018	2,462
650	601	504	428	324	265	216
256	252	211	184	141	116	99
\$ 394 ^(a)	\$ 349	\$ 293	\$ 244 ^(b)	\$ 183	\$ 149	\$ 117
\$.70 ^(a)	\$.60	\$.48	\$.39 ^(b)	\$.30	\$.24	\$.19
.68 ^(a)	.58	.47	.39 ^(b)	.29	.24	.19
.097	.085	.075	.065	.058	.05	.044
3.85	3.76	2.93	2.20	1.75	1.51	1.30
11.00	7.46	6.02	5.67	4.65	4.15	2.57
7.07	5.32	4.21	4.13	3.20	2.39	1.62
10.69	7.25	5.34	4.75	4.60	3.99	2.55
18.3x	12.9x	12.8x	14.9x	16.0x	17.3x	13.5x
11.8	9.2	9.0	10.9	11.0	10.0	8.5
560,704	582,710	605,783	619,502	615,261	611,883	610,310
577,843	597,967	618,594	631,428	628,931	625,354	616,645
\$ 20,744	\$ 20,045	\$ 15,994	\$ 12,469	\$ 9,461	\$ 8,057	\$ 6,269
4,286	5,172	4,293	2,974	2,440	2,088	1,766
\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443	\$ 11,901	\$ 10,145	\$ 8,035
\$ 20,234	\$ 19,514	\$ 16,007	\$ 12,065	\$ 9,350	\$ 7,878	\$ 6,203
354	327	185	122	126	139	158
1,181	1,398	1,392	950	849	769	684
1,135	1,844	951	940	494	436	199
2,126	2,134	1,752	1,366	1,082	923	791
\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443	\$ 11,901	\$ 10,145	\$ 8,035
\$ 347	\$ 349	\$ 293	\$ 242 ^(b)	\$ 183	\$ 148	\$ 117
.62	.60	.48	.39 ^(b)	.30	.24	.19
.60	.58	.47	.38 ^(b)	.29	.24	.19
8.4%	8.4%	8.3%	8.5%	8.2%	8.1%	8.1%
4.9%	4.8%	4.8%	4.8% ^(b)	4.6%	4.5%	4.4%
19.9%	22.0%	20.4%	19.9% ^(b)	18.4%	17.3%	15.7%
¥ 116.10	¥ 102.95	¥ 99.85	¥ 112.00	¥ 124.70	¥ 125.25	¥ 134.60
108.84	94.10	102.26	111.21	126.67	134.52	144.83

(*) Based on diluted operating earnings per share; (**) Excludes realized investment gains/losses and the gains from the sale of the television business in 1996 and 1997; excludes charges for the policyholder protection fund and benefits of tax rate reductions in 1998 and 1999; excludes gain from release of retirement liability in 2000; (***) Operating basis; (****) Based on operating earnings and excluding unrealized gains on investment securities, net

Consolidated Statements of Earnings

AFLAC Incorporated and Subsidiaries

(In millions, except for share and per-share amounts) Years Ended December 31,	2000	1999	1998
Revenues:			
Premiums, principally supplemental health insurance	\$ 8,239	\$ 7,264	\$ 5,943
Net investment income	1,550	1,369	1,138
Realized investment losses	(102)	(13)	(2)
Other income	33	20	25
Total revenues	9,720	8,640	7,104
Benefits and expenses:			
Benefits and claims	6,618	5,885	4,877
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	302	257	201
Insurance commissions	1,040	931	773
Insurance expenses	758	641	504
Release of retirement liability	(101)	—	—
Provision for policyholder protection fund	—	64	111
Interest expense	19	18	13
Other operating expenses	72	66	74
Total acquisition and operating expenses	2,090	1,977	1,676
Total benefits and expenses	8,708	7,862	6,553
Earnings before income taxes	1,012	778	551
Income tax expense (benefit):			
Current	338	230	277
Deferred – operations	(13)	44	(92)
Deferred tax benefit from Japanese tax rate reductions	—	(67)	(121)
Total income taxes	325	207	64
Net earnings	\$ 687	\$ 571	\$ 487
Net earnings per share:			
Basic	\$ 1.30	\$ 1.07	\$.91
Diluted	1.26	1.04	.88
Common shares used in computing earnings per share (In thousands):			
Basic	530,607	531,737	532,609
Diluted	544,906	550,845	551,745

See the accompanying Notes to the Consolidated Financial Statements.

Share and per-share amounts have been adjusted to reflect the two-for-one stock split payable on March 16, 2001.

Consolidated Balance Sheets

AFLAC Incorporated and Subsidiaries

(In millions, except for share amounts) December 31,

2000

1999

Assets:

Investments and cash:

Securities available for sale, at fair value:		
Fixed maturities (amortized cost \$20,405 in 2000 and \$18,896 in 1999)	\$ 22,172	\$ 20,859
Perpetual debentures (amortized cost \$2,347 in 2000 and \$2,564 in 1999)	2,046	2,024
Equity securities (cost \$161 in 2000 and \$137 in 1999)	236	215
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value \$3,702 in 2000 and \$4,280 in 1999)	3,645	4,389
Perpetual debentures (fair value \$3,323 in 2000 and \$3,732 in 1999)	3,442	3,903
Other investments	17	18
Cash and cash equivalents	609	616
Total investments and cash	32,167	32,024
Receivables, primarily premiums	301	270
Accrued investment income	380	369
Deferred policy acquisition costs	3,685	3,692
Property and equipment, at cost less accumulated depreciation	481	509
Other	218	177
Total assets	\$ 37,232	\$ 37,041

Liabilities and shareholders' equity:

Liabilities:

Policy liabilities:		
Future policy benefits	\$ 26,114	\$ 27,310
Unpaid policy claims	1,745	1,618
Unearned premiums	361	361
Other policyholders' funds	346	315
Total policy liabilities	28,566	29,604
Notes payable	1,079	1,018
Income taxes	1,894	1,511
Payables for return of cash collateral on loaned securities	127	—
Other	872	1,040
Commitments and contingencies (Notes 10 and 11)		
Total liabilities	32,538	33,173

Shareholders' equity:

Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 644,813 shares in 2000 and 640,698 shares in 1999	32	32
Additional paid-in capital	336	310
Retained earnings	3,956	3,356
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	194	232
Unrealized gains on investment securities	1,474	1,032
Treasury stock, at average cost	(1,298)	(1,094)
Total shareholders' equity	4,694	3,868
Total liabilities and shareholders' equity	\$ 37,232	\$ 37,041

See the accompanying Notes to the Consolidated Financial Statements.

Share amounts have been adjusted to reflect the two-for-one stock split payable on March 16, 2001.

Consolidated Statements of Shareholders' Equity

AFLAC Incorporated and Subsidiaries

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

	2000	1999	1998
Common stock:			
Balance at beginning of year	\$ 32	\$ 32	\$ 16
Two-for-one stock split	–	–	16
Balance at end of year	32	32	32
Additional paid-in capital:			
Balance at beginning of year	310	235	227
Exercise of stock options	18	17	8
Gain on treasury stock reissued	8	58	16
Two-for-one stock split	–	–	(16)
Balance at end of year	336	310	235
Retained earnings:			
Balance at beginning of year	3,356	2,862	2,442
Net earnings	687	571	487
Dividends to shareholders (\$.167 per share in 2000, \$.147 in 1999 and \$.128 in 1998)	(87)	(77)	(67)
Balance at end of year	3,956	3,356	2,862
Accumulated other comprehensive income:			
Balance at beginning of year	1,264	1,551	1,559
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	(38)	13	(55)
Change in unrealized gains (losses) on investment securities during year, net of income taxes	442	(300)	47
Balance at end of year	1,668	1,264	1,551
Treasury stock:			
Balance at beginning of year	(1,094)	(910)	(814)
Purchases of treasury stock	(239)	(224)	(125)
Cost of shares issued	35	40	29
Balance at end of year	(1,298)	(1,094)	(910)
Total shareholders' equity	\$ 4,694	\$ 3,868	\$ 3,770

See the accompanying Notes to the Consolidated Financial Statements.

Per-share amounts have been adjusted to reflect the two-for-one stock split payable on March 16, 2001.

Consolidated Statements of Cash Flows

AFLAC Incorporated and Subsidiaries

(In millions) Years Ended December 31,	2000	1999	1998
Cash flows from operating activities:			
Net earnings	\$ 687	\$ 571	\$ 487
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Increase in policy liabilities	2,737	2,570	2,173
Deferred income taxes	(13)	(23)	(213)
Change in income taxes payable	477	(364)	16
Increase in deferred policy acquisition costs	(310)	(299)	(226)
Realized investment losses	102	13	2
Release of retirement liability	(101)	—	—
Provision for policyholder protection fund	—	64	111
Other, net	(296)	275	150
Net cash provided by operating activities	3,283	2,807	2,500
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	795	1,071	1,002
Fixed maturities matured	454	404	637
Perpetual debentures sold	—	14	—
Equity securities	35	73	57
Securities held to maturity:			
Fixed maturities matured or called	18	23	8
Other investments, net	(2)	17	42
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(4,360)	(3,322)	(2,966)
Perpetual debentures	(26)	(862)	(917)
Equity securities	(67)	(82)	(60)
Securities held to maturity:			
Fixed maturities	—	(43)	—
Cash received as collateral on loaned securities, net	127	—	—
Additions to property and equipment, net	(26)	(14)	(40)
Other, net	(7)	(17)	(8)
Net cash used by investing activities	(3,059)	(2,738)	(2,245)
Cash flows from financing activities:			
Proceeds from borrowings	294	446	124
Principal payments under debt obligations	(187)	(94)	(125)
Dividends paid to shareholders	(82)	(72)	(63)
Purchases of treasury stock	(239)	(224)	(125)
Treasury stock reissued	31	39	30
Other, net	15	18	8
Net cash provided (used) by financing activities	(168)	113	(151)
Effect of exchange rate changes on cash and cash equivalents	(63)	60	34
Net change in cash and cash equivalents	(7)	242	138
Cash and cash equivalents, beginning of year	616	374	236
Cash and cash equivalents, end of year	\$ 609	\$ 616	\$ 374

Supplemental disclosures of cash flow information — See Note 12

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income AFLAC Incorporated and Subsidiaries

(In millions) Years Ended December 31,	2000	1999	1998
Net earnings	\$ 687	\$ 571	\$ 487
Other comprehensive income, before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	97	(128)	(84)
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	521	(379)	171
Reclassification adjustment for realized (gains) losses included in net earnings	101	13	3
Total other comprehensive income (loss), before income taxes	719	(494)	90
Income tax expense (benefit) related to items of other comprehensive income	315	(207)	98
Other comprehensive income (loss), net of income taxes	404	(287)	(8)
Total comprehensive income	\$ 1,091	\$ 284	\$ 479

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: AFLAC Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in Japan and the United States. The Company's insurance operations are conducted 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 our insurance policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee. AFLAC Japan, which conducts its insurance operations in Japanese yen, accounted for 81% of the Company's total revenues for both 2000 and 1999, and 80% in 1998, and 86% and 87% of total assets at December 31, 2000 and 1999, respectively.

Basis of Presentation: We prepare our financial statements in accordance with generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants. The preparation of financial statements in conformity with GAAP requires us to make estimates when recording transactions resulting from business operations, based on information currently available. 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: deferred policy acquisition costs and liabilities

for future policy benefits and unpaid policy claims. 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.

Translation of Foreign Currencies: The functional currency of AFLAC Japan's insurance operations is the Japanese yen. We translate financial statement accounts that are maintained in foreign currencies into U.S. dollars as follows. Assets and liabilities denominated in foreign currencies are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses and cash flows are translated using average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings realized currency exchange gains and losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period 1998 through 2000.

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

We have designated the cross-currency swaps and the yen-denominated notes payable (Note 6) held by the Parent

Company as a hedge of our net investment in AFLAC Japan. Outstanding principal and related accrued interest payable on these items are translated into dollars at end-of-period exchange rates. Currency translation adjustments are reported in accumulated other comprehensive income.

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

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

The calculation of deferred policy acquisition costs and the liability for future policy benefits requires the use of estimates consistent with sound actuarial valuation techniques. For new policy issues, we review our actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, we evaluate deferred policy acquisition costs by major product groupings to determine that they are recoverable from future revenues. We charge against earnings costs that are not recoverable.

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

Investments: Our fixed-maturity securities and perpetual debentures (debt securities) are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other debt securities and our equity securities are classified as available for sale and are

carried at fair value. If the fair value is higher than the amortized cost for debt securities or the purchase cost for equity securities, the excess is an unrealized gain; and if lower than cost, the difference is an unrealized loss.

During the fourth quarter of 1998, we revised our investment management policy regarding the holding-period intent for certain private placement debt securities. Our past practice was to hold these securities to their contractual or economic maturity dates. In 1998, we made this our formal policy. Accordingly, certain debt securities were reclassified from the available-for-sale category to the held-to-maturity category. The related unrealized gain on these securities is being amortized from other comprehensive income into investment income over the remaining term of the securities. The related premium in the carrying value of the debt securities that was created when the reclassification occurred is also being amortized as an offsetting charge to investment income.

These unamortized unrealized gains and losses, plus the net unrealized gains and losses on securities available for sale, less amounts applicable to policy liabilities and deferred income taxes, are reported in accumulated other comprehensive income. The portion of unrealized gains credited to policy liabilities represents gains that would not inure to the benefit of shareholders if such gains were actually realized. These amounts relate to policy reserve interest requirements and reflect the difference between market investment yields and estimated minimum required interest rates on policy reserves.

Amortized cost of debt securities is based on our purchase price adjusted for accrual of discount or amortization of premium. The amortized cost of debt securities we purchased at a discount will equal the face or par value at maturity. Debt securities we purchased at a premium will have an amortized cost equal to face or par value at the earlier of a call date or maturity.

Interest is recorded as income when earned and is adjusted for amortization of any premium or discount. Dividends on equity securities are recorded as income on the ex-dividend dates.

For the collateralized mortgage obligations held in our fixed-maturity securities portfolio, we recognize income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the

effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

We identify the cost of each individual investment so that when any are sold, we are able to record the gain or loss on that transaction in the consolidated statements of earnings.

We continually monitor the difference between the cost and estimated fair value of our investments. If any investments experience a decline in value that is deemed to be other than temporary, we write the security down to fair value and record a realized loss in the consolidated statements of earnings.

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

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

Insurance Liabilities: The liabilities for future policy benefits are computed by a net level premium method using estimated future investment yields, withdrawals and recognized morbidity and mortality tables modified to reflect our experience, with reasonable provisions for possible future adverse deviation in experience.

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claim experience adjusted for current trends and changed conditions. The ultimate liability may vary significantly from such estimates. We regularly adjust these estimates as new claims experience emerges and reflect the changes in operating results in the year such adjustments are made.

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

Derivatives: We have only limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions. We currently use three types of derivatives: interest rate swaps, cross-currency swaps and foreign currency forward contracts.

We use the accrual method to account for the interest rate swaps in connection with our bank borrowings. The difference between amounts paid and received under such agreements is reported in interest expense in the consolidated statements of earnings. Changes in the fair value of these swap agreements are not recognized in the financial statements. These swaps reduce the impact of changes in interest rates on our borrowing costs and effectively change our related interest exposure from variable to fixed.

We use cross-currency swaps in connection with our \$450 million senior notes, which in effect convert the dollar-denominated principal and interest into yen-denominated obligations. These swaps have been designated as hedges of our investment in AFLAC Japan. The cross-currency swaps are recorded in other liabilities. Changes in the fair value of the currency portion of the swaps are recorded in accumulated other comprehensive income. The interest portions, not related to the accrued interest, of the currency swaps are not reflected in the financial statements.

We occasionally use short-term foreign currency forward contracts in connection with annual profit transfers from AFLAC Japan. These contracts are designated at inception as hedges of our investment in AFLAC Japan and are accounted for using the deferral method. We record the gains and losses during the period that the contracts are outstanding as unrealized foreign currency translation adjustments in accumulated other comprehensive income.

Effective January 1, 2001, we will be required to account for these derivatives using new accounting principles. See the section in this note titled, Accounting Pronouncements Not Yet Adopted.

Japanese Policyholder Protection Fund: In 1998, the Japanese government established the Life Insurance Policyholders Protection Corporation. Funding by the life insurance industry, as determined by government legislation, is made over a 10-year period. We recognize charges for our estimated share of any assessment as funding legislation is enacted. We review our estimated liability for policyholder protection fund assessments based on updated information and any adjustments are reported in net earnings.

Employee Stock Options: We use the intrinsic value method to value employee stock options. Under this method, compensation cost is recognized only for the excess, if any, of the market price of the stock at the grant date over the amount an employee must pay upon exercise to acquire the stock. Our stock option plan requires that the exercise price be equal to the fair market value at the date of grant. Therefore, we do not recognize compensation expense related to stock options.

Treasury Shares: We record treasury shares purchased at cost, which is the market value at the time of the transaction, and as a reduction of shareholders' equity. We use the weighted-average purchase cost to determine the cost of treasury shares that are reissued. We record realized gains and losses in additional paid-in capital when treasury shares are reissued.

Earnings Per Share: We present two earnings per share (EPS) calculations: basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of stock options and other common stock equivalents.

All share and per-share amounts have been adjusted to reflect the two-for-one stock split declared by the board of directors on February 13, 2001, payable on March 16, 2001.

Accounting Changes Adopted: We adopted Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, on January 1, 1999. This SOP provides guidance for determining whether costs of software developed or obtained for internal use should be capitalized or expensed as incurred. In the past, we expensed all such costs as they were incurred. We capitalized \$22 million and \$9 million for the years ended December 31, 2000 and 1999, respectively.

Accounting Pronouncements Not Yet Adopted: We will adopt Statement of Financial Accounting Standards (SFAS) No. 133 as amended, Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in investment securities and other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative will be included in either earnings or other comprehensive income depending on the intended use of the derivative instrument. This standard will change the accounting for our cross-currency and interest rate swaps. In accordance with SFAS No. 133, we will be required to recognize in net earnings the change in unrealized gains/losses on the interest rate components of our cross-currency swaps (see Note 4). The cumulative effect for adopting this new accounting standard as of January 1, 2001 will increase liabilities and decrease shareholders' equity (accumulated other comprehensive income) by approximately \$1 million, representing the fair value of our outstanding derivative instruments that have not been recorded in the financial statements at December 31, 2000.

The adoption of SFAS No. 133 will increase volatility in reported net earnings in the future. If this accounting standard had been in effect on January 1, 2000, net earnings would have increased by approximately \$19 million for the year ended December 31, 2000 related to the change in fair value of the interest rate components of the cross-currency swaps.

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, which replaces SFAS No. 125. SFAS No. 140 revises the standards for accounting and reporting for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 140 is effective for transfers occurring after March 31, 2001. The adoption of SFAS No. 140 is not expected to have any impact on the Company's financial position or results of operations.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation.

(2) FOREIGN INFORMATION AND BUSINESS SEGMENT INFORMATION

The Company consists of two reportable business segments: AFLAC Japan insurance and AFLAC U.S. insurance. We sell supplemental health and life insurance through our AFLAC Japan and AFLAC U.S. operations. Most of our policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee.

Operating business segments that are not individually reportable are included in the "Other" category, which includes minor insurance operations in foreign countries other than Japan and our printing subsidiary.

We evaluate our business segments based on GAAP pretax operating earnings. We do not allocate corporate overhead expenses to business segments.

Information regarding components of operations and lines of business for the years ended December 31 follows:

(In millions)	2000	1999	1998
Revenues:			
AFLAC Japan:			
Earned premiums:			
Cancer life	\$ 4,976	\$ 4,582	\$ 3,839
Other accident and health	1,037	730	413
Life insurance and annuities	671	594	486
Net investment income	1,261	1,111	917
Other income	7	4	2
Total AFLAC Japan revenues	7,952	7,021	5,657
AFLAC U.S.:			
Earned premiums:			
Cancer expense	585	535	489
Accident/disability	565	447	345
Other health	360	344	341
Life insurance	44	32	23
Net investment income	277	245	216
Other income	5	3	4
Total AFLAC U.S. revenues	1,836	1,606	1,418
Other business segments	31	23	39
Total business segments	9,819	8,650	7,114
Realized investment losses	(102)	(13)	(2)
Corporate*	32	39	30
Intercompany eliminations	(29)	(36)	(38)
Total revenues	\$ 9,720	\$ 8,640	\$ 7,104
Earnings before income taxes:			
AFLAC Japan	\$ 771	\$ 651	\$ 502
AFLAC U.S.	290	256	230
Other business segments	(6)	(4)	2
Total business segments	1,055	903	734
Release of retirement liability	101	-	-
Provision for the policyholder protection fund	-	(64)	(111)
Realized investment losses	(102)	(13)	(2)
Interest expense, noninsurance operations	(16)	(15)	(10)
Corporate*	(26)	(33)	(60)
Total earnings before income taxes	\$ 1,012	\$ 778	\$ 551
Advertising expense:			
AFLAC Japan	\$ 62	\$ 46	\$ 21
AFLAC U.S.	38	33	34
Total advertising expense	\$ 100	\$ 79	\$ 55

* Includes investment income of \$12 in 2000, \$13 in 1999 and \$2 in 1998

Assets at December 31 were as follows:

(In millions)	2000	1999
Assets:		
AFLAC Japan	\$ 31,882	\$ 32,274
AFLAC U.S.	4,964	4,448
Other business segments	46	34
Total business segments	36,892	36,756
Corporate	5,993	5,213
Intercompany eliminations	(5,653)	(4,928)
Total assets	\$ 37,232	\$ 37,041

Total depreciation and amortization expense was \$33 million in both 2000 and 1999, and \$29 million in 1998. AFLAC Japan accounted for \$20 million in both 2000 and 1999, and \$17 million in 1998.

Advertising and depreciation expenses are included in insurance expenses.

Total expenditures for property and equipment were \$26 million in 2000, \$22 million in 1999 and \$47 million in 1998. The 1998 expenditures primarily related to the construction of an administrative office building for AFLAC U.S.

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2000, \$150 million, or 49.8% of total receivables were related to AFLAC Japan's operations (\$157 million, or 57.9%, at December 31, 1999).

Policyholder Protection Fund: In 1998, the Japanese government created a policyholder protection system, and subsequently established the Life Insurance Policyholders Protection Corporation. The life insurance industry is required to contribute to this fund semiannually over a 10-year period. We recognized a pretax charge of \$111 million in the first quarter of 1998 for our share of the life insurance industry's obligation to the fund. The after-tax amount was \$65 million, or \$.12 per basic and diluted share.

In 1999, the Japanese government and the life insurance industry agreed to legislation that increased the life insurance industry's legal obligation to the fund. Our share of this additional obligation was recognized in the fourth quarter of 1999 and decreased pretax earnings by \$64 million (\$41 million after taxes, or \$.08 per basic share and \$.07 per diluted share).

The total liability accrued for our remaining obligations to the Japanese policyholder protection fund was \$227 million and \$262 million at December 31, 2000 and 1999, respectively.

In October 2000, two Japanese life insurance companies filed applications with the court for protection under a special reorganization law for financial institutions. Japanese government officials have indicated that they do not expect any additional protection fund assessments to be imposed on the insurance industry for the financial problems of these insurers.

Yen-Translation Effects: AFLAC Japan owns U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in AFLAC Japan. We have designated the Parent Company's yen-denominated notes payable and cross-currency swaps (Note 6) as a hedge of our investment in AFLAC Japan. The dollar values of our yen-denominated net assets subject to foreign currency translation fluctuations for financial reporting purposes are summarized as follows at December 31 (translated at end-of-year exchange rates):

(In millions)	2000	1999
AFLAC Japan net assets	\$ 3,648	\$ 3,129
Less:		
AFLAC Japan dollar-denominated net assets	1,969	1,772
Parent Company yen-denominated net liabilities	1,087	1,094
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	\$ 592	\$ 263

The following table shows the yen/dollar exchange rates used for the three-year period ended December 31, 2000, and their effect on selected financial data.

	2000	1999	1998
Balance Sheets:			
Yen/dollar exchange rate at December 31	114.75	102.40	115.70
Yen percent weakening (strengthening)	10.8%	(13.0)%	(12.4)%
Exchange effect on total assets (billions)*	\$ (3.6)	\$ 3.5	\$ 2.8
Exchange effect on total liabilities (billions)*	\$ (3.5)	\$ 3.5	\$ 2.7
Statements of Earnings:			
Average exchange rate for the year	107.83	113.96	130.89
Yen percent weakening (strengthening)	(5.7)%	(14.9)%	7.5%
Exchange effect on net earnings (millions)*	\$ 11	\$ 54	\$ (20)
Exchange effect on diluted net EPS*	\$.02	\$.10	\$ (.04)

* Exchange effect amounts were determined using the same yen/dollar exchange rate for the current year as each respective prior year

Other: 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. These payments totaled \$199 million in 2000, \$282 million in 1999 and \$192 million in 1998. See Note 9 for information concerning restrictions on remittances from AFLAC Japan.

(3) INVESTMENTS

The amortized cost for debt securities, cost for equity securities and the fair values of these investments at December 31 are shown in the following table:

(In millions)	December 31, 2000				December 31, 1999			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 6,554	\$ 1,722	\$ 52	\$ 8,224	\$ 6,771	\$ 1,995	\$ 6	\$ 8,760
Municipalities	342	28	-	370	558	53	-	611
Public utilities	3,572	337	28	3,881	3,363	457	44	3,776
Sovereign and supranational	56	2	-	58	-	-	-	-
Banks/financial institutions	3,045	45	180	2,910	2,290	13	242	2,061
Other corporate	1,471	40	41	1,470	923	41	73	891
Total yen-denominated	15,040	2,174	301	16,913	13,905	2,559	365	16,099
Dollar-denominated:								
Government	260	7	1	266	251	1	8	244
Municipalities	41	2	-	43	30	-	1	29
Mortgage-backed securities	429	9	-	438	187	1	4	184
Public utilities	325	4	13	316	271	2	17	256
Sovereign and supranational	139	7	-	146	203	1	3	201
Banks/financial institutions	2,072	41	74	2,039	2,028	12	115	1,925
Other corporate	2,099	50	138	2,011	2,021	8	108	1,921
Total dollar-denominated	5,365	120	226	5,259	4,991	25	256	4,760
Total fixed maturities	20,405	2,294	527	22,172	18,896	2,584	621	20,859
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	2,010	1	299	1,712	2,253	1	536	1,718
Dollar-denominated:								
Banks/financial institutions	337	9	12	334	311	5	10	306
Total perpetual debentures	2,347	10	311	2,046	2,564	6	546	2,024
Equity securities	161	93	18	236	137	91	13	215
Total securities available for sale	\$ 22,913	\$ 2,397	\$ 856	\$ 24,454	\$ 21,597	\$ 2,681	\$ 1,180	\$ 23,098
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Government	\$ 705	\$ 28	\$ 2	\$ 731	\$ 829	\$ 5	\$ 14	\$ 820
Municipalities	328	38	-	366	372	14	-	386
Public utilities	584	5	59	530	665	2	57	610
Banks/financial institutions	1,115	43	17	1,141	1,273	36	31	1,278
Other corporate	913	36	15	934	1,250	30	94	1,186
Total fixed maturities	3,645	150	93	3,702	4,389	87	196	4,280
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	3,442	83	202	3,323	3,903	73	244	3,732
Total perpetual debentures	3,442	83	202	3,323	3,903	73	244	3,732
Total securities held to maturity	\$ 7,087	\$ 233	\$ 295	\$ 7,025	\$ 8,292	\$ 160	\$ 440	\$ 8,012

Fair values for debt securities were determined using market quotations provided by outside securities consultants, prices provided by market makers or estimates of fair values obtained from yield data relating to investment securities with similar characteristics. The fair values for equity securities were determined using market quotations on the principal public exchange markets.

The amortized cost and fair values of our investments in fixed maturities at December 31, 2000, by contractual maturity are shown below:

(In millions)	AFLAC Japan		AFLAC U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$ 302	\$ 311	\$ 125	\$ 125
Due after one year through five years	2,257	2,510	245	252
Due after five years through 10 years	1,855	2,353	429	435
Due after 10 years	12,264	13,361	2,500	2,388
U.S. mortgage-backed securities	79	81	349	356
Total fixed maturities available for sale	\$ 16,757	\$ 18,616	\$ 3,648	\$ 3,556
Held to maturity:				
Due in one year or less	\$ 191	\$ 191	\$ -	\$ -
Due after one year through five years	120	121	-	-
Due after five years through 10 years	741	778	-	-
Due after 10 years	2,593	2,612	-	-
Total fixed maturities held to maturity	\$ 3,645	\$ 3,702	\$ -	\$ -

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

In recent years we have purchased subordinated perpetual debenture securities issued primarily by European and Japanese banks. These securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the issue-date fixed-rate interest coupons subsequently increase to a market-interest rate plus 150 to 300 basis points and change to a variable-interest rate basis, generally by the 25th year after issuance, thereby creating an economic maturity date.

The economic maturities of the perpetual debentures owned at December 31, 2000, were as follows:

(In millions)	AFLAC Japan		AFLAC U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due after one year through five years	\$ 27	\$ 28	\$ -	\$ -
Due after five years through 10 years	152	157	100	101
Due after 10 years	1,994	1,693	74	67
Total perpetual debentures available for sale	\$ 2,173	\$ 1,878	\$ 174	\$ 168
Held to maturity:				
Due after one year through five years	\$ 148	\$ 153	\$ -	\$ -
Due after five years through 10 years	920	890	-	-
Due after 10 years	2,374	2,280	-	-
Total perpetual debentures held to maturity	\$ 3,442	\$ 3,323	\$ -	\$ -

We attempt to match the duration of our assets with the duration of our liabilities. For AFLAC Japan, the duration of policy benefit liabilities is longer than that of the related invested assets due to the unavailability of acceptable yen-denominated long-duration securities. The average duration of policy liabilities was approximately 12 years for both 2000 and 1999. The average duration of the yen-denominated debt securities was approximately 10 years in 2000 and nine years in 1999. Currently, when our debt securities mature, the proceeds are reinvested at a yield below that of the average interest required for the accretion of policy benefit liabilities on policies issued in earlier years. Over the next five years, \$3.0 billion at amortized cost (with an average yield of 5.77%) of AFLAC Japan's yen-denominated debt securities are scheduled to mature. However, the investment yield on new investments has exceeded interest requirements on policies issued in recent years. Several times since 1994 we have increased premium rates on new policies issued in Japan to help offset the lower investment yields available in Japan. Despite the shortfall in investment yields, adequate overall margins still exist in the aggregate block of business.

Information regarding realized and unrealized gains and losses from investments for the years ended December 31 follows:

(In millions)	2000	1999	1998
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	\$ 9	\$ 12	\$ 16
Gross losses from sales	(53)	(39)	(35)
Net gains (losses) from redemptions	-	(8)	1
Held to maturity:			
Gross loss from impairment	(57)	-	-
Gross gains from redemptions	-	1	-
Total debt securities	(101)	(34)	(18)
Equity securities:			
Gross gains from sales	9	27	21
Gross losses from sales	(10)	(6)	(5)
Total equity securities	(1)	21	16
Net realized losses	\$ (102)	\$ (13)	\$ (2)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	\$ 43	\$ (447)	\$ (377)
Held to maturity	(257)	34	154
Equity securities	(3)	2	10
Net change in unrealized losses	\$ (217)	\$ (411)	\$ (213)

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

(In millions)	2000	1999
Unrealized gains on securities available for sale	\$ 1,541	\$ 1,501
Unamortized unrealized gains on securities transferred to held to maturity	1,001	1,258
Less:		
Policy liabilities	-	840
Deferred income taxes	1,068	887
Shareholders' equity, net unrealized gains on investment securities	\$ 1,474	\$ 1,032

The issuers of two debt securities held in our portfolio experienced significant credit rating downgrades during the first half of 2000. During the second quarter of 2000, we sold one security carried in the available-for-sale category at a pretax loss of \$34 million. We recorded a pretax impairment loss of \$57 million on the other security, which was carried in the held-to-maturity category. We have reclassified this security to the available-for-sale category. These losses, which were included in realized investment losses, decreased net earnings by \$58 million (\$.11 per basic and diluted share) for the year ended December 31, 2000.

At December 31, 2000, we owned debt securities rated below investment-grade in the amount of \$196 million at amortized cost (\$166 million at fair value), or .7% of total debt securities. The below investment-grade securities were investment-grade at the time of purchase and were subsequently downgraded by credit rating agencies.

The following debt securities individually exceeded 10% of shareholders' equity at December 31:

(In millions)	2000		1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Japan National Government	\$ 5,755	\$ 7,448	\$ 6,403	\$ 8,368
The Tokyo Electric Power Co., Inc.	857	979	898	1,057
Chubu Electric Power Co., Inc.	655	712	695	764
The Israel Electric Corporation Limited	528	456	429	371
Dai-ichi Kangyo Bank	457	487	512	522
Sumitomo Bank	*	*	452	462
Credit Suisse First Boston	*	*	427	398
Province of Quebec	*	*	394	407
Deutsche Bank	*	*	387	313

* Less than 10%

Private placement investments held by AFLAC Japan at amortized cost accounted for \$14.3 billion, or 48.0%, and \$13.6 billion, or 45.8%, of total debt securities at December 31, 2000 and 1999, respectively. Of the total private placements, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for \$4.8 billion and \$4.9 billion at amortized cost as of December 31, 2000 and 1999, respectively.

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

(In millions)	2000	1999	1998
Fixed-maturity securities	\$ 1,280	\$ 1,129	\$ 985
Perpetual debentures	278	248	158
Short-term investments and cash equivalents	7	7	8
Equity securities and other	4	2	3
Gross investment income	1,569	1,386	1,154
Less investment expenses	19	17	16
Net investment income	\$ 1,550	\$ 1,369	\$ 1,138

At December 31, 2000, debt securities with a fair value of \$12 million were on deposit with regulatory authorities. As of December 31, 2000, \$183 million, at fair value, of AFLAC Japan's debt securities had been pledged to Japan's policyholder protection fund. The Company retains ownership of all securities on deposit and receives the related investment income.

(4) FINANCIAL INSTRUMENTS

Nonderivatives: The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the table presented in this note.

The methods of determining the fair values of our investments in debt and equity securities are described in Note 3. The fair values for notes payable with fixed interest rates were obtained from an independent financial information service.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the term of the loans and are not recorded as sales. We receive cash or other securities as collateral for such loans. These short-term security lending arrangements increase investment income with minimal risk. At December 31, 2000 and 1999, we had security loans outstanding in the amounts of \$123 million and \$2.4 billion at fair value, respectively. At December 31, 2000, we held cash in the amount of \$127 million as collateral for loaned securities. At December 31, 1999, we held Japanese government bonds in the amount of \$2.4 billion, at fair value, as collateral for loaned securities. See Note 1 for a description of our accounting policies for loaned securities.

Our security lending policy requires that the fair value of the securities received as collateral and cash received as collateral be 102% and 100% or more, respectively, of the fair value of the loaned securities as of the date the securities are loaned and not less than 100% thereafter.

Derivatives: We have cross-currency swaps outstanding related to our \$450 million senior notes. These cross-currency swaps have the effect of converting the dollar-denominated principal and interest into yen-denominated obligations. The notional amount and terms of the swaps match the principal amount and terms of the senior notes. These swaps have been designated as a hedge of our net investment in AFLAC Japan.

At December 31, 2000, we had outstanding interest rate swaps on ¥19.1 billion (\$167 million) of our variable-interest-rate yen-denominated borrowings (Note 6). These swaps reduce the impact of changes in interest rates on our borrowing costs and effectively change our interest rate from variable to fixed. The interest rate swaps have notional principal amounts that equal the anticipated unpaid principal amounts on a portion of these loans.

Under these agreements, we make fixed-rate payments at 2.29% on one loan and 1.24% on another loan and receive floating-rate payments (.55% at December 31, 2000, plus loan costs of 25 and 20 basis points, respectively) based on three-month Japanese yen LIBOR.

For information regarding new accounting requirements for derivative instruments as of January 1, 2001, see Note 1, Accounting Pronouncements Not Yet Adopted.

The fair values of the cross-currency and interest rate swaps are the estimated amounts that we would receive or pay to terminate the swap agreements at the reporting date. We are exposed to credit risk in the event of nonperformance by counterparties to these contracts. The counterparties are U.S. and Japanese financial institutions with the following credit ratings as of December 31, 2000:

Counterparty Credit Rating	Notional Amount (In millions)
AA	\$ 318
A	195
BBB	104
Total	\$ 617

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

(In millions)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Fixed-maturity securities	\$ 25,817	\$ 25,874	\$ 25,248	\$ 25,139
Perpetual debentures	5,488	5,369	5,927	5,756
Equity securities	236	236	215	215
Securities held as collateral for loaned securities*	-	-	-	2,398
Liabilities:				
Notes payable (excl. capitalized leases)	1,048	1,043	999	962
Derivatives:				
Cross-currency swaps:				
Currency portion	34	34	93	93
Interest rate portion*	(4)	(4)	(4)	15
Interest rate swaps*	-	2	-	7
Payables for return of collateral on loaned securities*	-	-	-	2,398

* Off-balance sheet financial instruments – the interest rate swap derivatives will be recorded at fair value on the balance sheet as of January 1, 2001, under the new accounting requirements of SFAS No. 133 (See Note 1).

The above table excludes liabilities for future policy benefits of \$26.1 billion and \$27.3 billion at December 31, 2000 and 1999, respectively, as these liabilities are not considered financial instruments.

(5) POLICY LIABILITIES

The liability for future policy benefits at December 31 consisted of the following:

(In millions)	Policy Issue Year	Liability Amounts		Interest Rates	
		2000	1999	Year of Issue	In 20 Years
Health insurance:					
Japan:	1999-00	\$ 242	\$ 29	3.0%	3.0%
	1997-99	1,298	993	3.5	3.5
	1994-96	2,590	2,542	4.0-4.5	4.0-4.5
	1974-94	17,755	18,951	5.25-7.0	5.0-5.65
U.S.:	1998-00	190	107	7.0	7.0
	1986-00	1,448	1,327	6.0-8.0	6.0
	1981-86	276	280	6.5-7.0	5.5-6.5
	Other	157	150		
Life insurance and annuities:					
Japan:	1999-00	57	7	3.0	3.0
	1997-99	292	235	3.5	3.5
	1994-96	580	544	4.0	4.0
	1985-93	1,188	1,268	5.25-5.65	5.25-5.65
U.S.:	1956-00	41	37	4.0-6.0	4.0-6.0
Adjustment for unrealized gains on investments (Note 3)					
		-	840		
Total		\$ 26,114	\$ 27,310		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 5.2% in 2000, 5.3% in 1999, and 5.4% in 1998; and for U.S. policies, 6.4% for each year in the three-year period ended December 31, 2000.

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

(In millions)	2000	1999	1998
Unpaid supplemental health claims – beginning of year	\$ 1,558	\$ 1,222	\$ 987
Add claims incurred during the year related to:			
Current year	3,663	3,081	2,460
Prior years	(285)	(212)	(136)
Total incurred	3,378	2,869	2,324
Less claims paid during the year:			
On claims incurred during current year	2,303	1,969	1,579
On claims incurred during prior years	813	709	617
Total paid	3,116	2,678	2,196
Effect of foreign exchange rate changes on unpaid claims	(150)	145	107
Unpaid supplemental health claims – end of year	1,670	1,558	1,222
Unpaid life claims – end of year	75	60	41
Total liability for unpaid policy claims	\$ 1,745	\$ 1,618	\$ 1,263

Amounts shown for prior-year claims incurred during the year primarily result from actual claim settlements at less than the original estimates, which included a provision for adverse deviation.

(6) NOTES PAYABLE

A summary of notes payable at December 31 follows:

(In millions)	2000	1999
6.50% senior notes due April 2009 (principal amount \$450)	\$ 449	\$ 449
1.55% yen-denominated Samurai notes due October 2005 (principal amount ¥30 billion)	261	-
Unsecured, yen-denominated notes payable to banks:		
Reducing revolving credit agreement due July 2001:		
2.29% fixed interest rate	99	222
Variable interest rate (.78% at December 31, 2000)	14	31
Revolving credit agreement due November 2002:		
1.24% fixed interest rate	68	114
Variable interest rate (.73% at December 31, 2000)	157	138
Short-term	-	45
Obligations under capitalized leases due monthly through 2005, secured by computer equipment in Japan	31	19
Total notes payable	\$ 1,079	\$ 1,018

In September 2000, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes. These securities are not for sale to United States residents or entities. On October 25, 2000, we issued in Japan ¥30 billion (\$278 million) of 1.55% Samurai notes, due October 25, 2005. Issue costs were \$1 million. These notes are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a premium.

In April 1999, we issued \$450 million of 6.50% senior notes due April 15, 2009. The notes are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a make-whole amount. We have entered into cross-currency swaps that have the effect of converting the dollar-denominated principal and interest into yen-denominated obligations. The notional amount of the cross-currency swaps is \$450 million (¥55.6 billion) with a blended fixed interest rate of 1.67%. At December 31, 2000 and 1999, other liabilities included \$30 million and \$89 million, respectively, representing the currency and accrued interest portions of the fair value of the cross-currency swaps.

We have an unsecured reducing revolving credit agreement that provides for bank borrowings through July 2001 in either U.S. dollars or Japanese yen. The current

borrowing limit is \$125 million. At December 31, 2000, ¥11.4 billion (\$99 million) was outstanding at a fixed interest rate and ¥1.6 billion (\$14 million) was outstanding at a variable interest rate under this agreement.

We also have an unsecured revolving credit agreement that provides for bank borrowings through November 2002 with a borrowing limit of \$250 million, payable in either U.S. dollars or Japanese yen. At December 31, 2000, ¥7.8 billion (\$68 million) was outstanding at a fixed interest rate and ¥18.1 billion (\$157 million) was outstanding at a variable interest rate under this agreement.

For those loans denominated in yen, the principal amount of the loans as stated in dollar terms will fluctuate due to changes in the yen/dollar exchange rate.

The cross-currency swaps and the interest rate swaps related to the 2.29% and 1.24% (fixed rates after swaps) loans are described in Note 4.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2000, are: 2001, \$123 million; 2002, \$234 million; 2003, \$8 million; 2004, \$4 million; 2005, \$261 million; and thereafter, \$449 million.

We were in compliance with all of the covenants of the credit agreements at December 31, 2000.

(7) INCOME TAXES

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

(In millions)	Japan	U.S.	Total
2000:			
Current	\$ 319	\$ 19	\$ 338
Deferred – operations	(73)	60	(13)
Total income tax expense	\$ 246	\$ 79	\$ 325
1999:			
Current	\$ 211	\$ 19	\$ 230
Deferred – operations	(1)	45	44
Deferred tax benefit from Japanese tax rate reduction	(185)	118	(67)
Total income tax expense	\$ 25	\$ 182	\$ 207
1998:			
Current	\$ 252	\$ 25	\$ 277
Deferred – operations	(88)	(4)	(92)
Deferred tax benefit from Japanese tax rate reduction	(121)	–	(121)
Total income tax expense	\$ 43	\$ 21	\$ 64

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

(In millions)	2000	1999	1998
Income taxes based on U.S. statutory rates	\$ 354	\$ 272	\$ 193
Deferred tax benefit from Japanese tax rate reductions	–	(67)	(121)
U.S. alternative minimum tax	–	–	12
Utilization of foreign tax credit carryforwards	(22)	(20)	(47)
Release of retirement liability	(33)	–	–
Noninsurance losses generating no current tax benefit	–	3	9
Nondeductible expenses	14	12	9
Other, net	12	7	9
Income tax expense	\$ 325	\$ 207	\$ 64

Income tax expense (benefit) for the years ended December 31 was allocated as follows:

(In millions)	2000	1999	1998
Statements of earnings	\$ 325	\$ 207	\$ 64
Other comprehensive income:			
Change in unrealized foreign currency translation gains	135	(141)	(29)
Unrealized gains on investment securities:			
arising during the year	146	(75)	125
Reclassification adjustment for realized (gains) losses included in net earnings	34	9	2
Total income taxes allocated to other comprehensive income	315	(207)	98
Additional paid-in capital (exercise of stock options)	(2)	(2)	(1)
Total income taxes	\$ 638	\$ (2)	\$ 161

In March 1998, the Japanese government reduced the corporate income tax rate, which lowered AFLAC Japan's rate from 45.3% to 41.7%. The tax rate was again reduced in March 1999, from 41.7% to 36.2%. These tax rate reductions decreased our consolidated liability for deferred income taxes. The reductions were the net effect of applying the new tax rates to the temporary differences that existed between the Japanese tax basis and financial reporting basis of assets and liabilities, and the limitations imposed by the U.S. foreign tax credit provisions.

The reduction of the consolidated deferred income tax liability from the 1999 tax rate reduction increased net earnings in the first quarter of 1999 by \$67 million (\$.13 per basic share and \$.12 per diluted share). The 1998 tax rate reduction increased net earnings in the first quarter of 1998 by \$121 million (\$.23 per basic share and \$.22 per diluted share).

The 1999 reduction in the Japanese corporate income tax rate did not significantly change our combined U.S./Japan effective tax rate due to the operation of the U.S. foreign tax credit provisions.

Changes in unrealized foreign currency translation gains/losses included deferred income tax expense of \$76 million in 2000 and deferred income tax benefits of \$80 million in 1999 and \$29 million in 1998 that represented Japanese income taxes on currency translation gains/losses that arose for Japanese tax purposes from the conversion of AFLAC Japan's dollar-denominated investments into yen.

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

(In millions)	2000	1999
Deferred income tax liabilities:		
Deferred acquisition costs	\$ 1,077	\$ 1,204
Unrealized gains on investment securities	455	415
Difference in tax basis of investment in AFLAC Japan	82	-
Other basis differences in investment securities	256	725
Premiums receivable	92	79
Unrealized exchange gain on yen-denominated notes payable	6	-
Other liabilities	3	-
Total deferred income tax liabilities	1,971	2,423
Deferred income tax assets:		
Difference in tax basis of investment in AFLAC Japan	-	227
Unrealized exchange loss on yen-denominated notes payable	-	58
Policy benefit reserves	63	405
Policyholder protection fund	28	67
Unfunded retirement benefits	34	71
Other accrued expenses	74	80
Tax credit carryforwards	112	96
Other	187	211
Total gross deferred tax assets	498	1,215
Less valuation allowance	149	157
Total deferred income tax assets	349	1,058
Net deferred income tax liability	1,622	1,365
Current income tax liability	272	146
Total income tax liability	\$ 1,894	\$ 1,511

A valuation allowance is provided when it is more likely than not that deferred tax assets will not be realized. We have established valuation allowances primarily for foreign tax credit and noninsurance loss carryforwards that exceed projected future offsets. Under U.S. income tax rules, only 35% of noninsurance losses can be offset against life insurance taxable income each year. During 2000, the valuation allowance for deferred tax assets decreased by \$8 million (increased by \$68 million in 1999) due to changes in carryforwards of foreign tax credits, alternative minimum tax credits and

noninsurance losses. For current U.S. income tax purposes, foreign tax credit carryforwards of \$32 million and alternative minimum tax credits of \$79 million were available at December 31, 2000. The foreign tax credit carryforwards expire in 2004.

(8) SHAREHOLDERS' EQUITY

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

(In thousands of shares)	2000	1999	1998
Common stock - issued:			
Balance at beginning of year	640,698	635,941	632,761
Exercise of stock options	4,115	4,757	3,180
Balance at end of year	644,813	640,698	635,941
Treasury stock:			
Balance at beginning of year	109,216	104,573	99,889
Purchases of treasury stock:			
Open market	9,657	8,633	7,612
Other	269	375	425
Shares issued to sales associates stock bonus plan and AFL Stock Plan	(1,182)	(1,664)	(2,437)
Exercise of stock options	(2,357)	(2,701)	(916)
Balance at end of year	115,603	109,216	104,573
Shares outstanding at end of year	529,210	531,482	531,368

As of December 31, 2000, we had approximately 16.5 million shares available for purchase under the share repurchase program authorized by the board of directors.

Stock Split: On February 13, 2001, the board of directors declared a two-for-one stock split to shareholders of record at the close of business on February 27, 2001, payable on March 16, 2001. Share and per-share amounts have been adjusted to reflect this split.

After the stock split, the par value will remain \$.10 per share. The adjustment to increase the common stock account will be recorded on March 16, 2001. In 2000 shareholders approved an increase in the number of authorized shares from 400 million to one billion.

Stock Options: The Company's stock option plan allows grants for both incentive stock options (ISO) and non-qualifying stock options (NQSO) to employees and NQSO to members of the board of directors. The options have a term of 10 years. The exercise price is equal to the fair market value at the date of grant. Therefore, we do not recognize compensation expense related to stock options. The options are exercisable immediately unless they are subject to a vesting schedule determined by the board of directors. At December 31, 2000, 13.4 million shares were available for future grants.

The following table summarizes stock option activity:

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 1997	32,957	\$ 5.75
Granted in 1998	3,906	15.09
Canceled in 1998	(67)	11.75
Exercised in 1998	(4,296)	3.46
Outstanding at December 31, 1998	32,500	7.16
Granted in 1999	2,479	23.39
Canceled in 1999	(155)	15.21
Exercised in 1999	(7,665)	4.67
Outstanding at December 31, 1999	27,159	9.30
Granted in 2000	5,619	22.85
Canceled in 2000	(161)	14.39
Exercised in 2000	(6,636)	5.12
Outstanding at December 31, 2000	25,981	\$ 13.27

(In thousands of shares)	2000	1999	1998
Shares exercisable at end of year	16,782	22,168	25,907

The following table summarizes information about stock options outstanding at December 31, 2000:

(In thousands of shares)		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 1.23 - \$ 4.03	610	.9	\$ 3.25	610	\$ 3.25
4.71	4,846	2.5	4.71	4,846	4.71
4.80 - 7.92	5,013	4.7	7.35	5,013	7.35
8.48 - 13.66	4,131	6.3	11.67	4,043	11.63
13.84 - 21.16	4,735	7.9	16.80	1,461	15.16
21.48 - 23.23	5,122	9.3	23.11	769	22.90
23.41 - 34.48	1,524	9.0	24.31	40	24.97
\$ 1.23 - \$ 34.48	25,981	6.2	\$ 13.27	16,782	\$ 8.90

As permitted by SFAS No. 123, which became effective in 1995, we do not recognize compensation cost in the consolidated statements of earnings for employee stock options. Had compensation cost for stock options granted after 1994 been determined using the alternative fair-value-based method, the effect on our net earnings and net earnings per share would approximate the following pro forma amounts:

	2000	1999	1998
Decrease to:			
Net earnings (in millions)	\$ 27	\$ 13	\$ 13
Net earnings per share - basic	.05	.03	.02
Net earnings per share - diluted	.05	.02	.02

For the preceding pro forma information, the fair value of each option granted after 1994 was estimated on the date of grant using the Black-Scholes multiple option approach with the following assumptions for options granted during the three-year period ended December 31, 2000:

	2000	1999	1998
Expected life from vesting date (years)	4.2 - 5.8	3.7 - 4.7	3.5 - 4.4
Dividend yield	.5%	.6%	.6%
Expected volatility	32.0%	30.3%	27.3%
Risk-free interest rate	6.0%	6.0%	5.5%

These fair value amounts were then amortized over the vesting periods of the related options.

The pro forma information presented above is not indicative of future amounts. We were required to apply SFAS No. 123 prospectively. Therefore, the above pro forma disclosures do not include amortization of the fair value of awards prior to 1995. Also, we expect that additional options will be granted in future years.

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

(9) STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Net assets of the insurance subsidiaries aggregated \$5.6 billion at December 31, 2000, on a GAAP basis. AFLAC Japan accounted for \$3.6 billion, or 65.2%, of these net assets.

Our insurance subsidiaries are required to report their results of operations and financial position to state insurance regulatory authorities, on the basis of statutory accounting practices prescribed or permitted by such authorities. Our branch in Japan, AFLAC Japan, must report to the Japanese Financial Services Agency (FSA). As determined on a U.S. statutory accounting basis, AFLAC's net income, which includes realized investment gains and losses, was \$210 million in 2000, \$344 million in 1999 and \$231 million in 1998. Capital and surplus was \$1.7 billion and \$1.6 billion at December 31, 2000 and 1999, respectively.

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

(In millions)	2000	1999
Net assets on GAAP basis	\$ 5,572	\$ 4,874
Adjustment of debt securities from fair value to amortized cost	(2,113)	(2,691)
Elimination of deferred policy acquisition costs	(3,663)	(3,677)
Adjustment to policy liabilities	796	1,801
Elimination of deferred income taxes	1,678	1,463
Other, net	(597)	(164)
Net assets on U.S. statutory accounting basis	\$ 1,673	\$ 1,606

The National Association of Insurance Commissioners has recodified statutory accounting principles to promote standardization throughout the industry. We are adopting these new statutory accounting principles effective January 1, 2001. As a result, statutory net assets will increase by approximately \$130 million on January 1, 2001.

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent undistributed earnings of our insurance subsidiary. Amounts available for dividends, management fees (see Note 2) and other payments to the Parent Company by its insurance subsidiary may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. One of the primary considerations is that our insurance subsidiary must maintain adequate risk-based capital for U.S. regulatory authorities and adequate solvency margins for Japanese regulatory authorities. Also, the maximum amount of dividends that can be paid to shareholders by insurance companies domiciled in the state of Georgia without prior approval of the Commissioner of Insurance is the greater of the net gain from operations, which excludes realized investment gains and losses, for the previous year determined under statutory accounting principles or 10% of statutory equity as of the previous year-end. Dividend payments by AFLAC during 2001 in excess of \$216 million would require such approval. Dividends paid by AFLAC during 2000 were \$234 million.

A portion of AFLAC Japan annual earnings, as determined on a Japanese statutory accounting basis, can be remitted each year to AFLAC U.S. after complying with solvency margin provisions and satisfying various

conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit remittances to the United States can fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory earnings include Japanese regulatory accounting practices and fluctuations in currency translations of AFLAC Japan's dollar-denominated investments into yen. Earnings were remitted from AFLAC Japan to AFLAC U.S. in the amount of \$157 million in 2000, \$243 million in 1999 and \$154 million in 1998. In light of the deregulation of the insurance market, we elected to repatriate less than the maximum amount in 2000 in order to maintain a strong solvency margin in Japan. In 2000, the maximum amount we could have repatriated was \$351 million. We repatriated the maximum amounts in both 1999 and 1998.

Net assets (unaudited) of AFLAC Japan, based on Japanese statutory accounting practices, aggregated \$777 million and \$638 million at December 31, 2000 and 1999, respectively. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, policy acquisition costs are charged off immediately, policy benefit and claim reserving methods are different, policyholder protection fund obligations are not accrued, deferred income tax liabilities are recognized on a different basis, and investment securities are currently carried at cost less certain market value adjustments for foreign exchange losses on dollar-denominated securities.

For the Japanese reporting fiscal year ending March 31, 2002, AFLAC Japan will be required to adopt a new Japanese statutory accounting standard regarding fair value accounting for investments. Currently, debt securities are recorded at amortized cost for FSA purposes. Under the new accounting standard AFLAC Japan will be required to record debt securities in four categories: at fair value in an available-for-sale category, at amortized cost in a held-to-maturity category, at amortized cost in a special category for securities held for long-term holding purposes, or at fair value in a trading category.

Under this new regulatory accounting standard, the unrealized gains and losses on debt securities available for sale will be reported in FSA capital and surplus. This new accounting method may result in significant fluctuations in FSA equity, in the AFLAC Japan solvency margin and in amounts available for annual profit repatriation.

(10) BENEFIT PLANS

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

(In thousands)	2000		1999	
	Japan	U.S.	Japan	U.S.
Projected benefit obligation:				
Benefit obligation at beginning of year	\$ 74,186	\$ 62,358	\$ 43,423	\$ 60,420
Service cost	4,458	2,891	4,675	2,938
Interest cost	2,093	4,314	1,658	4,311
Actuarial loss (gain)	1,647	5,172	(2,498)	(5,799)
Benefits paid	(1,039)	(1,326)	(554)	(1,376)
Effect of foreign exchange rate changes	(8,416)	-	6,010	-
Plan amendments	-	-	-	1,864
Benefit obligations assumed from government plan	-	-	21,472	-
Benefit obligation at end of year	72,929	73,409	74,186	62,358
Plan assets:				
Fair value of plan assets at beginning of year	49,830	56,425	23,441	48,541
Actual return on plan assets	(628)	8,208	727	9,260
Employer contribution	6,138	-	5,429	-
Benefits paid	(1,039)	(1,326)	(554)	(1,376)
Effect of foreign exchange rate changes	(5,632)	-	3,677	-
Assets transferred from government plan	-	-	17,110	-
Fair value of plan assets at end of year	48,669	63,307	49,830	56,425
Funded status	(24,260)	(10,102)	(24,356)	(5,933)
Unrecognized net actuarial loss (gain)	8,455	1,273	8,755	(703)
Unrecognized transition obligation (asset)	3,772	(597)	4,578	(718)
Unrecognized prior service cost	828	1,754	1,013	1,890
Accrued benefit cost	\$ (11,205)	\$ (7,672)	\$ (10,010)	\$ (5,464)

In 1999, we transferred most of the assets of the AFLAC Japan employee retirement plan from an insured arrangement to a trust managing a portfolio of investment securities. In 1999, we also assumed a pension benefit program together with the related assets for AFLAC Japan employees that was previously administered by the Japanese government.

The components of retirement expense and actuarial assumptions for the years ended December 31 were as follows:

(In thousands)	2000		1999		1998	
	Japan	U.S.	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	\$ 4,458	\$ 2,891	\$ 4,675	\$ 2,938	\$ 2,940	\$ 2,362
Interest cost	2,093	4,314	1,658	4,311	1,018	3,491
Expected return on plan assets	(1,470)	(5,013)	(1,516)	(4,313)	(451)	(4,086)
Recognized net actuarial loss	202	-	363	265	218	-
Amortization of transition obligation (asset)	333	(121)	258	(122)	77	(122)
Amortization of prior service cost	81	138	77	138	67	16
Net periodic benefit cost	\$ 5,697	\$ 2,209	\$ 5,515	\$ 3,217	\$ 3,869	\$ 1,661
Weighted-average actuarial assumptions used in the calculations:						
Discount rate – net periodic benefit cost	3.0%	7.0%	3.0%	6.5%	3.0%	7.0%
Discount rate – benefit obligations	3.0	7.0	3.0	7.0	3.0	6.5
Expected return on plan assets	2.5	9.0	4.5	9.0	2.5	9.0
Rate of compensation increase	3.5	4.0	3.5	4.0	3.5	4.0

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. The surviving spouse of the Company's former chairman of the board, John B. Amos, had been receiving lifetime spousal retirement benefits under a shareholder-approved employment contract. The benefits were payable at .5% of the Company's pretax earnings for the previous year, as defined in the agreement. In May 2000, the former chairman's spouse unexpectedly passed away. The Company had accrued an unfunded liability for projected retirement payments based on a normal life expectancy. The release of the remaining accrued liability increased net earnings by \$99 million (\$.19 per basic share and \$.18 per diluted share) for the year ended December 31, 2000.

Due to the release of the retirement liability, we recorded a net benefit of \$96 million related to all of the unfunded plans for 2000. We recognized expense for these plans of \$39 million in 1999 and \$30 million in 1998. The accrued retirement liability for the unfunded supplemental retirement plans at December 31, 2000 and 1999, was \$151 million and \$260 million, respectively. The actuarial present value of projected benefit obligations was \$150 million and \$260 million at December 31, 2000 and 1999, respectively. The discount rates used were the same as for the funded plans.

Reconciliations of the benefit obligation of the unfunded retiree medical program and other postretirement benefits for U.S. employees with amounts recognized in the accompanying consolidated balance sheets as of December 31 were as follows:

(In thousands)	2000	1999
Benefit obligation:		
Benefit obligation at beginning of year	\$ 12,488	\$ 10,822
Service cost	408	361
Interest cost	874	752
Actuarial loss	1,610	503
Plan amendments	-	393
Benefits paid	(815)	(343)
Unfunded benefit obligation at end of year	14,565	12,488
Unrecognized net actuarial gain (loss)	(1,080)	530
Unrecognized prior service cost	(342)	(368)
Accrued benefit cost	\$ 13,143	\$ 12,650

The components of expenses for the retiree medical program and other postretirement benefits, along with actuarial assumptions, were as follows for the years ended December 31:

(In thousands)	2000	1999	1998
Service cost	\$ 408	\$ 361	\$ 320
Interest cost	874	752	684
Recognized net actuarial gain	-	-	(30)
Amortization of prior service cost	25	26	-
Net periodic benefit cost	\$ 1,307	\$ 1,139	\$ 974
Discount rate:			
Net periodic cost	7.0%	6.5%	7.0%
Benefit obligations	7.0	7.0	6.5
Effect of 1-percentage point increase in health care cost trend rate:			
On total of service and interest cost components	\$ 136	\$ 119	\$ 102
On postretirement benefit obligation	1,180	991	791
Effect of 1-percentage point decrease in health care cost trend rate:			
On total of service and interest cost components	(116)	(101)	(97)
On postretirement benefit obligation	(1,010)	(846)	(743)

The projected health care cost trend rate used in 2000 was 10%, graded to 7% over five years.

Stock Bonus Plan: AFLAC U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants are awarded rights on a monthly basis to shares of AFLAC Incorporated common stock, based on their sales of insurance policies. The cost of these awards, which is included in deferred policy acquisition costs, amounted to \$18 million in both 2000 and 1999, and \$10 million in 1998. Prior to July 1999, participants received the shares of stock after satisfying various vesting requirements and other conditions. This stock bonus program was revised effective July 1, 1999, to substantially eliminate the vesting requirements and to make various other modifications. As a result of this change, plan participants became 100% vested in their accumulated share rights under the original program and the related shares of stock held in a trust were distributed. The market value of the distributed shares was charged against a liability for accrued stock compensation and the excess of market value over share cost (\$42 million) was recognized as additional paid-in capital.

(11) CONTINGENCIES

Litigation: We are a defendant in various litigation considered to be in the normal course of business. Some of this litigation is pending in Alabama, where large punitive damages bearing little relation to the actual damages sustained by plaintiffs have been awarded against other companies, including insurers, in recent years. Although the final results of any litigation cannot be predicted with certainty, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows.

(12) SUPPLEMENTARY INFORMATION

	2000	1999	1998
Weighted-average shares used in calculating earnings per share (in thousands):			
Average outstanding shares used for calculating basic EPS	530,607	531,737	532,609
Dilutive effect of stock options	14,299	19,108	19,136
Average outstanding shares used for calculating diluted EPS	544,906	550,845	551,745
Other:			
Policy acquisition costs deferred during the year (in millions)	\$ 612	\$ 556	\$ 436
Commissions deferred as a percentage of total acquisition costs deferred	71%	72%	69%
Personnel compensation and benefits as a percentage of insurance expenses	42%	40%	37%

	2000	1999	1998
Supplemental disclosures of cash flow information (in millions):			
Income taxes paid	\$ 215	\$ 411	\$ 210
Interest paid	21	17	12
Impairment loss on fixed-maturity security	57	-	-
Noncash financing activities:			
Capital lease obligations	25	4	7
Treasury shares issued for:			
Dividends to shareholders	5	5	4
Associate stock bonus plan	7	54	10
Property and equipment (in millions):			
Land	\$ 132	\$ 147	\$ 131
Buildings	355	374	335
Equipment	169	156	159
	656	677	625
Less accumulated depreciation	175	168	159
Net property and equipment	\$ 481	\$ 509	\$ 466

Management's Responsibility for Financial Statements

Management is responsible for the consolidated financial statements of AFLAC Incorporated and subsidiaries. The statements have been prepared in accordance with generally accepted accounting principles and include amounts based upon management's best estimates and judgments. Informed judgments and estimates are used for those transactions not yet complete or for which the ultimate effects cannot be measured precisely. Financial information elsewhere in this annual report is consistent with the information in the financial statements.

The Company's internal controls are designed to reasonably assure that AFLAC Incorporated's books and records reflect the transactions of the Company, that assets are safeguarded, and that the Company's established policies and procedures are followed. The effectiveness of the controls system is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility, and a comprehensive internal audit program.

The Company engages KPMG LLP as independent auditors to audit its financial statements and express their opinion thereon. Their audits include reviews and tests of the Company's internal controls to the extent they believe necessary to determine the audit procedures to be performed that will support their opinion. Members of that firm also have the right of full access to each member of

management in conducting their audits. The report of KPMG LLP appears on the following page.

The audit committee of the board of directors, which comprises outside directors, serves in an oversight role to assure the integrity and objectivity of the Company's financial reporting process. The committee meets periodically with representatives of management, as well as with the independent and internal auditors, to review matters of a material nature related to financial reporting and the planning, results and recommendations of audits. The independent and internal auditors have free access to the audit committee, without management present, to discuss any matter they believe should be brought to the attention of the committee. The committee is also responsible for making recommendations to the board of directors concerning the selection of the independent auditors.



Daniel P. Amos
President and Chief Executive Officer



Kriss Cloninger III
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

The shareholders and board of directors of AFLAC Incorporated:

We have audited the accompanying consolidated balance sheets of AFLAC Incorporated and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFLAC Incorporated and subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia
January 26, 2001

Unaudited Consolidated Quarterly Financial Data

(In millions, except for per-share amounts)

Three Months ended,	March 31, 2000		June 30, 2000		September 30, 2000		December 31, 2000	
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
Total revenues	\$ 2,398	17.1%	\$ 2,358	16.1%	\$ 2,475	12.7%	\$ 2,488	5.2%
Net earnings	156	(20.1)	202 ⁽¹⁾	54.8	163	13.5	166	63.2
Per common share:								
Net earnings (basic)	\$.29	(21.6)%	\$.38 ⁽¹⁾	52.0%	\$.31	14.8%	\$.31	63.2%
Net earnings (diluted)	.29	(17.1)	.37 ⁽¹⁾	54.2	.30	15.4	.30	57.9
Cash dividends	.038		.043		.043		.043	

Three Months ended,	March 31, 1999		June 30, 1999		September 30, 1999		December 31, 1999	
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
Total revenues	\$ 2,048	16.5%	\$ 2,032	19.3%	\$ 2,196	29.2%	\$ 2,365	21.6%
Net earnings	196 ⁽²⁾	21.9	130	26.9	144	33.5	102 ⁽³⁾	(12.2)
Per common share:								
Net earnings (basic)	\$.37 ⁽²⁾	23.3%	\$.25	31.6%	\$.27	35.0%	\$.19 ⁽³⁾	(13.6)%
Net earnings (diluted)	.35 ⁽²⁾	20.7	.24	26.3	.26	30.0	.19 ⁽³⁾	(9.5)
Cash dividends	.033		.038		.038		.038	

(1) Includes a benefit of \$99 (\$.19 per basic share, \$.18 per diluted share) from the termination of a retirement liability and realized investment loss of \$58 (\$.11 per basic and diluted share); (2) Includes gain of \$67 (\$.13 per basic share, \$.12 per diluted share) due to a reduction in deferred tax liabilities from a tax rate cut in Japan; (3) Includes a charge of \$41 (\$.08 per basic share, \$.07 per diluted share) for the policyholder protection fund in Japan

Per-share amounts reflect the two-for-one stock split payable on March 16, 2001.