SELECTED FINANCIAL DATA

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

For the Year		2002	2001	2000	1999
Revenues:					
Premiums, principally supplemental health insurance		**$ 8,595**	$ 8,061	$ 8,222	$ 7,264
Net investment income		**1,614**	1,550	1,550	1,369
Realized investment gains (losses)		**(14)**	(31)	(102)	(13)
Gain on sale of broadcast business		**–**	–	–	–
Other income		**62**	18	33	20
Total revenues		**10,257**	9,598	9,703	8,640
Benefits and expenses:					
Benefits and claims		**6,589**	6,303	6,601	5,885
Expenses		**2,409**	2,214	2,090	1,977
Total benefits and expenses		**8,998**	8,517	8,691	7,862
Pretax earnings		**1,259**	1,081	1,012	778
Income taxes		**438**	394	325	207
Net earnings		**$ 821**(1)	$ 687	$ 687(2)	$ 571(3)
Per Common Share					
Net earnings (basic)		**$ 1.59**(1)	$ 1.31	$ 1.30(2)	$ 1.07(3)
Net earnings (diluted)		**1.55**(1)	1.28	1.26(2)	1.04(3)
Cash dividends		**.23**	.193	.167	.147
Shareholders' equity		**12.43**	10.40	8.87	7.28
Price range:	High	**33.45**	36.10	37.47	28.38
	Low	**23.10**	23.00	16.78	19.50
	Close	**30.12**	24.56	36.10	23.60
Price/earnings ratio:*	High	**21.4x**	26.9x	31.2x	28.4x
	Low	**14.8**	17.2	14.0	19.5
Common shares used for basic EPS (In thousands)		**517,541**	525,098	530,607	531,737
Common shares used for diluted EPS (In thousands)		**528,326**	537,383	544,906	550,845
At Year-end					
Assets:					
Investments and cash		**$ 39,147**	$ 32,792	$ 32,167	$ 32,024
Other		**5,911**	5,068	5,064	5,017
Total assets		**$ 45,058**	$ 37,860	$ 37,231	$ 37,041
Liabilities and shareholders' equity:					
Policy liabilities		**$ 32,726**	$ 27,592	$ 28,565	$ 29,604
Notes payable		**1,312**	1,207	1,079	1,018
Income taxes		**2,364**	2,091	1,894	1,511
Other liabilities		**2,262**	1,545	999	1,040
Shareholders' equity		**6,394**	5,425	4,694	3,868
Total liabilities and shareholders' equity		**$ 45,058**	$ 37,860	$ 37,231	$ 37,041
Supplemental Data					
Operating earnings**		**$ 825**	$ 720	$ 657	$ 550
Operating earnings per share (basic)**		**1.59**	1.37	1.24	1.03
Operating earnings per share (diluted)**		**1.56**	1.34	1.20	1.00
Pretax profit margin***		**12.5%**	11.5%	10.3%	9.9%
After-tax profit margin***		**8.1%**	7.5%	6.7%	6.4%
Operating return on equity****		**21.9%**	21.3%	21.7%	20.9%
Yen/dollar exchange rate at year-end		**¥ 119.90**	¥ 131.95	¥ 114.75	¥ 102.40
Weighted-average yen/dollar exchange rate		**125.15**	121.54	107.83	113.96

(1) Includes a charge of $26 ($.05 per basic and diluted share) for the policyholder protection fund in 2002 in Japan; (2) Includes a benefit of $99 ($.19 per basic share, $.18 per diluted share) from the termination of a retirement liability; (3) 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; (4) Includes gain of $121 ($.23 per basic share, $.22 per diluted share) due to a reduction in deferred 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 1998 in Japan; (5) Includes gain of $211 ($.39 per basic share, $.38 per diluted share) from the sale of the broadcast business in 1997; (6) Includes gain of $48 ($.09 per basic share, $.08 per diluted share) from the sale of the broadcast business in 1996; (7) Excludes gain of $11 ($.02 per basic and diluted share) from cumulative effect of accounting changes in 1993.

1998	1997	1996	1995	1994	1993	1992
$ 5,943	$ 5,874	$ 5,910	$ 6,071	$ 5,181	$ 4,225	$ 3,369
1,138	1,078	1,022	1,025	839	689	533
(2)	(5)	2	–	–	3	(3)
–	267	60	–	–	–	–
25	37	106	95	91	84	87
7,104	7,251	7,100	7,191	6,111	5,001	3,986
4,877	4,833	4,896	5,034	4,257	3,423	2,692
1,676	1,553	1,554	1,556	1,350	1,150	970
6,553	6,386	6,450	6,590	5,607	4,573	3,662
551	865	650	601	504	428	324
64	280	256	252	211	184	141
$ 487[4]	$ 585[5]	$ 394[6]	$ 349	$ 293	$ 244[7]	$ 183
$ .91[4]	$ 1.07[5]	$ .70[6]	$ .60	$ .48	$ .39[7]	$ .30
.88[4]	1.04[5]	.68[6]	.58	.47	.39[7]	.29
.128	.112	.097	.085	.075	.065	.058
7.09	6.44	3.85	3.76	2.93	2.20	1.75
22.66	14.47	11.00	7.46	6.02	5.67	4.65
11.35	9.38	7.07	5.32	4.21	4.13	3.20
21.94	12.78	10.69	7.25	5.34	4.75	4.60
29.1x	21.9x	18.3x	12.9x	12.8x	14.9x	16.0x
14.6	14.2	11.8	9.2	9.0	10.9	11.0
532,609	544,220	560,704	582,710	605,783	619,502	615,261
551,745	563,192	577,843	597,967	618,594	631,428	628,931
$ 26,994	$ 22,880	$ 20,744	$ 20,045	$ 15,994	$ 12,469	$ 9,461
4,228	6,590	4,286	5,172	4,293	2,974	2,440
$ 31,222	$ 29,470	$ 25,030	$ 25,217	$ 20,287	$ 15,443	$ 11,901
$ 24,034	$ 19,885	$ 20,234	$ 19,514	$ 16,007	$ 12,065	$ 9,350
596	523	354	327	185	122	126
1,865	1,827	1,181	1,398	1,392	950	849
957	3,805	1,135	1,844	951	940	494
3,770	3,430	2,126	2,134	1,752	1,366	1,082
$ 31,222	$ 29,470	$ 25,030	$ 25,217	$ 20,287	$ 15,443	$ 11,901
$ 429	$ 374	$ 347	$ 349	$ 293	$ 242[7]	$ 183
.81	.69	.62	.60	.48	.39[7]	.30
.78	.66	.60	.58	.47	.38[7]	.29
9.3%	8.6%	8.4%	8.4%	8.3%	8.5%	8.2%
6.0%	5.4%	4.9%	4.8%	4.8%	4.8%[7]	4.6%
18.7%	18.8%	19.9%	22.0%	20.4%	19.9%[7]	18.4%
¥ 115.70	¥ 130.10	¥ 116.10	¥ 102.95	¥ 99.85	¥ 112.00	¥ 124.70
130.89	121.07	108.84	94.10	102.26	111.21	126.67

(*) Based on operating earnings per diluted share; (**) Excludes realized investment gains/losses; the impact of SFAS No. 133 beginning in 2001; charges for the policyholder protection fund in 1998, 1999 and 2002; the gain from the termination of a retirement liability in 2000; benefits of tax rate reductions in 1998 and 1999; and gains from the sale of the broadcast business in 1996 and 1997; (***) Operating basis; (****) Based on operating earnings and excluding unrealized gains on investment securities

CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except for share and per-share amounts) Years Ended December 31,	**2002**	2001	2000
Revenues:			
Premiums, principally supplemental health insurance	**$ 8,595**	$ 8,061	$ 8,222
Net investment income	**1,614**	1,550	1,550
Realized investment gains (losses)	**(14)**	(31)	(102)
Other income	**62**	18	33
Total revenues	**10,257**	9,598	9,703
Benefits and expenses:			
Benefits and claims	**6,589**	6,303	6,601
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	**385**	328	302
Insurance commissions	**1,037**	1,006	1,040
Insurance expenses	**842**	793	758
Interest expense	**20**	19	19
Japanese policyholder protection fund provision	**40**	–	–
Termination of retirement liability	**–**	–	(101)
Other operating expenses	**85**	68	72
Total acquisition and operating expenses	**2,409**	2,214	2,090
Total benefits and expenses	**8,998**	8,517	8,691
Earnings before income taxes	**1,259**	1,081	1,012
Income tax expense (benefit):			
Current	**353**	338	338
Deferred	**85**	56	(13)
Total income taxes	**438**	394	325
Net earnings	**$ 821**	$ 687	$ 687
Net earnings per share:			
Basic	**$ 1.59**	$ 1.31	$ 1.30
Diluted	**1.55**	1.28	1.26
Common shares used in computing earnings per share (In thousands):			
Basic	**517,541**	525,098	530,607
Diluted	**528,326**	537,383	544,906

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

AFLAC Incorporated and Subsidiaries

(In millions, except for share and per-share amounts) December 31,	**2002**	2001
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $19,423 in 2002 and $18,048 in 2001)	**$ 22,659**	$ 20,400
Perpetual debentures (amortized cost $2,758 in 2002 and $2,497 in 2001)	**2,730**	2,554
Equity securities (cost $262 in 2002 and $215 in 2001)	**258**	245
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $8,599 in 2002 and $5,262 in 2001)	**8,394**	5,417
Perpetual debentures (fair value $3,595 in 2002 and $3,267 in 2001)	**3,700**	3,306
Other investments	**27**	18
Cash and cash equivalents	**1,379**	852
Total investments and cash	**39,147**	32,792
Receivables, primarily premiums	**435**	341
Accrued investment income	**414**	381
Deferred policy acquisition costs	**4,277**	3,651
Property and equipment, at cost less accumulated depreciation	**482**	456
Other	**303**	239
Total assets	**$ 45,058**	$ 37,860
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$ 29,797**	$ 25,106
Unpaid policy claims	**1,753**	1,615
Unearned premiums	**428**	352
Other policyholders' funds	**748**	519
Total policy liabilities	**32,726**	27,592
Notes payable	**1,312**	1,207
Income taxes	**2,364**	2,091
Payables for security transactions	**274**	271
Payables for return of cash collateral on loaned securities	**1,049**	494
Other	**939**	780
Commitments and contingent liabilities (Notes 10 and 11)		
Total liabilities	**38,664**	32,435
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,000,000 shares; issued 648,618 shares in 2002 and 646,559 shares in 2001	**65**	65
Additional paid-in capital	**371**	338
Retained earnings	**5,244**	4,542
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	**222**	213
Unrealized gains on investment securities	**2,416**	1,878
Minimum pension liability adjustment	**(8)**	–
Treasury stock, at average cost	**(1,916)**	(1,611)
Total shareholders' equity	**6,394**	5,425
Total liabilities and shareholders' equity	**$ 45,058**	$ 37,860

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AFLAC INCORPORATED AND SUBSIDIARIES

(In millions, except for per-share amounts) Years Ended December 31,	**2002**	2001	2000
Common stock:			
Balance, beginning of year	**$ 65**	$ 32	$ 32
Exercise of stock options	**–**	1	–
Two-for-one stock split	**–**	32	–
Balance, end of year	**65**	65	32
Additional paid-in capital:			
Balance, beginning of year	**338**	336	310
Exercise of stock options, including income tax benefits	**11**	10	18
Gain on treasury stock reissued	**22**	24	8
Two-for-one stock split	**–**	(32)	–
Balance, end of year	**371**	338	336
Retained earnings:			
Balance, beginning of year	**4,542**	3,956	3,356
Net earnings	**821**	687	687
Dividends to shareholders ($.23 per share in 2002, $.193 per share in 2001, and $.167 in 2000)	**(119)**	(101)	(87)
Balance, end of year	**5,244**	4,542	3,956
Accumulated other comprehensive income:			
Balance, beginning of year	**2,091**	1,668	1,264
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	**9**	19	(38)
Change in unrealized gains (losses) on investment securities during year, net of income taxes	**538**	404	442
Minimum pension liability adjustment during year, net of income taxes	**(8)**	–	–
Balance, end of year	**2,630**	2,091	1,668
Treasury stock:			
Balance, beginning of year	**(1,611)**	(1,298)	(1,094)
Purchases of treasury stock	**(346)**	(350)	(239)
Cost of shares issued	**41**	37	35
Balance, end of year	**(1,916)**	(1,611)	(1,298)
Total shareholders' equity	**$ 6,394**	$ 5,425	$ 4,694

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In millions) Years Ended December 31,	**2002**	2001	2000
Cash flows from operating activities:			
Net earnings	**$ 821**	$ 687	$ 687
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	**(11)**	(44)	(35)
Increase in deferred policy acquisition costs	**(372)**	(325)	(310)
Increase in policy liabilities	**2,385**	2,380	2,719
Change in income tax liabilities	**67**	46	295
Realized investment losses	**14**	31	102
Japanese policyholder protection fund provision	**40**	–	–
Termination of retirement liability	**–**	–	(101)
Other, net	**94**	74	(112)
Net cash provided by operating activities	**3,038**	2,849	3,245
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	**1,729**	1,799	795
Fixed maturities matured	**1,188**	700	454
Equity securities and other	**69**	92	35
Securities held to maturity:			
Fixed maturities matured or called	**240**	128	18
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	**(3,057)**	(2,441)	(4,360)
Perpetual debentures	**–**	(495)	(26)
Equity securities	**(130)**	(152)	(67)
Securities held to maturity:			
Fixed maturities	**(2,619)**	(2,040)	–
Perpetual debentures	**(136)**	(416)	–
Cash received as collateral on loaned securities, net	**485**	416	127
Additions to property and equipment, net	**(25)**	(45)	(26)
Other, net	**(18)**	(19)	(9)
Net cash used by investing activities	**(2,274)**	(2,473)	(3,059)
Cash flows from financing activities:			
Proceeds from borrowings	**254**	333	294
Principal payments under debt obligations	**(234)**	(116)	(187)
Change in investment-type contracts, net	**74**	138	38
Dividends paid to shareholders	**(112)**	(95)	(82)
Purchases of treasury stock	**(346)**	(350)	(239)
Treasury stock reissued	**35**	38	31
Other, net	**9**	10	15
Net cash used by financing activities	**(320)**	(42)	(130)
Effect of exchange rate changes on cash and cash equivalents	**83**	(91)	(63)
Net change in cash and cash equivalents	**527**	243	(7)
Cash and cash equivalents, beginning of year	**852**	609	616
Cash and cash equivalents, end of year	**$ 1,379**	$ 852	$ 609

Supplemental disclosures of cash flow information — See Note 12

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions) Years Ended December 31,	**2002**	2001	2000
Net earnings	**$ 821**	$ 687	$ 687
Other comprehensive income before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	**(72)**	119	97
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	**763**	509	521
Reclassification adjustment for realized (gains) losses included in net earnings	**13**	3	101
Minimum pension liability adjustment during year	**(8)**	–	–
Total other comprehensive income before income taxes	**696**	631	719
Income tax expense related to items of other comprehensive income	**157**	207	315
Other comprehensive income net of income taxes	**539**	424	404
Total comprehensive income	**$ 1,360**	$ 1,111	$ 1,091

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 the United States and Japan. 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 75% of the Company's total revenues in 2002, 78% in 2001 and 82% in 2000, and 84% of total assets at both December 31, 2002 and 2001.

Basis of Presentation: We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (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 the valuation of investments, deferred policy acquisition costs, and liabilities for future policy benefits and unpaid policy claims. The 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.

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 weighted-average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period ended December 31, 2002.

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

We have designated the cross-currency swaps and the yen-denominated notes payable held by the Parent Company as a hedge of our investment in AFLAC Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are included 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 ratably as earned income over the premium payment periods of the policies. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized 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. Any resulting adjustment is charged against net earnings.

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 debt securities include fixed-maturity securities and perpetual debentures, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other 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.

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impacted investment classifications and solvency margin calculations on a Japanese accounting basis. As a result of these new requirements, we re-evaluated AFLAC Japan's investment portfolio and our intent related to the holding period of certain investment securities. In order to minimize potential fluctuations of future solvency margins, we made certain reclassifications of debt securities between the held-to-maturity and available-for-sale categories as of March 31, 2001 (see Note 3).

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

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

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

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

Our portfolio managers and credit research personnel routinely monitor and evaluate the difference between the cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary. For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and our intent and ability to retain the investment to allow for recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's cost exceeds its market value solely due to changes in interest rates, impairment may not be appropriate. If, after monitoring and analysis, management believes that a decline in fair value is other than temporary, we adjust the amortized cost of the security and report 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 terms of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans collateralized by securities, the collateral is not reported as an asset or liability.

Deferred Policy Acquisition Costs: The costs of acquiring new business 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 persistency assumptions used for computing liabilities for future policy benefits. In this manner, the related acquisition expenses are matched with revenues. Deferred costs include the excess of current-year commissions over ultimate 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.

Policy Liabilities: The liabilities for future policy benefits are computed by a net level premium method using estimated future investment yields, persistency and recognized morbidity and mortality tables modified to reflect our experience, including a provision for adverse deviation.

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions and include a provision for adverse deviation. 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. At December 31, 2002, our only outstanding derivative contracts were cross-currency swaps. Effective January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities (see the section in this note titled, "New Accounting Pronouncements").

The adoption of SFAS No. 133 changed the accounting and disclosure requirements for our derivative instruments. In accordance with SFAS No. 133, we recognize the fair value of all derivatives as either assets or liabilities on the balance sheet. We report the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component are reflected in other income in the consolidated statements of earnings.

We document all relationships between hedging instruments and hedged items, as well as our risk-management objectives for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet. We also assess, both at inception and on an ongoing basis, whether the derivatives and nonderivatives used in hedging activities are highly effective in offsetting changes in fair values of the hedged items. The assessment of hedge effectiveness determines the noncash accounting treatment of changes in fair value.

At December 31, 2002, our cross-currency swaps outstanding were related to the $450 million of senior notes (see Notes 4 and 6). We have designated these swaps as a hedge of our investment in AFLAC Japan. The fair value of the cross-currency swaps is affected by changes in the yen/dollar exchange rate and changes in yen and dollar interest rates.

Prior to the adoption of SFAS No. 133 in 2001, we reported the fair value of the currency portion of the cross-currency swaps on the balance sheet and the change in fair value was included in accumulated other comprehensive income. The portion of the swaps' fair value related to the interest rate component and changes therein were not included in the financial statements.

Policyholder Protection Fund and State Guaranty Association Assessments: In Japan, the government has required the insurance industry to contribute to a policyholder protection fund. We recognize a charge for our estimated share of the industry's obligation once it is determinable. We review the estimated liability for policyholder protection fund contributions on an annual basis and report any adjustments in net earnings.

In the United States, each state has a guaranty association that supports insolvent insurers operating in those states. To date, our state guaranty association assessments have not been material.

Employee Stock Options: At December 31, 2002, we had an employee stock option plan, which is described more fully in Note 8. We apply the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our plan. No compensation expense is reflected in net earnings as all options granted under our stock option plan have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share, assuming we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

(In millions, except for per-share amounts)	**2002**	2001	2000
Net earnings as reported	**$ 821**	$ 687	$ 687
Deduct compensation expense determined under a fair value method, net of tax	**(36)**	(33)	(27)
Pro forma net earnings	**$ 785**	$ 654	$ 660
Earnings per share:			
Basic - as reported	**$ 1.59**	$ 1.31	$ 1.30
Basic - pro forma	**1.52**	1.25	1.25
Diluted - as reported	**$ 1.55**	$ 1.28	$ 1.26
Diluted - pro forma	**1.48**	1.22	1.21

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

Earnings Per Share: We compute basic earnings per share (EPS) 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.

New Accounting Pronouncements: In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. This standard, which amends the transition and disclosure issues associated with SFAS No. 123, became effective for years ending after December 15, 2002. We have no plans to adopt the fair value provisions of SFAS No. 123. The requirements of this standard are not expected to impact our financial position or results of operations.

We adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, effective January 1, 2001. Under this standard, the fair values of derivatives are reported as assets or liabilities on the balance sheet. The fair value of our derivatives increases or decreases as exchange rates, interest rates and general economic conditions change. The adoption of this accounting standard introduced additional volatility into reported net earnings and other comprehensive income, which may continue depending on market conditions and our hedging activities. SFAS No. 133 did not affect the way we recognize the change in fair value of the accrued interest component or the foreign currency portion of the cross-currency swaps. However, we now recognize the change in fair value of the interest rate component in other income. Prior to the adoption of SFAS No. 133 in 2001, the fair value of the interest rate component and changes therein were not recognized in the financial statements. The cumulative transition effect associated with this new accounting standard was a gain of approximately $293,000. Net earnings included a gain of $37 million ($.07 per diluted share) in 2002 and $1 million (nil per diluted share) in 2001, representing the change in fair value of the interest rate component of the swaps. See Note 4 for additional information on our derivative and nonderivative financial instruments.

During the last two years, the FASB has issued a number of accounting pronouncements with various effective dates: SFAS No. 141, Business Combinations; SFAS No. 142, Goodwill and Other Intangible Assets; SFAS No. 143, Accounting for Asset Retirement Obligations; SFAS No. 144, Accounting for the Impairment or

Disposal of Long-Lived Assets; SFAS No. 145, Recision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections; SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities; and SFAS No. 147, Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. These pronouncements do not have a material effect on our financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The disclosure provisions of this interpretation are effective for fiscal years ending after December 15, 2002. The initial recognition and measurement provisions of this interpretation apply to guarantees issued or modified after December 31, 2002, on a prospective basis. This interpretation is not expected to have a material impact on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses consolidation and disclosure issues associated with variable interest entities. We are currently evaluating our investments in variable interest entities. The requirements of the interpretation, however, are not expected to have a material impact on our financial position or results of operations.

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings.

(2) FOREIGN INFORMATION AND BUSINESS SEGMENT INFORMATION

The Company consists of two reportable insurance business segments: AFLAC Japan and AFLAC U.S. We sell supplemental health and life insurance through AFLAC Japan and AFLAC U.S. 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 business segments" category. We do not allocate corporate overhead expenses to business segments. We evaluate our business segments using a non-GAAP financial performance measure called pretax operating earnings. Our definition of pretax operating earnings excludes from net earnings the following items on an after-tax basis: realized investment gains/losses, the change in fair value of the interest rate component of cross-currency swaps beginning in 2001, the charge for the Japanese policyholder protection fund in 2002, and the gain from the termination of a retirement liability in 2000. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding components of operations and lines of business for the years ended December 31 follows:

(In millions)	**2002**	2001	2000
Revenues:			
AFLAC Japan:			
Earned premiums:			
Cancer life	**$ 4,492**	$ 4,508	$ 4,976
Other accident and health	**1,201**	1,075	1,037
Life insurance	**680**	634	655
Net investment income	**1,276**	1,234	1,261
Other income	**1**	1	7
Total AFLAC Japan	**7,650**	7,452	7,936
AFLAC U.S.:			
Earned premiums:			
Cancer expense	**757**	654	585
Accident/disability	**900**	713	565
Other health	**487**	416	360
Life insurance	**77**	61	44
Net investment income	**331**	303	277
Other income	**9**	8	5
Total AFLAC U.S.	**2,561**	2,155	1,836
Other business segments	**48**	32	31
Total business segments	**10,259**	9,639	9,803
Realized investment gains (losses)	**(14)**	(31)	(102)
Corporate*	**78**	31	32
Intercompany eliminations	**(66)**	(41)	(30)
Total revenues	**$ 10,257**	$ 9,598	$ 9,703
Earnings before income taxes:			
AFLAC Japan	**$ 938**	$ 823	$ 771
AFLAC U.S.	**402**	345	290
Other business segments	**1**	(8)	(6)
Total business segments	**1,341**	1,160	1,055
Realized investment gains (losses)	**(14)**	(31)	(102)
Japanese policyholder protection fund provision	**(40)**	–	–
Termination of retirement liability	**–**	–	101
Interest expense, noninsurance operations	**(16)**	(16)	(16)
Corporate*	**(12)**	(32)	(26)
Total earnings before income taxes	**$ 1,259**	$ 1,081	$ 1,012
Advertising expense:			
AFLAC Japan	**$ 48**	$ 60	$ 62
AFLAC U.S.	**57**	45	38
Total advertising expense	**$ 105**	$ 105	$ 100

* Includes investment income of $7 in 2002, $13 in 2001 and $12 in 2000. Also includes a gain of $37 in 2002 and $1 in 2001 related to the change in fair value of the interest rate component of the cross-currency swaps.

Assets at December 31 were as follows:

(In millions)	2002	2001
Assets:		
AFLAC Japan	**$ 37,983**	$ 31,729
AFLAC U.S.	**6,672**	5,729
Other business segments	**62**	43
Total business segments	**44,717**	37,501
Corporate	**7,887**	6,830
Intercompany eliminations	**(7,546)**	(6,471)
Total assets	**$ 45,058**	$ 37,860

Net additions to property and equipment, including capitalized lease obligations, were $33 million in 2002, $62 million in 2001 and $51 million in 2000. Total depreciation and amortization expense was $60 million in 2002, $37 million in 2001, and $33 million in 2000; AFLAC Japan accounted for $29 million in 2002, $21 million in 2001, and $20 million in 2000.

Advertising and depreciation expenses are included in insurance expenses in the consolidated statements of earnings.

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2002, $217 million, or 49.9% of total receivables were related to AFLAC Japan's operations, compared with $171 million, or 50.1%, at December 31, 2001.

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for the three-year period ended December 31, 2002, and their effect on selected financial data.

	2002	2001	2000
Balance Sheets:			
Yen/dollar exchange rate at December 31	**119.90**	131.95	114.75
Yen percent strengthening (weakening)	**10.1%**	(13.0)%	(10.8)%
Exchange effect on total assets (billions)*	**$ 3.2**	$ (4.4)	$ (3.6)
Exchange effect on total liabilities (billions)*	**$ 3.1**	$ (4.3)	$ (3.5)
Statements of Earnings:			
Weighted-average yen/dollar exchange rate	**125.15**	121.54	107.83
Yen percent strengthening (weakening)	**(2.9)%**	(11.3)%	5.7%
Exchange effect on net earnings (millions)*	**$ (10)**	$ (39)	$ 11
Exchange effect on diluted net EPS*	**$ (.02)**	$ (.07)	$ .02

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

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 as a hedge of our investment in AFLAC Japan. 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 at December 31 (translated at end-of-year exchange rates):

(In millions)	2002	2001
AFLAC Japan net assets	**$ 4,806**	$ 4,128
Less:		
AFLAC Japan dollar-denominated net assets	**2,518**	2,193
Parent Company yen-denominated net liabilities	**1,297**	1,150
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	**$ 991**	$ 785

Remittances from AFLAC Japan: AFLAC Japan makes payments to the Parent Company for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. These payments totaled $429 million in 2002, $228 million in 2001 and $199 million in 2000. See Note 9 for information concerning restrictions on remittances from AFLAC Japan.

Policyholder Protection Fund: In December 2002, the Japanese Life Insurance Policyholder Protection Corporation agreed to increase the life insurance industry's obligation to the Japanese policyholder protection fund. We recognized our estimated share of this obligation in 2002 and decreased pretax earnings by $40 million ($26 million after taxes, or $.05 per diluted share). The total liability accrued for our obligations to the policyholder protection fund was $227 million (¥27.3 billion) at December 31, 2002, compared with $186 million (¥24.5 billion) a year ago. The obligation is expected to be payable in installments through 2011.

(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:

	2002				2001			
(In millions)	**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	**$ 6,572**	**$ 1,950**	**$ 1**	**$ 8,521**	$ 5,412	$ 1,621	$ 2	$ 7,031
Municipalities	**20**	**5**	**–**	**25**	75	6	–	81
Public utilities	**2,438**	**380**	**–**	**2,818**	2,953	320	3	3,270
Sovereign and supranational	**77**	**16**	**–**	**93**	49	10	–	59
Banks/financial institutions	**2,821**	**423**	**24**	**3,220**	2,632	302	33	2,901
Other corporate	**1,139**	**97**	**32**	**1,204**	1,081	66	40	1,107
Total yen-denominated	**13,067**	**2,871**	**57**	**15,881**	12,202	2,325	78	14,449
Dollar-denominated:								
Government	**64**	**9**	**–**	**73**	130	8	–	138
Municipalities	**81**	**12**	**–**	**93**	42	3	–	45
Mortgage-backed securities	**77**	**6**	**–**	**83**	138	5	–	143
Public utilities	**708**	**57**	**8**	**757**	439	16	8	447
Sovereign and supranational	**251**	**27**	**5**	**273**	123	12	–	135
Banks/financial institutions	**2,497**	**215**	**65**	**2,647**	2,260	92	58	2,294
Other corporate	**2,678**	**270**	**96**	**2,852**	2,714	110	75	2,749
Total dollar-denominated	**6,356**	**596**	**174**	**6,778**	5,846	246	141	5,951
Total fixed maturities	**19,423**	**3,467**	**231**	**22,659**	18,048	2,571	219	20,400
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	**2,427**	**120**	**182**	**2,365**	2,167	137	94	2,210
Dollar-denominated:								
Banks/financial institutions	**331**	**37**	**3**	**365**	330	15	1	344
Total perpetual debentures	**2,758**	**157**	**185**	**2,730**	2,497	152	95	2,554
Equity securities	**262**	**28**	**32**	**258**	215	49	19	245
Total securities available for sale	**$22,443**	**$ 3,652**	**$ 448**	**$ 25,647**	$ 20,760	$ 2,772	$ 333	$ 23,199
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Government	**$ 1,401**	**$ 64**	**$ 48**	**$ 1,417**	$ 1,280	$ 20	$ 70	$ 1,230
Municipalities	**260**	**33**	**–**	**293**	237	12	1	248
Public utilities	**956**	**56**	**26**	**986**	630	17	27	620
Banks/financial institutions	**2,849**	**255**	**108**	**2,996**	1,915	102	153	1,864
Other corporate	**2,928**	**172**	**193**	**2,907**	1,355	58	113	1,300
Total fixed maturities	**8,394**	**580**	**375**	**8,599**	5,417	209	364	5,262
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	**3,700**	**103**	**208**	**3,595**	3,306	133	172	3,267
Total perpetual debentures	**3,700**	**103**	**208**	**3,595**	3,306	133	172	3,267
Total securities held to maturity	**$12,094**	**$ 683**	**$ 583**	**$ 12,194**	$ 8,723	$ 342	$ 536	$ 8,529

Fair values of debt securities and privately issued equity securities were determined using quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources. The data used in estimating fair value include credit spreads of comparably credit-rated securities and market quotations of securities with similar maturity and call structure characteristics. Fair values are then computed using standard industry models that provide pricing data based on a wide variety of inputs as noted above. The fair values provided by outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, the inputs are re-examined and the value is confirmed or revised. The fair values for publicly traded equity securities were determined using market quotations from the public exchange markets where the security is principally traded.

The contractual maturities of our investments in fixed maturities at December 31, 2002, were as follows:

	AFLAC Japan		AFLAC U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 619	$ 635	$ 74	$ 75
Due after one year through five years	1,739	1,926	353	373
Due after five years through 10 years	3,765	5,155	418	455
Due after 10 years	8,836	10,248	3,542	3,709
U.S. mortgage-backed securities	67	72	10	11
Total fixed maturities available for sale	$15,026	$18,036	$4,397	$4,623
Held to maturity:				
Due after one year through five years	$ 47	$ 51	$ –	$ –
Due after five years through 10 years	956	1,080	–	–
Due after 10 years	7,391	7,468	–	–
Total fixed maturities held to maturity	$ 8,394	$ 8,599	$ –	$ –

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. 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 interest coupons that were fixed at the issue date 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 our investments in perpetual debentures at December 31, 2002, were as follows:

	AFLAC Japan		AFLAC U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 125	$ 130	$ –	$ –
Due after one year through five years	135	150	72	82
Due after five years through 10 years	422	493	–	–
Due after 10 years through 15 years	250	294	–	–
Due after 15 years	1,681	1,502	73	79
Total perpetual debentures available for sale	$ 2,613	$ 2,569	$ 145	$ 161
Held to maturity:				
Due after five years through 10 years	$ 927	$ 961	$ –	$ –
Due after 10 years through 15 years	1,581	1,549	–	–
Due after 15 years	1,192	1,085	–	–
Total perpetual debentures held to maturity	$ 3,700	$ 3,595	$ –	$ –

Privately issued securities, at amortized cost, accounted for $20.6 billion, or 60.2%, of our total debt securities as of December 31, 2002, compared with $16.7 billion, or 57.1%, at December 31, 2001. Privately issued securities held by AFLAC Japan at amortized cost accounted for $19.3 billion, or 56.3%, and $15.4 billion, or 52.5%, of total debt securities at December 31, 2002 and 2001, respectively. Of the total privately issued securities, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for $4.7 billion and $4.2 billion at amortized cost as of December 31, 2002 and 2001, respectively.

As part of our investment activities, we have investments in several fixed-maturity yen-denominated variable interest entities (VIEs). At December 31, 2002, available-for-sale VIEs totaled $678 million at fair value ($679 million at amortized cost), compared with $596 million at fair value ($617 million at amortized cost) in 2001. At December 31, 2002, held-to-maturity VIEs totaled $267 million at amortized cost ($230 million at fair value), compared with $243 million at amortized cost ($199 million at fair value) in 2001. The underlying collateral assets of the VIEs are either yen-denominated securities or dollar-denominated securities that have been effectively transformed into yen-denominated assets through the use of currency and interest rate swaps. Each VIE has a default trigger whereby default on any of the underlying notes would force dissolution of the VIE, distribution of the underlying securities, and termination of the related swaps. We are not the issuer of any of the VIEs, nor do we retain any control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

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

	2002			2001		
(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	Credit Rating	Amortized Cost	Fair Value
Japan National Government	**AA**	**$ 6,023**	**$ 7,878**	AA	$ 4,915	$ 6,452
Credit Suisse First Boston	**A**	**767**	**745**	A	579	570
The Israel Electric Corporation Limited	**A**	**719**	**764**	A	649	632
Takefuji Corporation	**A**	**676**	**733**		*	*
The Tokyo Electric Power Co., Inc.		*****	*****	AA	744	844
HBOS PLC		*****	*****	AA	576	548

* Less than 10%

At December 31, 2002, we owned debt securities that were rated below investment grade in the amount of $791 million at amortized cost ($635 million at fair value), or 2.3% of total debt securities, compared with $355 million at amortized cost ($348 million at fair value), or 1.2% of total debt securities in 2001. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. These securities are held in the available-for-sale portfolio.

In 2002, we recognized pretax impairment losses of $58 million. These impairment losses were related to the corporate debt security of a Japanese issuer ($37 million) and various equity securities we believe experienced other than temporary declines in fair value. These impairment losses and other investment transactions in the normal course of business decreased pretax earnings by $14 million (after-tax, $.03 per diluted share).

In 2001, we recognized pretax impairment losses of $86 million. These impairment losses were primarily related to the corporate debt securities of a U.S. issuer and a European issuer, both of which experienced credit rating downgrades. We also recognized pretax impairment losses on equity securities of $31 million, which included a $28 million loss related to our investment in two human resource service companies. In addition, we realized investment gains in connection with a change in the outside investment manager of a portion of our U.S. equity securities portfolio. These gains and impairment losses, when included with other investment transactions in the normal course of business, decreased pretax earnings by $31 million (after-tax, $.06 per diluted share).

During 2000, the North American issuers of two debt securities that we owned experienced credit rating downgrades. We sold one security reported as available for sale at a pretax loss of $34 million and recognized a pretax impairment loss of $57 million on the other security, which was then transferred from held to maturity to available for sale. These losses and other investment transactions in the normal course of business decreased pretax earnings by $102 million (after-tax, $.12 per diluted share).

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

(In millions)	**2002**	2001	2000
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	**$ 97**	$ 66	$ 9
Gross losses from sales	**(47)**	(23)	(53)
Impairment losses	**(37)**	(55)	–
Net gains (losses) from redemptions	**–**	1	–
Held to maturity:			
Impairment losses	**–**	–	(57)
Total debt securities	**13**	(11)	(101)
Equity securities:			
Gross gains from sales	**8**	29	9
Gross losses from sales	**(14)**	(18)	(10)
Impairment losses	**(21)**	(31)	–
Total equity securities	**(27)**	(20)	(1)
Total realized investment losses	**$ (14)**	$ (31)	$ (102)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	**$ 798**	$ 944	$ 43
Transferred to held to maturity	**11**	(387)	(257)
Equity securities	**(34)**	(46)	(3)
Change in unrealized gains (losses)	**$ 775**	$ 511	$ (217)

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

(In millions)	**2002**	2001
Unrealized gains on securities available for sale	**$ 3,204**	$ 2,439
Unamortized unrealized gains on securities transferred to held to maturity	**625**	614
Deferred income taxes	**(1,413)**	(1,175)
Shareholders' equity, net unrealized gains on investment securities	**$ 2,416**	$ 1,878

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impact investment classifications and solvency margin ratios on a Japanese accounting basis as prescribed by the Financial Services Agency. As a result of these new requirements, we re-evaluated AFLAC Japan's investment portfolio and our intent related to the holding period of certain investment securities. In order to minimize future fluctuations in our Japanese solvency margin ratio, we reclassified debt securities with amortized cost of $1.8 billion from the held-to-maturity category to the available-for-sale category as of March 31, 2001. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized unrealized gain of $327 million related to these securities. This gain represented the remaining unamortized portion of a $1.1 billion unrealized gain that was established in 1998 when we reclassified $6.4 billion of debt securities from the available-for-sale category to the held-to-maturity category.

We also reclassified debt securities with a fair value of $2.3 billion from the available-for-sale category to the held-to-maturity category as of March 31, 2001. The related unrealized gain of $118 million is being amortized from accumulated other comprehensive income to 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.

We attempt to match the duration of our assets with the duration of our liabilities. For AFLAC Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related investment assets due to the unavailability of acceptable yen-denominated long-duration securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 12 years for both 2002 and 2001. The average duration of the yen-denominated debt securities was approximately 10 years in both 2002 and 2001. The average duration of premiums to be received in the future was approximately nine years in both 2002 and 2001.

Over the next two years, we have several yen-denominated securities that mature with yields in excess of AFLAC Japan's current net investment yield of 4.40%. These securities total $939 million at amortized cost and have an average yield of 6.14%. These maturities will contribute to a continued decline in our overall portfolio yield. Currently, when our debt securities 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, the investment yield on new investments has exceeded interest requirements on policies issued in recent years. Since 1994, premium rates on new business have been increased several times to help offset the lower available investment yields. Also in recent years, our strategy of developing and marketing riders as attachments to our older policies has helped offset the negative investment spread. And despite the 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 mortality, morbidity, and expenses.

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

(In millions)	**2002**	2001	2000
Fixed-maturity securities	**$ 1,337**	$ 1,281	$ 1,280
Perpetual debentures	**289**	277	278
Short-term investments and cash equivalents	**5**	9	7
Equity securities and other	**3**	2	4
Gross investment income	**1,634**	1,569	1,569
Less investment expenses	**20**	19	19
Net investment income	**$ 1,614**	$ 1,550	$ 1,550

At December 31, 2002, debt securities with a fair value of $12 million were on deposit with regulatory authorities. As of December 31, 2002, $179 million, at fair value, of AFLAC Japan's debt securities had been pledged to Japan's policyholder protection fund. We retain ownership of all securities on deposit and receive the related investment income.

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 reported 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, 2002 and 2001, we had security loans outstanding with a fair value of $1.0 billion and $480 million, respectively, and we held cash in the amount of $1.0 billion and $494 million, respectively, as collateral for the 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.

(4) FINANCIAL INSTRUMENTS

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

	2002		2001	
(In millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Fixed-maturity securities	**$ 31,053**	**$ 31,258**	$ 25,817	$ 25,662
Perpetual debentures	**6,430**	**6,325**	5,860	5,821
Equity securities	**258**	**258**	245	245
Liabilities:				
Notes payable (excl. capitalized leases)	**1,283**	**1,333**	1,174	1,181
Cross-currency swaps	**(25)**	**(25)**	(33)	(33)
Obligation to Japanese policyholder protection fund	**227**	**227**	186	186

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 on the preceding page.

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. The fair values for our cross-currency swaps are the expected amounts that we would receive or pay to terminate the swaps, taking into account current interest rates, foreign currency rates and the current creditworthiness of the swap counterparties. The fair value of the Japanese policyholder protection fund is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our FSA-based earned premiums and reserves as a percentage of the industry's earned premiums and reserves and applying that percentage to the total industry obligation payable in future years.

The preceding table excludes liabilities for future policy benefits of $29.8 billion and $25.1 billion at December 31, 2002 and 2001, respectively, as these liabilities are not considered financial instruments.

Our risk management objectives related to our cross-currency swaps are to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations and to also reduce our interest expense by converting the dollar-denominated principal and interest on our senior notes into yen-denominated obligations. By entering into these cross-currency swaps, we have effectively converted the dollar-denominated principal and interest into yen-denominated obligations, thereby reducing our interest expense from 6.50% in dollars to 1.67% in yen. See Note 1 for information on the accounting policy for cross-currency swaps.

As of December 31, 2002, we had outstanding cross-currency swap agreements related to the $450 million senior notes (see Note 6). We designated the foreign currency component of these cross-currency swaps as a hedge of the foreign currency exposure of our investment in AFLAC Japan. The notional amounts and terms of the swaps match the principal amount and terms of the senior notes.

The components of the fair value of the cross-currency swaps were reflected as an asset or (liability) on the balance sheet as of December 31 as follows:

(In millions)	**2002**	2001
Interest rate component	**$ 38**	$ 1
Foreign currency component	**(18)**	27
Accrued interest component	**5**	5
Total fair value of cross-currency swaps	**$ 25**	$ 33

The following is a reconciliation of the foreign currency component of the cross-currency swaps as included in accumulated other comprehensive income.

(In millions)	**2002**	2001	2000
Balance, beginning of year	**$ 27**	$ (34)	$ (93)
Increase (decrease) in fair value of cross-currency swaps	**(8)**	62	59
Interest rate component not qualifying for hedge accounting reclassified to net earnings*	**(37)**	(1)	–
Balance, end of year	**$ (18)**	$ 27	$ (34)

*Amount not reported in financial statements prior to January 1, 2001.

We are exposed to credit risk in the event of nonperformance by counterparties to these contracts. The counterparties to our swap agreements are U.S. and Japanese financial institutions with the following credit ratings as of December 31, 2002:

Counterparty Credit Rating	Fair Value of Swaps (In millions)	Notional Amount of Swaps (In millions)
AA	$ 20	$ 375
A	5	75
Total	$ 25	$ 450

We have also designated our yen-denominated notes payable (see Note 6) as hedges of the foreign currency exposure of our investment in AFLAC Japan.

(5) POLICY LIABILITIES

Our policy liabilities primarily include future policy benefits and unpaid policy claims, which accounted for 91% and 5% of total policy liabilities at December 31, 2002, respectively. Future policy benefits represent claims that will occur in the future and are calculated as the present value of expected benefits to be paid less the present value of expected net premiums, including a provision for adverse deviation. These present values are determined at policy issuance. Unpaid policy claims include those claims that have occurred and are in the process of payment as well as an estimate of those claims that have occurred but have not yet been reported to us. We regularly review the adequacy of our policy liabilities in total and by component. Our review indicates that our aggregate policy liabilities are adequate; however, due to changes in health care delivery and financing practices in Japan, we have experienced a change in the emergence of the liabilities that represent unpaid policy claims versus future policy benefits.

Our reviews indicate that we have experienced a decline in the average number of hospital days associated with the typical cancer treatment period in Japan. We believe the average number of days has declined primarily due to changes in the government-sponsored health care system in Japan. During 2002, this trend accelerated due to additional financial incentives that have been provided to hospitals to shorten the average hospital stay. However, our claims statistics indicate the declines in the average number of days per hospitalization are generally offset by an increase in the average number of hospitalizations required for the treatment of cancer such that the total of hospital days per claimant has not changed proportionally. Our unpaid policy claims liability primarily reflects the unpaid costs associated with a current treatment period including necessary hospitalizations. Accordingly, in 2002 we transferred $291 million from unpaid policy claims to the liability for future policy benefits to reflect the anticipated decrease in the number of days per hospitalization for the current treatment period and the associated increase in the expected number of hospitalizations. The transfer to the liability for future policy benefits was necessary because our statistics indicated that there will be an offsetting increase in the number of future hospital days associated with the treatment of cancer. These changes had no effect on net earnings.

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

		Liability Amounts		Interest Rates	
(In millions)	Policy Issue Year	**2002**	2001	Year of Issue	In 20 Years
Health insurance:					
Japan:	1999 - 2002	**$ 1,109**	$ 559	3.0%	3.0%
	1997 - 1999	**1,842**	1,412	3.5	3.5
	1995 - 1996	**199**	165	4.0	4.0
	1994 - 1996	**2,780**	2,320	4.5	4.5
	1985 - 1994	**13,816**	11,924	5.25 - 5.65	5.25 - 5.65
	1978 - 1986	**3,848**	3,419	6.5 - 6.75	5.5
	1974 - 1979	**860**	784	7.0	5.0
U.S.:	1998 - 2002	**433**	297	7.0	7.0
	1988 - 2002	**882**	835	8.0	6.0
	1986 - 2002	**965**	864	6.0	6.0
	1985 - 1986	**26**	26	6.5	6.5
	1981 - 1986	**240**	245	7.0	5.5
	1957 - 1980	**41**	43	6.0	4.5
Life insurance:					
Japan:	2001 - 2002	**9**	1	1.85	1.85
	1999 - 2002	**275**	119	3.0	3.0
	1997 - 1999	**411**	313	3.5	3.5
	1994 - 1996	**695**	573	4.0	4.0
	1985 - 1993	**1,311**	1,159	5.25 - 5.65	5.25 - 5.65
U.S.:	1956 - 2002	**55**	48	4.0 - 6.0	4.0 - 6.0
Total		**$ 29,797**	$ 25,106		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 5.0% in 2002, 5.1% in 2001, and 5.2% in 2000; and for U.S. policies, 6.4% for each year in the three-year period ended December 31, 2002.

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

(In millions)	**2002**	2001	2000
Unpaid supplemental health claims, beginning of year	**$ 1,540**	$ 1,670	$ 1,558
Add claims incurred during the year related to:			
Current year	**3,642**	3,454	3,663
Prior years	**(354)**	(304)	(285)
Total incurred	**3,288**	3,150	3,378
Less claims paid during the year on claims incurred during:			
Current year	**2,402**	2,285	2,303
Prior years	**866**	821	813
Total paid	**3,268**	3,106	3,116
Effect of foreign exchange rate changes on unpaid claims	**118**	(174)	(150)
Unpaid supplemental health claims, end of year	**1,678**	1,540	1,670
Unpaid life claims, end of year	**75**	75	75
Total liability for unpaid policy claims	**$ 1,753**	$ 1,615	$ 1,745

Amounts shown for prior-year claims incurred during the year primarily result from actual claim settlements at less than the original estimates, including a provision for adverse deviation, and such amounts were impacted by the declining number of hospital days as discussed above.

(6) NOTES PAYABLE

A summary of notes payable as of December 31 follows:

(In millions)	**2002**	2001
6.50% senior notes due April 2009 (principal amount $450)	**$ 449**	$ 449
Yen-denominated Samurai notes:		
1.55% notes due October 2005 (principal amount ¥30 billion)	**250**	227
.87% notes due June 2006 (principal amount ¥40 billion)	**334**	303
.96% notes due June 2007 (principal amount ¥30 billion)	**250**	–
Unsecured, yen-denominated notes payable to banks under a revolving credit agreement (principal amount ¥25.8 billion) paid July 2002:		
1.24% fixed interest rate	**–**	29
Variable interest rate	**–**	166
Obligations under capitalized leases, payable monthly through 2007, secured by computer equipment in Japan	**29**	33
Total notes payable	**$ 1,312**	$ 1,207

In September 2000, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes in Japan. These securities are not for sale to U.S. residents or entities. In October 2000, we issued ¥30 billion ($250 million using the December 31, 2002, exchange rate) of 1.55% Samurai notes due October 2005. In June 2001, we issued ¥40 billion ($334 million using the December 31, 2002, exchange rate) of .87% Samurai notes due June 2006. In July 2002, we issued ¥30 billion ($250 million using the December 31, 2002 exchange rate) of .96% Samurai notes due June 2007. All three issues 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.

Proceeds from the 2002 Samurai notes were used to pay in full (¥25.8 billion, or $221 million at payment date) the unsecured revolving credit agreement, with the remaining proceeds being held for general corporate purposes. We also settled the interest rate swap contracts related to the unsecured revolving credit agreement. The impact on net earnings resulting from the termination of the swaps was insignificant.

For our yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period due to changes in the yen/dollar exchange rate. We have designated these yen-denominated notes payable as a hedge of the foreign currency exposure of our investment in AFLAC Japan. We service our yen-denominated obligations with yen cash flows generated by AFLAC Japan.

In 1999, we issued $450 million of 6.50% senior notes due April 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 related to these notes (see Note 4).

The aggregate contractual maturities of notes payable during each of the years after December 31, 2002, are as follows: 2003, $14 million; 2004, $10 million; 2005, $254 million; 2006, $335 million; 2007, $250 million; and 2009, $449 million.

We were in compliance with all covenants of our notes payable at December 31, 2002. No events of default or defaults occurred during 2002 and 2001.

(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
2002:			
Current	**$ 327**	**$ 26**	**$ 353**
Deferred	**(4)**	**89**	**85**
Total income tax expense	**$ 323**	**$ 115**	**$ 438**
2001:			
Current	$ 313	$ 25	$ 338
Deferred	(14)	70	56
Total income tax expense	$ 299	$ 95	$ 394
2000:			
Current	$ 319	$ 19	$ 338
Deferred	(73)	60	(13)
Total income tax expense	$ 246	$ 79	$ 325

Income tax expense in the accompanying statements of earnings 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)	**2002**	2001	2000
Income taxes based on U.S. statutory rates	**$ 441**	$ 378	$ 354
Utilization of foreign tax credit carryforwards	**(21)**	(21)	(22)
Termination of retirement liability	**–**	–	(33)
Noninsurance losses generating no current tax benefit	**–**	12	–
Nondeductible expenses	**12**	11	14
Other, net	**6**	14	12
Income tax expense	**$ 438**	$ 394	$ 325

Total income tax expense for the years ended December 31 was allocated as follows:

(In millions)	**2002**	2001	2000
Statements of earnings	**$ 438**	$ 394	$ 325
Other comprehensive income:			
Changes in unrealized foreign currency translation gains	**(81)**	99	135
Unrealized gains on investment securities:			
Unrealized holding gains (losses) arising during the year	**239**	110	146
Reclassification adjustment for realized (gains) losses included in net earnings	**(1)**	(2)	34
Total income taxes allocated to other comprehensive income	**157**	207	315
Additional paid-in capital (exercise of stock options)	**(1)**	(1)	(2)
Total income taxes	**$ 594**	$ 600	$ 638

Changes in unrealized foreign currency translation gains/losses included a deferred income tax benefit of $80 million in 2002, compared with deferred income tax expense of $98 million in 2001 and $76 million in 2000, which represented Japanese income taxes on currency translation gains/losses that arose for Japanese tax purposes from the translation 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)	**2002**	2001
Deferred income tax liabilities:		
Deferred policy acquisition costs	**$ 1,144**	$ 1,072
Unrealized gains on investment securities	**1,018**	699
Difference in tax basis of investment in AFLAC Japan	**–**	308
Other basis differences in investment securities	**275**	167
Premiums receivable	**92**	103
Unrealized exchange gain on yen-denominated notes payable	**–**	16
Other	**11**	10
Total deferred income tax liabilities	**2,540**	2,375
Deferred income tax assets:		
Policy benefit reserves	**140**	126
Policyholder protection fund obligation	**70**	36
Unfunded retirement benefits	**35**	35
Other accrued expenses	**66**	132
Tax credit carryforwards	**128**	83
Policy and contract claims	**36**	45
Difference in tax basis of investment in AFLAC Japan	**49**	–
Unrealized exchange loss on yen-denominated notes payable	**20**	–
Other	**93**	212
Total gross deferred income tax assets	**637**	669
Less valuation allowance	**196**	126
Total deferred income tax assets	**441**	543
Net deferred income tax liability	**2,099**	1,832
Current income tax liability	**265**	259
Total income tax liability	**$ 2,364**	$ 2,091

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 2002, the valuation allowance for deferred tax assets increased by $70 million, compared with a decrease of $23 million in 2001, due to changes in carryforwards of foreign tax credits, alternative minimum tax credits and noninsurance losses. For current U.S. income tax purposes, alternative minimum tax credit carryforwards of $128 million were available at December 31, 2002.

(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)	**2002**	2001	2000
Common stock - issued:			
Balance, beginning of year	**646,559**	644,813	640,698
Exercise of stock options	**2,059**	1,746	4,115
Balance, end of year	**648,618**	646,559	644,813
Treasury stock:			
Balance, beginning of year	**124,944**	115,603	109,216
Purchases of treasury stock:			
Open market	**12,094**	12,219	9,657
Other	**195**	168	269
Shares issued to AFL Stock Plan	**(1,776)**	(1,830)	(1,182)
Exercise of stock options	**(1,278)**	(1,216)	(2,357)
Balance, end of year	**134,179**	124,944	115,603
Shares outstanding, end of year	**514,439**	521,615	529,210

Share Repurchase Program: In February 2002, the board of directors authorized the purchase of up to an additional 25 million shares of our common stock. As of December 31, 2002, we had approximately 17 million shares available for purchase under the share repurchase program authorized by the board of directors.

Stock Split: In 2001, the board of directors declared a two-for-one stock split. Upon distribution of the split, we transferred $32 million from additional paid-in capital to common stock representing the par value of the new shares.

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. The majority of our options generally vest after three years. At December 31, 2002, 9.1 million shares were available for future grants.

We use the intrinsic value method to value stock options in accordance with APB No. 25. Under this method, we do not recognize compensation cost for stock options provided the option price equals fair market value at the date of grant. Our stock option plan sets the exercise price equal to the fair market value at the date of grant. See Note 1 for additional information regarding stock options.

The following table summarizes stock option activity:

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share
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
Granted in 2001	2,442	28.29
Canceled in 2001	(123)	23.29
Exercised in 2001	(3,043)	6.89
Outstanding at December 31, 2001	**25,257**	**15.44**
Granted in 2002	**2,056**	**27.82**
Canceled in 2002	**(77)**	**26.33**
Exercised in 2002	**(3,476)**	**7.53**
Outstanding at December 31, 2002	**23,760**	**$ 17.64**

(In thousands of shares)	**2002**	2001	2000
Shares exercisable, end of year	**15,072**	16,329	16,782

The following table summarizes information about stock options outstanding at December 31, 2002:

(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
$ 4.71 – $ 4.71	1,891	.5	$ 4.71	1,891	$ 4.71
4.92 – 7.92	3,316	2.8	7.46	3,316	7.46
8.48 – 13.31	3,217	4.2	11.28	3,217	11.28
13.66 – 15.05	3,144	5.4	14.85	3,144	14.85
15.22 – 22.73	2,363	6.9	21.70	1,030	22.38
22.84 – 23.23	3,980	7.4	23.22	1,003	23.17
23.41 – 28.89	3,165	8.1	24.79	1,425	24.44
29.00 – 34.48	2,684	8.7	29.91	46	30.10
$ 4.71 – $ 34.48	23,760	5.7	$ 17.64	15,072	$ 13.21

For the pro forma information presented in Note 1, the fair value of each option granted 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, 2002.

	2002	2001	2000
Expected life from vesting date (years)	**4.3 - 5.5**	4.4 - 5.6	4.2 - 5.8
Dividend yield	**.8%**	.8%	.5%
Expected volatility	**31.9%**	32.4%	32.0%
Risk-free interest rate	**5.0%**	5.0%	6.0%

For the year ended December 31, 2002, there were approximately 987,900 weighted-average shares, compared with 1,057,900 in 2001 and 937,400 in 2000, for outstanding stock options that were not included in the calculation of weighted-average shares used in the computation of diluted earnings per share because the exercise price for these options was greater than the average market price during these periods.

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 $7.5 billion at December 31, 2002, on a GAAP basis. AFLAC Japan accounted for $4.8 billion, or 64.0%, of these net assets.

Our insurance subsidiary is required to report its 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 was $506 million in 2002, $370 million in 2001 and $210 million in 2000. Capital and surplus was $2.1 billion and $2.2 billion at December 31, 2002 and 2001, 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)	**2002**	2001
Net assets on GAAP basis	**$ 7,481**	$ 6,380
Adjustment of carrying values of investments	**(3,831)**	(3,023)
Elimination of deferred policy acquisition costs	**(4,221)**	(3,611)
Adjustment to policy liabilities	**769**	685
Adjustment to deferred income taxes	**2,336**	2,063
Other, net	**(421)**	(332)
Net assets on U.S. statutory accounting basis	**$ 2,113**	$ 2,162

The National Association of Insurance Commissioners has revised and codified statutory accounting principles to promote standardization throughout the industry. We adopted these new accounting principles January 1, 2001. The transition adjustments to reflect the prior years' effects increased AFLAC statutory capital and surplus by approximately $130 million.

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 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 Nebraska without prior approval of the director of insurance is the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividend payments by AFLAC during 2003 in excess of $505 million would require such approval. Dividends paid by AFLAC during 2002 were $358 million.

A portion of AFLAC Japan 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. AFLAC Japan remitted earnings of $383 million, or ¥45.3 billion, to AFLAC U.S. during 2002, compared with $185 million, or ¥23.0 billion in 2001, and $157 million, or ¥17.0 billion in 2000. The 2002 profit repatriation was significantly higher than those of the two previous years as a result of our decisions in 2001 and 2000 to retain earnings in Japan in order to enhance our solvency margin.

Net assets (unaudited) of AFLAC Japan, based on Japanese statutory accounting practices, aggregated $3.2 billion and $2.6 billion at December 31, 2002 and 2001, respectively. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, premium income is recognized on a cash basis, policy acquisition costs are charged off immediately, policy benefit and claim reserving methods and assumptions are different, policyholder protection fund obligations are not accrued, and deferred income tax liabilities are recognized on a different basis.

For the Japanese fiscal year ended March 31, 2002, AFLAC Japan was required to adopt a new Japanese statutory accounting standard regarding fair value accounting for investments. Previously, investment securities were generally reported at amortized cost for FSA purposes. Under the new accounting standard, AFLAC Japan now classifies investment securities in two categories: in an available-for-sale category at fair value and in a held-to-maturity category at amortized cost. Unrealized gains and losses on investment securities available for sale are reported in FSA capital and surplus and reflected in solvency margin calculations. This new accounting standard may result in significant fluctuations in FSA equity, AFLAC Japan's solvency margin, and amounts available for annual profit repatriation.

(10) BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees. 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:

	2002		2001	
(In thousands)	**Japan**	**U.S.**	Japan	U.S.
Projected benefit obligation:				
Benefit obligation, beginning of year	**$ 69,194**	**$ 79,047**	$ 72,929	$ 73,409
Service cost	**5,491**	**3,901**	4,132	3,583
Interest cost	**1,953**	**5,505**	1,784	5,072
Plan amendments	**–**	**577**	–	–
Actuarial loss (gain)	**8,542**	**1,583**	1,468	(1,727)
Benefits paid	**(1,274)**	**(1,573)**	(1,118)	(1,290)
Effect of foreign exchange rate changes	**7,399**	**–**	(10,001)	–
Benefit obligation, end of year	**91,305**	**89,040**	69,194	79,047
Plan assets:				
Fair value of plan assets, beginning of year	**39,419**	**48,761**	48,669	63,307
Actual return on plan assets	**(2,792)**	**(4,350)**	(7,815)	(14,520)
Employer contribution	**6,362**	**2,991**	5,778	1,264
Benefits paid	**(1,274)**	**(1,573)**	(1,118)	(1,290)
Effect of foreign exchange rate changes	**4,031**	**–**	(6,095)	–
Fair value of plan assets, end of year	**45,746**	**45,829**	39,419	48,761
Funded status	**(45,559)**	**(43,211)**	(29,775)	(30,286)
Unrecognized net actuarial loss (gain)	**21,600**	**30,769**	15,228	19,677
Unrecognized transition obligation (asset)	**3,012**	**(354)**	3,009	(475)
Unrecognized prior service cost	**647**	**2,018**	654	1,616
Adjustment for minimum pension liability	**–**	**(8,080)**	–	–
Liability for accrued benefit cost	**$ (20,300)**	**$ (18,858)**	$ (10,884)	$ (9,468)

Pension plan assets consist of a diverse portfolio of debt and equity securities. Equity securities accounted for 54% of U.S. plan assets at both December 31, 2002 and 2001. Equity securities for our U.S. plan included $2 million (4% of plan assets) and $1 million (3% of plan assets) of AFLAC Incorporated common stock at December 31, 2002 and 2001, respectively. Fixed income investments accounted for 46% of U.S. plan assets at both December 31, 2002 and 2001. Equity securities accounted for 50% of Japanese plan assets at December 31, 2002, compared with 56% a year ago. Fixed income investments accounted for 50% of Japanese plan assets, compared with 44% a year ago. For the U.S. plan, we systematically amortize investment gains and losses over a five-year period.

At December 31, 2002, other liabilities included a liability for both plans in the amount of $39 million, compared with $20 million a year ago. The projected benefit obligation of both our U.S. and Japanese plans significantly exceeded the fair value of plan assets at December 31, 2002 and 2001. The underfunded status of the plans was primarily attributable to steadily increasing pension benefit obligations combined with a decrease in the fair value of assets of both plans during 2002 and 2001 as a result of general market conditions for investment securities. Under GAAP, a minimum pension liability is required when the actuarial present value of the accumulated benefit obligation exceeds plan assets and the accrued pension liability.

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

	2002		2001		2000	
(In thousands)	**Japan**	**U.S.**	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	**$ 5,491**	**$ 3,901**	$ 4,132	$ 3,583	$ 4,458	$ 2,891
Interest cost	**1,953**	**5,505**	1,784	5,072	2,093	4,314
Expected return on plan assets	**(1,176)**	**(5,290)**	(1,152)	(5,612)	(1,470)	(5,013)
Amortization of:						
Net actuarial loss	**685**	**131**	225	–	202	–
Transition obligation (asset)	**290**	**(121)**	295	(122)	333	(121)
Prior service cost	**71**	**175**	72	138	81	138
Net periodic benefit cost	**$ 7,314**	**$ 4,301**	$ 5,356	$ 3,059	$ 5,697	$ 2,209
Weighted-average actuarial assumptions used in the calculations:						
Discount rate – net periodic benefit cost	**2.5%**	**7.0%**	2.5%	7.0%	3.0%	7.0%
Discount rate – benefit obligations	**2.5**	**7.0**	2.5	7.0	3.0	7.0
Expected long-term return on plan assets	**2.5**	**9.0**	2.5	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. In May 2000, the surviving spouse of John B. Amos, former chairman of the board, unexpectedly passed away. We had accrued an unfunded liability under a shareholder-approved employment contract for projected retirement payments. The gain from the termination of the remaining liability increased earnings by $101 million (after-tax, $.18 per diluted share) for the year ended December 31, 2000.

Retirement expense for the unfunded supplemental plans, excluding the termination of a retirement liability in 2000, was $13 million in 2002, $15 million in 2001, and $5 million in 2000. The accrued retirement liability for the unfunded supplemental retirement plans at December 31, 2002 and 2001, was $167 million and $157 million, respectively. The actuarial present value of projected benefit obligations was $172 million and $162 million at December 31, 2002 and 2001, 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)	**2002**	2001
Benefit obligation:		
Benefit obligation, beginning of year	**$ 15,010**	$ 14,565
Service cost	**423**	522
Interest cost	**1,051**	1,020
Actuarial loss (gain)	**2,722**	(88)
Benefits paid	**(1,146)**	(1,009)
Unfunded benefit obligation, end of year	**18,060**	15,010
Unrecognized net actuarial gain (loss)	**(3,714)**	(993)
Unrecognized prior service cost	**(291)**	(316)
Accrued benefit cost	**$ 14,055**	$ 13,701

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)	**2002**	2001	2000
Service cost	**$ 423**	$ 522	$ 408
Interest cost	**1,051**	1,020	874
Amortization of prior service cost	**25**	25	25
Net periodic benefit cost	**$ 1,499**	$ 1,567	$ 1,307
Discount rate:			
Net periodic cost	**7.0%**	7.0%	7.0%
Benefit obligations	**7.0**	7.0	7.0
Effect of 1-percentage point increase in health care cost trend rate:			
On total of service and interest cost components	**$ 183**	$ 168	$ 136
On postretirement benefit obligation	**1,279**	1,070	1,180
Effect of 1-percentage point decrease in health care cost trend rate:			
On total of service and interest cost components	**(156)**	(143)	(116)
On postretirement benefit obligation	**(1,113)**	(919)	(1,010)

The projected health care cost trend rate used in 2002 was 11%, graded to 6% over six years.

Stock Bonus Plan: AFLAC U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of AFLAC Incorporated common stock based on their new annualized premium sales and persistency of substantially all new insurance policies. The cost of this plan, which is included in deferred policy acquisition costs, amounted to $30 million in 2002, $24 million in 2001, and $18 million in 2000.

(11) COMMITMENTS AND CONTINGENT LIABILITIES

Commitments: We lease office space and equipment under various agreements that expire in various years through 2021. Future minimum lease payments due under non-cancelable operating leases at December 31, 2002, were as follows: 2003, $37 million; 2004, $18 million; 2005, $6 million; 2006, $5 million; 2007, $4 million; and thereafter, $27 million.

Land Purchase Commitment: A portion of AFLAC Japan's administrative office building is located on leased land. Under the terms of the lease agreement, we are committed to purchase the leased land, at fair value, upon the demand of the owner. As of December 31, 2002, the fair value of the leased land was ¥1.8 billion ($15 million using the year-end exchange rate).

Litigation: We are a defendant in various lawsuits considered to be in the normal course of business. 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 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

	2002	2001	2000
Weighted-average shares used in calculating earnings per share (In thousands):			
Average outstanding shares used for calculating basic EPS	**517,541**	525,098	530,607
Dilutive effect of stock options	**10,785**	12,285	14,299
Average outstanding shares used for calculating diluted EPS	**528,326**	537,383	544,906
Other:			
Policy acquisition costs deferred during the year (In millions)	**$ 756**	$ 651	$ 612
Commissions deferred as a percentage of total acquisition costs deferred	**74%**	71%	71%
Personnel compensation and benefits as a percentage of insurance expenses	**47%**	44%	42%
Supplemental disclosures of cash flow information (In millions):			
Income taxes paid	**$ 363**	$ 347	$ 215
Interest paid	**22**	23	21
Impairment losses included in realized investment losses	**58**	86	57
Noncash financing activities:			
Capitalized lease obligations	**8**	17	25
Treasury shares issued to AFL Stock Plan for:			
Shareholder dividend reinvestment	**7**	6	5
Associate stock bonus	**22**	17	7
Property and equipment (In millions):			
Land	**$ 131**	$ 117	$ 132
Buildings	**355**	339	355
Equipment	**219**	186	169
	705	642	656
Less accumulated depreciation	**223**	186	175
Net property and equipment	**$ 482**	$ 456	$ 481

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 accounting principles generally accepted in the United States of America 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
Chairman and Chief Executive Officer

Kriss Cloninger III
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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia
January 30, 2003

UNAUDITED CONSOLIDATED QUARTERLY FINANCIAL DATA

(In millions, except for per-share amounts)

Three months ended,	**March 31, 2002**	**June 30, 2002**	**September 30, 2002**	**December 31, 2002**
Total revenues	**$ 2,371**	**$ 2,513**	**$ 2,707**	**$ 2,666**
Net earnings	**183**[1]	**212**[2]	**240**[3]	**186**[4]
Net earnings per basic share	**$ .35**[1]	**$ .41**[2]	**$ .46**[3]	**$ .36**[4]
Net earnings per diluted share	**.34**[1]	**.40**[2]	**.45**[3]	**.35**[4]
Cash dividends per share	**.05**	**.06**	**.06**	**.06**

Three months ended,	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Total revenues	$ 2,401	$ 2,348	$ 2,446	$ 2,404
Net earnings	178[5]	153[6]	193[7]	163[8]
Net earnings per basic share	$ .34[5]	$ .29[6]	$ .37[7]	$ .31[8]
Net earnings per diluted share	.33[5]	.28[6]	.36[7]	.31[8]
Cash dividends per share	.043	.05	.05	.05

(1) Includes a loss of $4 ($.01 per diluted share) related to the change in fair value of the interest rate component of the cross-currency swaps (hereafter referred to as the impact of SFAS No. 133) and realized investment losses of $5 ($.01 per diluted share); (2) Includes a gain of $13 ($.03 per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $3 ($.01 per diluted share); (3) Includes a gain of $33 ($.06 per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $4 ($.01 per diluted share); (4) Includes a loss of $5 ($.01 per diluted share) related to the impact of SFAS No. 133; realized investment losses of $4 ($.01 per diluted share) and a charge of $26 ($.05 per diluted share) for the policyholder protection fund in Japan; (5) Includes a gain of $3 (nil per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $1 (nil per diluted share); (6) Includes a loss of $21 ($.04 per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $3 ($.01 per diluted share); (7) Includes a gain of $37 ($.07 per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $28 ($.05 per diluted share); (8) Includes a loss of $18 ($.03 per diluted share) related to the impact of SFAS No. 133 and realized investment losses of $2 (nil per diluted share).

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.