AFLAC INC
Form 10-K
February 28, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2006 OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _________ to ___________

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of Registrant as specified in its charter)

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

Registrant s telephone number, including area code: 706.323.3431

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 Par Value	New York Stock Exchange Tokyo Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006, was $22,618,406,669.

The number of shares of the registrant s Common Stock outstanding at February 20, 2007, with $.10 par value, was 491,875,747.

Documents Incorporated By Reference

Certain information contained in the Notice and Proxy Statement for the Company s Annual Meeting of Shareholders to be held on May 7, 2007, is incorporated by reference into Part III hereof.

Aflac Incorporated
Annual Report on Form 10-K
For the Year Ended December 31, 2006

Table of Contents

Table of Contents

PART I

ITEM 1. BUSINESS.

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). This report includes certain forward-looking information that is based on current expectations and is subject to a number of risks and uncertainties. For details on forward-looking information, see Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Part II, Item 7, of this report.

Aflac Incorporated qualifies as a large accelerated filer within the meaning of Exchange Act Rule 12b-2. Our Internet address is aflac.com. The information on the Company s Web site is not incorporated by reference in this annual report on Form 10-K. We make available, free of charge on our Web site, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto as soon as reasonably practicable after those forms have been electronically filed with or furnished to the Securities and Exchange Commission (SEC).

General Description

Aflac Incorporated (the Parent Company) was incorporated in 1973 under the laws of the state of Georgia. Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac s policies are individually underwritten and marketed through independent agents. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

We believe Aflac is the world s leading writer of individually issued policies marketed at worksites. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells cancer plans, care plans, general medical indemnity plans, medical/sickness riders, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells cancer plans and various types of health insurance, including accident/disability, fixed-benefit dental, sickness and hospital indemnity, vision care, hospital intensive care, long-term care, ordinary life, and short-term disability plans.

We are authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. Aflac Japan accounted for 72% of the Company s total revenues in 2006, 74% in 2005 and 75% in 2004. The percentage of total assets attributable to Aflac Japan was 82% at both December 31, 2006 and 2005. For additional information see Note 2 of the Notes to the Consolidated Financial Statements in this report.

Results of Operations

For information on our results of operations and financial information by segment, see MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

Table of Contents

Foreign Currency Translation

For information regarding the effect of currency fluctuations on our business, see the Foreign Currency Translation and Currency Risk sections of MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

Insurance Premiums

The growth of earned premiums is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates. Consolidated earned premiums were $12.3 billion in 2006, $12.0 billion in 2005, and $11.3 billion in 2004. For additional information on the composition of earned premiums by segment, see Note 2 of the Notes to the Consolidated Financial Statements in this report. The following table presents the changes in annualized premiums in force for Aflac s insurance business for the years ended December 31.

(In millions)	**2006**	2005	2004
Annualized premiums in force, beginning of year	**$ 12,415**	$ 12,604	$ 11,446
New sales, including conversions	**2,433**	2,426	2,319
Change in unprocessed new sales	**(56)**	(67)	(106)
Premiums lapsed and surrendered	**(1,589)**	(1,483)	(1,398)
Other	**79**	58	86
Foreign currency translation adjustment	**(87)**	(1,123)	257
Annualized premiums in force, end of year	**$ 13,195**	$ 12,415	$ 12,604

Insurance - Japan

We translate Aflac Japan s annualized premiums in force into dollars at the respective end-of-period exchange rates. Changes in annualized premiums in force are translated at weighted-average exchange rates. The following table presents the changes in annualized premiums in force for Aflac Japan for the years ended December 31.

	In Dollars			**In Yen**		
(In millions of dollars and billions of yen)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Annualized premiums in force, beginning of year	**$ 8,705**	$ 9,230	$ 8,403	**1,028**	962	900
New sales, including conversions	**1,010**	1,167	1,133	**117**	129	123
Change in unprocessed new sales	**(56)**	(67)	(106)	**(6)**	(8)	(11)
Premiums lapsed and surrendered	**(463)**	(470)	(469)	**(54)**	(52)	(51)
Other	**(15)**	(32)	12	**(2)**	(3)	1
Foreign currency translation adjustment	**(87)**	(1,123)	257	-	-	-
Annualized premiums in force, end of year	**$ 9,094**	$ 8,705	$ 9,230	**1,083**	1,028	962

Table of Contents

For further information regarding Aflac Japan s financial results, sales and the Japanese economy, see the Aflac Japan section of MD&A in this report.

Insurance - U.S.

The following table presents the changes in annualized premiums in force for Aflac U.S. for the years ended December 31.

(In millions)	2006	2005	2004
Annualized premiums in force, beginning of year	**$ 3,711**	$ 3,374	$ 3,043
New sales, including conversions	**1,423**	1,259	1,186
Premiums lapsed	**(1,127)**	(1,012)	(929)
Other	**94**	90	74
Annualized premiums in force, end of year	**$ 4,101**	$ 3,711	$ 3,374

For further information regarding Aflac s U.S. financial results and sales, see the Aflac U.S. section of MD&A in this report.

Insurance Products - Japan

Aflac Japan s insurance products are designed to help consumers pay for medical and nonmedical costs that are not reimbursed under Japan s national health insurance system. Changes in Japan s economy and an aging population have put increasing pressure on Japan s national health care system. As a result, more costs are being shifted to Japanese consumers, who in turn have become increasingly interested in insurance products that help them manage those costs. Aflac Japan has responded to this consumer need by enhancing existing products and developing new products.

Aflac Japan s stand-alone medical product, EVER, offers a basic level of hospitalization coverage with an affordable premium. We introduced two new versions of EVER in early 2005: EVER Half and EVER Bonus. EVER Half is a whole-life medical policy with benefits similar to the original EVER product. With EVER Half, premiums are cut in half when the policyholder reaches age 60 or 65. EVER Bonus has all of the same features of EVER Half, but also provides a bonus payment every 10 years unless the hospitalization benefit was paid for 10 or more consecutive days. In addition, EVER Bonus provides a death benefit and a cash surrender value. We continue to believe that the medical category will be an important part of our product portfolio.

The cancer life insurance plans we offer in Japan provide a lump-sum benefit upon initial diagnosis of internal cancer and a fixed daily benefit for hospitalization and outpatient services related to cancer as well as surgical, convalescent and terminal care benefits. These plans differ from Aflac U.S. cancer plans in that the Japanese policies may also provide death benefits and cash surrender values. In 2006, we designed a new cancer product for distribution by Dai-ichi Life that is customized for their market. In 2005, we introduced a new cancer insurance product that incorporates a wellness benefit, while also increasing the daily outpatient benefit to the same level as the hospitalization

I-3

Table of Contents

benefit. Our Rider MAX product provides accident and medical/sickness benefits as a rider to our cancer life policy.

The life products that we offer in Japan provide death benefits and cash surrender values. These products are available as stand-alone policies and riders. We introduced a new product called WAYS in early 2006. WAYS is a life insurance policy that allows policyholders to convert a portion of their life insurance to medical, nursing care, or fixed annuity benefits at a predetermined age.

We also offer traditional fixed-income annuities and care policies. For additional information on Aflac Japan s products and composition of sales, see the Aflac Japan section of MD&A in this report.

Insurance Products - U.S.

We design our U.S. insurance products to provide supplemental coverage for people who already have major medical or primary insurance coverage. The policies are portable and pay regardless of other insurance. Our health insurance plans are guaranteed-renewable for the lifetime of the policyholder (to age 70 for short-term disability policies). We cannot cancel guaranteed-renewable coverage, but we can increase premium rates on existing policies on a uniform, nondiscriminatory basis by class of policy in response to adverse experience. Any premium rate increases are subject to state regulatory approval. We have had minimal rate increase activity in the last five years.

Aflac U.S. offers an accident and disability policy to protect against losses resulting from accidents. The accident portion of the policy includes lump-sum benefits for accidental death, dismemberment, and specific injuries as well as fixed benefits for hospital confinement. Optional disability riders are also available. Short-term disability policies provide disability benefits with a variety of elimination and benefit period options. The longest such benefit period offered is two years.

Our U.S. cancer plans are designed to provide insurance benefits for medical and nonmedical costs that are not covered by major medical insurance. Benefits include a first-occurrence benefit that pays an initial amount when internal cancer is first diagnosed; a fixed amount for each day an insured is hospitalized for cancer treatment; fixed amounts for radiation, chemotherapy, and surgery; and a wellness benefit applicable toward certain diagnostic tests.

Our hospital indemnity products provide fixed daily benefits for hospitalization due to accident or sickness. In 2005, we introduced a new version of our hospital indemnity plan. Indemnity benefits for inpatient and outpatient surgeries, as well as various other diagnostic expenses, are also available. Our sickness indemnity plan provides a fixed daily benefit for hospitalization due to sickness and fixed amounts for physician services for accident or sickness.

In July 2006, we introduced a revised specified health event policy that gives consumers three benefit and premium levels from which they may select. One of the levels combines the new specified health event policy with our intensive care plan. By leveraging administrative efficiencies, consumers can purchase the combined coverage for less money than if they had purchased the policies separately.

Table of Contents

Aflac U.S. offers term and whole-life policies sold through payroll deduction at the worksite and various term and whole-life policies on a direct basis. In early 2006, we introduced a revised life insurance portfolio called the Life Protector Series. This product line offers term policies with varying duration options and a new whole-life policy with additional benefits, including an increased face value option. These revisions greatly enhanced the product category and contributed to its success in the marketplace.

We also offer a series of fixed-benefit dental policies, providing various levels of benefits for dental procedures, including checkups and cleanings. Plan features include a renewal guarantee, no deductible and no network restrictions.

In 2005, we introduced Vision NowSM, which provides benefits for serious eye health conditions and loss of sight. Vision Now includes coverage for corrective eye materials and exam benefits.

We also offer other health insurance products including tax qualified and non-qualified long-term care plans. For additional information on Aflac s U.S. products and composition of sales, see the Aflac U.S. section of MD&A in this report.

Distribution - Japan

We sell our products primarily through two distribution channels: independent/individual agencies and affiliated corporate agencies.

The individual agencies and independent corporate agencies that sell our products give us better access to workers at the vast number of small businesses in Japan. Agents activities are primarily focused on insurance sales, with customer service support provided by the Aflac Contact Center. Individual agencies contributed 58% of total new annualized premium sales in 2006, and 57% in both 2005 and 2004.

Affiliated corporate agencies are formed when companies establish subsidiary businesses to sell our insurance products to their employees, suppliers and customers. These agencies help us reach employees at large worksites, including 90% of the companies listed on the Tokyo Stock Exchange. Reflecting changed employment patterns and consumers desire for consultation, Aflac s sales growth through large affiliated corporate agencies has slowed for several years. However, we still consider the corporate channel to be an important part of our distribution system and believe it is a valuable means for reaching workers at large employers. To rejuvenate this channel, we are encouraging our affiliated agencies to move away from passive, or pull sales tactics, like direct mailings and newspaper ads, and instead adopt active, or push techniques that involve more follow-up calls and face-to-face sales consultations. We are also working to have some of our larger affiliated agencies form alliances with individual agencies who already have expertise in a face-to-face sales approach. Affiliated corporate agencies contributed 33% of total new annualized premium sales in 2006, compared with 35% in 2005 and 36% in 2004.

To improve the overall effectiveness of our sales force, we started a new training initiative. This new program uses six months of classroom training and practical field training to equip sales

Table of Contents

associates with the skills necessary for their success. By the end of 2006, we had trained more than 700 of Aflac Japan s field employees, who in turn, are now positioned to train primarily newly recruited sales associates.

Aflac Service Shops, which are primarily owned and operated by individual sales agencies, are gaining in popularity as many consumers in Japan seek one-on-one consultation and convenience in handling their insurance needs. By the end of 2006, we had 570 Aflac Service Shops throughout Japan.

As of December 31, 2006, there were approximately 18,400 agencies in Japan with more than 90,000 licensed agents, compared with approximately 17,960 agencies and 81,700 licensed agents a year ago. We believe that new agencies will continue to be attracted to Aflac Japan s high commissions, superior products, customer service and brand image.

We also continued to reach consumers through our strategic marketing alliance with Dai-ichi Mutual Life Insurance Company (Dai-ichi Life). We believe our alliance has been one of the most successful partnerships in the insurance industry. In 2006, Dai-ichi Life sold 269,700 of our market leading cancer life policies, compared with 277,700 policies in 2005 and 244,400 policies in 2004, leading Dai-ichi to retain its distinction as the number two seller of cancer insurance behind only Aflac Japan.

We expect that our distribution system will continue to evolve in Japan. Regulatory changes that are scheduled to take effect on December 31, 2007 will enable banks to sell our products to their customers. Although there will undoubtedly be a lot of competition for the bank distribution channel, we have established long-term relationships with many banks throughout Japan, and we are excited about the opportunity to grow our business through this channel beginning in 2008.

For additional information on Aflac Japan s distribution, see the Aflac Japan section of MD&A in this report.

Distribution - U.S.

Our U.S. sales force comprises sales associates who are independent contractors licensed to sell accident and health insurance. Many are also licensed to sell life insurance. Associates are paid personal production commissions based on first-year and renewal premiums from their sales of insurance products. In addition to receiving commissions on personal production, associates who serve as district, regional and state sales coordinators may also receive override commissions and incentive bonuses. Most associates efforts are principally focused on selling supplemental insurance at the worksite. Administrative personnel in Georgia, New York, and Nebraska handle policyholder service functions, including issuance of policies, premium collection, payment notices and claims.

Table of Contents

We concentrate on marketing our products at the worksite. This method offers policies to individuals through common media such as employment, trade and other associations. This manner of marketing is distinct from the group insurance sales approach, as our primary method of enrollment results from the individual insured being directly contacted by the sales associate. Policies are individually underwritten, with premiums generally paid by the employee. Additionally, Aflac policies are portable, meaning that individuals may retain their full insurance coverage upon separation from employment or such affiliation, generally at the same premium. We collect a major portion of premiums on such sales through payroll deduction or other forms of centralized billing. Worksite marketing enables a sales associate to reach a greater number of prospective policyholders and lowers distribution costs, compared with individually marketed business.

During 2004 and 2005, we took several steps to enhance our distribution system. We concentrated on expanding our sales management infrastructure and training and recruiting initiatives. In 2006, we continued our focus on recruiting and training as a means for growing our producer base. During 2006, recruiting was up 7.8% to approximately 26,100 new sales associates, compared with 2005. The total number of licensed agents was 8.5% higher at December 31, 2006, compared with year-end 2005.

The goal of our recruiting and training focus has been to increase the number of sales associates producing business on a weekly basis. We believe that we can achieve better producer growth through more effective and standardized training for our sales associates and sales management. As previously disclosed, we shifted our focus during 2006 from average monthly producers to average weekly producers as both a reporting and management metric. This shift enables active management of our sales associates and allows our sales management to monitor progress and needs on a real-time basis. On a weekly basis, the average number of U.S. associates actively producing business during 2006 was 10,300, compared with 9,700 in both 2005 and 2004.

For new sales associates, we continued to implement LEASE training, which stands for Larger Earnings by Acquiring Smaller Employers. In 2006, we merged LEASE with the New Associate Training Cycle, combining classroom instruction, e-learning through *Aflac University*® and field training. We believe that combining LEASE into the New Associate Training Cycle will help get new sales associates off to a quick start.

In addition, associates that exhibit leadership skills are invited to participate in our national Coordinator in Training (CIT) program, which we introduced nationwide in July 2005. The goal of the CIT program is to build a pool of well-trained candidates for the district sales coordinator (DSC) position, which is the first level of Aflac sales management. As such, the CIT program concentrates on developing their skills so that they have a better chance to succeed as a DSC and beyond.

And finally, we introduced an enhanced regional coordinator accreditation program (RCAP) in 2006. This program was designed for both new and experienced regional sales coordinators (RSCs). In early 2006, we began bringing current RSCs to Aflac Worldwide Headquarters for five days of intense and interactive workshops in areas such as recruiting, leadership, planning, team building, and technology.

Table of Contents

For additional information on Aflac s U.S. distribution, see the Aflac U.S. section of MD&A in this report.

Competition - Japan

In 1974, Aflac became the second non-Japanese life insurance company to gain direct access to the Japanese insurance market by obtaining an operating license. Through 1981, we faced limited competition for cancer life insurance policy sales. However, Japan has experienced two periods of deregulation since we entered the market. The first came in the early 1980s, when nine mid-sized insurers, including domestic and foreign, were allowed to sell cancer insurance products for the first time. In 2001, all life and non-life insurers were allowed to sell stand-alone cancer and medical insurance products as well as other stand-alone health insurance products. As a result, the number of insurance companies offering stand-alone cancer and medical insurance has more than doubled in the five years since full deregulation. However, based on our growth of annualized premiums in force and agencies, we do not believe that our market leading position has been significantly impacted by increased competition as a result of deregulation. Furthermore, we believe the continued development and maintenance of operating efficiencies will allow us to offer affordable products that appeal to consumers.

Aflac has had substantial success selling cancer life policies in Japan, with 14 million cancer life policies in force as of December 31, 2006. We believe we will remain a leading provider of cancer life insurance coverage in Japan, principally due to our experience in the market, low-cost operations, unique marketing system (see Distribution - Japan above) and product expertise.

We have also experienced substantial success selling medical insurance in Japan. While other companies have recognized the opportunities that we have seen in the medical insurance market and offered new products, we believe our products stand out as a tremendous value to consumers. Aflac Japan continued to be the number one seller of stand-alone medical insurance in the life insurance industry in terms of policy sales throughout the year.

Competition - U.S.

Approximately 2,000 life insurance companies are licensed in the United States. We compete against several insurers on a national basis plus other insurers regionally. We believe our policies and premium rates, as well as the commissions paid to our sales agents, are competitive with those offered by other companies providing similar types of insurance. However, we believe our U.S. business is distinct from our competitors because of our product focus, distribution system, and brand awareness. For many of the other companies that sell supplemental insurance, it represents a secondary business. For us, it is our primary business. We also believe that our growing distribution system of independent sales associates expands our business opportunities, while our advertising campaigns have increased our name awareness and the effectiveness of our branding efforts.

Private insurers and voluntary and cooperative plans, such as Blue Cross and Blue Shield, provide insurance for hospitalization and medical expenses. Much of this insurance is sold on a group basis. The federal and state governments also pay substantial costs of medical treatment through various

Table of Contents

programs. Such major medical insurance generally covers a substantial amount of the medical expenses incurred by an insured as a result of accident and disability, cancer or other major illnesses. Aflac s policies are designed to provide coverage that supplements major medical insurance and may also be used to defray nonmedical expenses. Thus, we do not compete directly with major medical insurers. However, the scope of major medical coverage offered by other insurers does represent a potential limitation on the market for our products. Accordingly, expansion of coverage by other insurers or governmental programs could adversely affect our business opportunities. Conversely, any reduction of coverage, or increased deductibles and copayments, by other insurers or governmental programs could favorably affect our business opportunities.

Investments and Investment Results

Net investment income was $2.2 billion in 2006, $2.1 billion in 2005, and $2.0 billion in 2004. Growth of net investment income during the last three years has been impacted by low available investment yields for new money in both Japan and the United States. In particular, Japan s life insurance industry has contended with low investment yields for a number of years. Although the Bank of Japan ended its zero-interest-rate policy in 2006, market yields on long-duration fixed maturity securities, which we primarily purchase, did not increase significantly during the year.

Investments - Japan

The following table presents the composition of total investments and cash for Aflac Japan ($42.5 billion in 2006 and $39.5 billion in 2005) as of December 31.

Composition of Securities by Sector

	2006	**2005**
Debt securities, at amortized cost:		
Government and guaranteed	**19.8 %**	22.2 %
Municipalities	**.1**	.1
Public utilities	**8.0**	7.6
Collateralized debt obligations	**.3**	-
Banks/financial institutions	**44.6**	43.3
Sovereign and supranational	**8.8**	8.9
Mortgage- and asset-backed securities	**.8**	.4
Other corporate	**16.7**	16.1
Total debt securities	**99.1**	98.6
Equity securities and other	**.1**	.2
Cash and cash equivalents	**.8**	1.2
Total investments and cash	**100.0%**	100.0%

Yen-denominated debt securities accounted for 93% of Aflac Japan s total debt securities at both December 31, 2006 and 2005.

Table of Contents

Funds available for investment include cash flows from operations, which include investment income, and funds generated from bond swaps, maturities and redemptions. Aflac Japan purchased debt security investments totaling approximately 687.9 billion yen in 2006 (approximately $5.9 billion), 873.4 billion yen in 2005 (approximately $7.8 billion), and 556.1 billion yen in 2004 (approximately $5.1 billion). Equity security purchases were immaterial during the three-year period ended December 31, 2006. The following table presents the composition of debt security purchases for the years ended December 31.

Composition of Purchases by Sector

	2006	**2005**	**2004**
Debt security purchases, at cost:			
Government and guaranteed	**23.6 %**	43.9 %	30.0 %
Municipalities	**.1**	-	-
Public utilities	**9.2**	2.3	8.0
Collateralized debt obligations	**2.5**	-	-
Banks/financial institutions	**36.3**	46.8	50.0
Sovereign and supranational	**8.9**	.2	6.7
Mortgage- and asset-backed securities	**3.5**	.4	.6
Other corporate	**15.9**	6.4	4.7
Total	**100.0%**	100.0%	100.0%

The distributions by credit rating of Aflac Japan s purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

	2006	**2005**	**2004**
AAA	**9.7 %**	1.7 %	6.9 %
AA	**53.7**	50.1	47.7
A	**33.4**	43.6	30.8
BBB	**3.2**	4.6	14.6
Total	**100.0%**	100.0%	100.0%

The distributions of debt securities owned by Aflac Japan by credit rating were as follows:

Composition by Credit Rating

	December 31, 2006		**December 31, 2005**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
AAA	**4.8 %**	**4.8 %**	2.9 %	2.9 %
AA	**37.9**	**39.0**	37.0	38.6
A	**38.0**	**37.6**	37.0	36.6
BBB	**16.6**	**16.4**	21.0	20.3
BB or lower	**2.7**	**2.2**	2.1	1.6

Total	**100.0%**	**100.0%**	100.0%	100.0%

Table of Contents

The increase in Aflac Japan s holding of AAA-rated debt securities resulted from purchases as well as credit ratings upgrades. The increase in BB or lower resulted from credit ratings downgrades.

Investments - U.S.

The following table presents the composition of total investments and cash for Aflac U.S. ($7.1 billion in 2006 and $6.5 billion in 2005) as of December 31.

Composition of Securities by Sector

	2006	2005
Debt securities, at amortized cost:		
Government and guaranteed	**4.8 %**	4.3 %
Municipalities	**.8**	.4
Collateralized debt obligations	**.2**	-
Mortgage- and asset-backed securities	**3.2**	2.6
Public utilities	**9.4**	9.8
Sovereign and supranational	**3.3**	3.7
Banks/financial institutions	**44.0**	41.6
Other corporate	**29.6**	31.7
Total debt securities	**95.3**	94.1
Cash and cash equivalents	**4.7**	5.9
Total	**100.0%**	100.0%

Funds available for investment include cash flows from operations, which include investment income, and funds generated from bond swaps, maturities and redemptions. Aflac U.S. purchased debt security investments totaling approximately $1.2 billion in both 2006 and 2005, and $1.1 billion in 2004. Equity security purchases were immaterial during the three-year period ended December 31, 2006. The following table presents the composition of debt security purchases for the years ended December 31.

Composition of Purchases by Sector

	2006	2005	2004
Debt security purchases, at cost:			
Government and guaranteed	**6.5 %**	14.1 %	9.2 %
Municipalities	**2.5**	.1	.1
Mortgage- and asset-backed securities	**5.4**	9.9	9.9
Collateralized debt obligations	**.8**	-	-
Public utilities	**4.6**	3.9	8.0
Sovereign and supranational	**-**	2.4	.3
Banks/financial institutions	**54.9**	36.0	45.8
Other corporate	**25.3**	33.6	26.7
Total	**100.0%**	100.0 %	100.0%

Table of Contents

The distributions by credit rating of Aflac s U.S. purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

	2006	2005	2004
AAA	**15.1 %**	33.8 %	19.1 %
AA	**26.1**	17.4	12.2
A	**42.9**	37.4	63.0
BBB	**15.9**	11.4	5.7
Total	**100.0%**	100.0%	100.0%

The distributions of debt securities owned by Aflac U.S. by credit rating were as follows:

Composition by Credit Rating

	December 31, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	**11.8 %**	**10.9 %**	11.0 %	10.0 %
AA	**17.0**	**17.0**	12.4	12.5
A	**47.5**	**48.2**	50.6	51.7
BBB	**21.6**	**22.0**	22.2	22.5
BB or lower	**2.1**	**1.9**	3.8	3.3
Total	**100.0%**	**100.0%**	100.0%	100.0%

For additional information on the composition of our investment portfolios and investment results, see the Investments and Cash section in MD&A and Notes 3 and 4 of the Notes to the Consolidated Financial Statements in this report.

Regulation - Japan

The financial and business affairs of Aflac Japan are subject to examination by Japan s Financial Services Agency (FSA). Aflac Japan files annual reports and financial statements for the Japanese insurance operations based on a March 31 fiscal year end, prepared in accordance with Japanese regulatory accounting practices prescribed or permitted by the FSA. Japanese regulatory basis earnings are determined using accounting principles that differ materially from U.S. GAAP. Under Japanese regulatory accounting practices, policy acquisition costs are charged off immediately; deferred income tax liabilities are recognized on a different basis; policy benefit and claim reserving methods and assumptions are different; the carrying value of securities transferred to held to maturity is different; policyholder protection fund obligations are not accrued; and premium income is recognized

Table of Contents

on a cash basis. Reconciliations of the net assets of the Japan branch on a U.S. GAAP basis to net assets determined on a Japanese regulatory accounting basis as of December 31 were as follows:

(In millions)	**2006**	**2005**
Aflac Japan net assets on GAAP basis	**$ 5,740**	$ 5,472
Elimination of deferred policy acquisition costs	**(3,857)**	(3,624)
Adjustment to income tax liabilities	**1,746**	1,501
Adjustment to policy liabilities	**(239)**	139
Adjustment of unrealized gains and other adjustments to carrying value of debt securities	**(532)**	(518)
Elimination of policyholder protection fund liability	**175**	203
Reduction in premiums receivable	**(91)**	(96)
Other, net	**(331)**	(290)
Aflac Japan net assets on Japanese regulatory accounting basis	**$ 2,611**	$ 2,787

The FSA maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. Aflac Japan s solvency margin continues to significantly exceed regulatory minimums. A portion of Aflac Japan s annual earnings, as determined on a Japanese regulatory accounting basis, may be repatriated each year to Aflac U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japan s regulatory authorities for protecting policyholders. These repatriated profits represent a portion of Aflac Japan s after-tax earnings reported to the FSA on a March 31 fiscal year basis. If needed, we may elect not to repatriate profits to Aflac U.S. or to repatriate a reduced amount to strengthen Aflac Japan s solvency margin. In addition, the FSA may not allow profit repatriations or other transfers of funds to Aflac U.S. if they would cause Aflac Japan to lack sufficient financial strength for the protection of Japanese policyholders. We do not expect these requirements to adversely affect the funds available for profit repatriations. Nor do we expect these requirements to adversely affect the funds available for payments of allocated expenses to Aflac U.S. and management fees to the Parent Company.

As disclosed in our third quarter 2006 Form 10-Q, Aflac Japan, along with the entire life insurance industry, began a review of the last five years of paid claims to determine if those claims were paid fully and accurately. In a recent notification from the FSA, the review process has been changed from a voluntary program to one that is mandatory and has been expanded to include a review of cash surrender value payments. Additionally, the FSA established a reporting deadline of April 13, 2007. We expect to complete our review of claims and cash surrender value payments and report our findings to the FSA within the time frame specified. As a result of this review, we have found some payment errors and we are correcting them. Additionally, we are using this review to identify process changes that will help ensure that payment errors such as these are not repeated. Although immaterial to our financial statements, we have provided for our estimate of the underpaid portion of those claims in our unpaid policy claims liability as of December 31, 2006.

Table of Contents

The Japanese insurance industry has a policyholder protection fund that provides funds for the policyholders of insolvent insurers. For additional information regarding the policyholder protection fund, see the Policyholder Protection Fund section of MD&A and Note 2 of the Notes to the Consolidated Financial Statements in this report.

In October 2005, legislation aimed at privatizing Japan s postal system (Japan Post) was enacted into law. Prior to the move to privatize, Japan Post enjoyed significant advantages over the private sector, which in turn made competing against it difficult for the private sector. The privatization laws split Japan Post into four independent entities and generally recognize the need for a level playing field between Japan Post and the private sector. Specifically, the laws contain a commitment to implement measures to ensure equivalent conditions of competition between the four privatized Japan Post companies and other companies engaged in like business operations. The laws also require the postal insurance entity of Japan Post to ultimately be subject to the same tax and policyholder safety-net contribution requirements as its private industry competitors. In addition, the insurance entity would also be subject to Insurance Business Law and FSA supervision. The privatization process is scheduled to be completed by October 2017.

In July 2006, Japan Post submitted an outline of its privatization plan to the government. When the new Japan Post financial entities start operations on October 1, 2007, they will be limited to the products that they now currently offer. Japan Post is scheduled to submit a full version of its privatization plan to the government in April 2007. Various government entities will then review the plan. This review should be completed by the end of July 2007. After October 2007, any new business proposals would, in addition to the normal FSA approval process, have to undergo a special review by Japan s Postal Privatization Committee and approval by Japan s Prime Minister and the Minister for Internal Affairs and Communications.

Our branch in Japan is also subject to regulation and supervision in the United States (see Regulation - U.S.). For additional information regarding Aflac Japan s operations and regulations, see the Aflac Japan section of MD&A and Notes 2 and 11 of the Notes to the Consolidated Financial Statements in this report.

Regulation - U.S.

The Parent Company and its insurance subsidiaries are subject to state regulations in the United States as an insurance holding company system. Such regulations generally provide that transactions between companies within the holding company system must be fair and equitable. In addition, transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries, and material transactions between companies within the system are subject to prior notice to, or approval by, state regulatory authorities.

Table of Contents

Like all U.S. insurance companies, Aflac is subject to regulation and supervision in the jurisdictions in which they do business. In general, the insurance laws of the various jurisdictions establish supervisory agencies with broad administrative powers relating to, among other things:

- granting and revoking licenses to transact business
- regulating trade practices
- licensing of agents
- approval of policy forms and premium rates
- standards of solvency and maintenance of specified policy benefit reserves and minimum loss ratio requirements
- capital requirements
- limitations on dividends to shareholders
- the nature of and limitations on investments
- deposits of securities for the benefit of policyholders
- filing of financial statements prepared in accordance with statutory insurance accounting practices prescribed or permitted by regulatory authorities
- periodic examinations of the market conduct, financial, and other affairs of insurance companies

Additionally, the National Association of Insurance Commissioners (NAIC) is constantly reviewing regulatory matters and recommending changes and revisions for adoption by state legislators and insurance departments.

The NAIC uses a risk-based capital formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon the types and mixtures of risks inherent in the insurer s operations. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company s regulatory total adjusted capital to its authorized control level risk-based capital as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The levels are Company action, regulatory action, authorized control, and mandatory control. Aflac s NAIC risk-based capital ratio remains high and reflects a very strong capital and surplus position.

For further information concerning Aflac U.S. operations, regulation and dividend restrictions, see the Aflac U.S. section of MD&A and Notes 2 and 11 of the Notes to the Consolidated Financial Statements in this report.

Table of Contents

Executive Officers of the Registrant

NAME	PRINCIPAL OCCUPATION*	AGE
Daniel P. Amos	Chairman, Aflac Incorporated and Aflac; Chief Executive Officer, Aflac Incorporated and Aflac; President, Aflac until January 2007	55
Paul S. Amos II	President, Aflac since January 2007; Chief Operating Officer, U.S. Operations, Aflac, since February 2006; Executive Vice President, U.S. Operations, Aflac, from January 2005 until January 2007; State Sales Coordinator from November 2002 until December 2004	31
Yuji Arai	Senior Vice President, Investments and Investment Analysis, Aflac Japan, since January 2005; Principal Financial Officer, Aflac Japan, since January 2005; Vice President, Investments and Investment Analysis, Aflac Japan from January 2002 until December 2004	44
Susan R. Blanck	Senior Vice President, Corporate Actuary, Aflac since January 2006; Senior Vice President, Deputy Corporate Actuary, Aflac from March 2004 until December 2005; Vice President, Associate Actuary until March 2004	40
Kriss Cloninger III	President, Aflac Incorporated; Chief Financial Officer, Aflac Incorporated and Aflac; Executive Vice President, Aflac; Treasurer, Aflac Incorporated	59
Rebecca C. Davis	Executive Vice President, Chief Administrative Officer, Aflac, since October 2004; Senior Vice President, Chief Administrative Officer, Aflac, until October 2004	56
Martin A. Durant III	Senior Vice President, Corporate Finance, Aflac Incorporated, since July 2006; Senior Vice President, Treasurer and Chief Financial Officer, Carmike Cinemas, Inc. until March 2006	58
Jun Isonaka	Senior Vice President, Sales, Aflac Japan since January 2007; Vice President, Contact Center, Aflac Japan from January 2006 to December 2006; Vice President, Territory Director, Northeast Territory, Aflac Japan from January 2005 to December 2005; Vice President, Administrative and Customer Service Division, Aflac Japan from January 2002 to December 2004	49
Kenneth S. Janke Jr.	Senior Vice President, Investor Relations, Aflac Incorporated	48
W. Jeremy Jeffery	Senior Vice President, Chief Investment Officer, Aflac since January 2007; Senior Vice President, Deputy Chief Investment Officer, Aflac from October 2005 until January 2007; Executive Director, Morgan Stanley until October 2005	56

Table of Contents

Akitoshi Kan	President, Aflac Japan, since April 2005; Chairman, Aflac International, Inc. since January 2005.; Chief Operating Officer, Aflac Japan, since January 2005; Executive Vice President, U.S. Internal Operations, Aflac, until December 2004	59
Ronald E. Kirkland	Senior Vice President, Director of Sales, Aflac, since January 2005; Vice President, West Territory Director, Aflac, from October 2004 until January 2005; State Sales Coordinator, Missouri, until October 2004	62
Charles D. Lake II	Vice Chairman, Aflac Japan, since April 2005; President, Aflac Japan, from January 2003 until March 2005; Deputy President, Aflac Japan, until December 2002	45
Joey M. Loudermilk	Executive Vice President, General Counsel and Corporate Secretary, Aflac Incorporated and Aflac; Director, Legal and Governmental Relations, Aflac	53
Hidefumi Matsui	Chairman, Aflac Japan, since January 2003; President, Aflac Japan, until December 2002	62
Takaaki Matsumoto	First Senior Vice President, Director of Marketing and Sales, Aflac Japan since January 2007; Senior Vice President, Director of Marketing, Aflac Japan from February 2006 to December 2006; Vice President, Aflac Japan, from January 2005 to January 2006; General Manager, East Japan Claims Department, Aflac Japan, until December 2004	58
Ralph A. Rogers Jr.	Senior Vice President, Financial Services, Aflac Incorporated and Aflac; Chief Accounting Officer, Aflac Incorporated and Aflac, since January 2002; Treasurer, Aflac, since March 2002	58
Hiroshi Yamauchi	First Senior Vice President and Chief Administrative Officer, Aflac Japan, since January 2005; First Senior Vice President, Director of Operations, Aflac Japan, from January 2003 until January 2005; First Senior Vice President, Director of Administrative and Customer Service Division, Aflac Japan, from January 2002 until January 2003; Vice President, General Manager of Policy Maintenance Department, Aflac Japan, until January 2002	55

**Unless specifically noted, the respective executive officer has held the occupation(s) set forth in the table for at least the last five years. Each executive officer is appointed annually by the board of directors and serves until his or her successor is chosen and qualified, or until his or her death, resignation or removal.*

Table of Contents

Employees

Aflac Japan had 3,394 employees as of December 31, 2006. Aflac U.S. had 4,017 employees as of December 31, 2006. We consider our employee relations to be excellent.

Other Operations

Our other operations include the Parent Company and a printing subsidiary. These operations had 293 employees as of December 31, 2006. We consider our relations with these employees to be excellent. For additional information on our other operations, see the Other Operations section of MD&A.

ITEM1A. RISK FACTORS.

Risk Factors

We face a wide range of risks, and our continued success depends on our ability to identify, prioritize and appropriately manage our enterprise risk exposures. Readers should carefully consider each of the following risks and all of the other information set forth in this Form 10-K. These risks and other factors may affect forward-looking statements, including those in this document or made by the Company elsewhere, such as in earnings release webcasts, investor conference presentations or press releases. The risks and uncertainties described herein may not be the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks and uncertainties develops into actual events, it could have a material impact on the Company.

We operate in an industry that is subject to ongoing changes.

We operate in a competitive environment and in an industry that is subject to ongoing changes from market pressures brought about by customer demands, legislative reform and marketing practices. These factors require us to anticipate market trends and make changes to differentiate our products and services from those of our competitors. We also face the potential of competition from existing or new companies that have not historically been in the supplemental health insurance industry. Failure to anticipate market trends and/or to differentiate our products and services can affect our ability to retain or grow profitable lines of business.

Our concentration of business in Japan poses risks to our operations.

Our operations in Japan accounted for 72%, 74%, and 75% of our total revenues for 2006, 2005, and 2004, respectively, and 82% of our total assets at both December 31, 2006 and 2005. As a result, weakness in Japan s economy could adversely affect our business. The weak economy in Japan that emerged in the early 1990s resulted in a challenging marketing environment for Aflac Japan, with declining available investment yields for new investments and decreased consumer confidence. Although the Japanese economy has shown signs of improvement from time to time, the time required for a full recovery remains uncertain.

Table of Contents

Japanese currency translation risk could adversely impact operating results.

Due to the size of Aflac Japan, where our functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported financial position and results of operations. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported.

Aflac Japan s premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars. As a result, we view foreign currency translation as a financial reporting issue for Aflac and not an economic event to our Company or shareholders.

General market conditions affect investments and investment income.

We have substantial investment portfolios that support our policy liabilities. Low levels of interest rates on investments, such as those experienced in the United States and Japan during recent years, have negatively impacted the level of investment income earned by the Company. Slower investment income growth will occur if a low-interest-rate environment persists.

Financial market conditions can also affect our realized and unrealized investment gains or losses. During periods of rising interest rates, the fair values of our investments will decline. Conversely, during periods of falling interest rates, the fair values of our investments will rise. However, should significant amounts of unrealized gains/losses occur because of changes in market yields, we would not expect to realize significant gains or losses due to our ability and intent to hold the securities to maturity or recovery of value.

Availability of acceptable yen-denominated investments could adversely affect our profits.

We attempt to match the duration of our assets with the duration of our liabilities. At December 31, 2006, the average duration of Aflac Japan s policy liabilities and its yen-denominated debt securities was approximately 13 years. When our debt securities mature, there is a risk that the proceeds will be reinvested at a yield below that of the interest required for the accretion of policy liabilities. If this occurs, Aflac Japan s business would be adversely affected.

Concentration of our investment portfolios in any particular sector of the economy may have an adverse effect on our financial position or results of operations.

The concentration of our investment portfolios in any particular industry, group of related industries or geographic sector could have an adverse effect on our investment portfolios and, consequently, on our results of operations and financial position. Events or developments that have a negative impact on any particular industry, group of related industries or geographic sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified.

Table of Contents

If future policy benefits, claims or expenses exceed those anticipated in establishing premiums and reserves, our financial results would be adversely affected.

We establish and carry, as a liability, reserves based on estimates of how much will be required to pay for future benefits and claims. We calculate these reserves using various assumptions and estimates, including premiums we will receive over the assumed life of the policy; the timing, frequency and severity of the events covered by the insurance policy; and the investment returns on the assets we purchase with a portion of our net cash flow from operations. These assumptions and estimates are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove inadequate. As a result, we would incur a charge to earnings in the period in which we determine such a shortfall exists. This estimation process is a critical accounting policy for the Company.

Our operating subsidiaries provide cash flow to the Parent Company.

Aflac Incorporated is a holding company and has no direct operations or no significant assets other than the stock of its subsidiaries. Because we conduct our operations through our operating subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations. There is no assurance that the earnings from, or other available assets of, our operating subsidiaries will be sufficient to make distributions to us to enable us to operate.

Extensive regulation can impact profitability and growth.

Aflac s insurance subsidiaries are subject to complex laws and regulations that are administered and enforced by a number of governmental authorities, including state insurance regulators, the SEC, the NAIC, the FSA, the Ministry of Finance (MOF) in Japan, the U.S. Department of Justice, state attorneys general, and the Internal Revenue Service, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal or regulatory issue may not result in compliance with another regulator s or enforcement authority s interpretation of the same issue, particularly when compliance is judged in hindsight. There is also a risk that any particular regulator s or enforcement authority s interpretation of a legal or regulatory issue may change over time to our detriment. In addition, changes in the overall legal or regulatory environment may, even absent any particular regulator s or enforcement authority s interpretation of an issue changing, cause us to change our views regarding the actions we need to take from a legal or regulatory risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow or otherwise negatively impact the profitability of our business.

Table of Contents

The primary purpose of insurance company regulation supervision is the protection of insurance policyholders, rather than investors. The extent of regulation varies, but generally is governed by state statutes in the United States and by the FSA and the MOF in Japan. These systems of supervision and regulation cover, among other things:

- standards of establishing and setting premium rates and the approval thereof
- standards of minimum capital requirements and solvency margins, including risk-based capital measures
- restrictions on, limitations on and required approval of certain transactions between our insurance subsidiaries and their affiliates, including management fee arrangements
- restrictions on the nature, quality and concentration of investments
- restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations
- limitations on the amount of dividends that insurance subsidiaries can pay or foreign profits that can be repatriated
- the existence and licensing status of the Company under circumstances where it is not writing new or renewal business
- certain required methods of accounting
- reserves for unearned premiums, losses and other purposes
- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies
- administrative practices requirements
- imposition of fines and other sanctions

Sales of our products and services are dependent on our ability to attract, retain and support a network of qualified sales associates.

Our sales could be adversely affected if our sales networks deteriorate or if we do not adequately provide support, training and education for our existing network. Competition exists for sales associates with demonstrated ability. We compete with other insurers and financial institutions primarily on the basis of our products, compensation, support services and financial rating. An inability to attract and retain qualified sales associates could have a material adverse effect on sales and our results of operations and financial condition. Our sales associates are independent contractors and may sell products of our competitors. If our competitors offer products that are more attractive than ours, or pay higher commissions than we do, these sales associates may concentrate their efforts on selling our competitors products instead of ours.

Table of Contents

Success of our business depends in part on effective information technology systems and on continuing to develop and implement improvements in technology; certain significant multi-year strategic information technology projects are currently in process.

Our business depends in large part on our technology systems for interacting with employers, policyholders and sales associates, and our business strategy involves providing customers with easy-to-use products to meet their needs. Some of our information technology systems and software are older, legacy-type systems that are less efficient and require an ongoing commitment of significant resources to maintain or upgrade to current standards (including adequate business continuity procedures). We are currently developing new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and customer demands. Our success is dependent in large part on maintaining or improving the effectiveness of existing systems and continuing to develop and enhance information systems that support our business processes in a cost-efficient manner.

Changes in accounting standards issued by the FASB or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of generally accepted accounting principles in both the United States and Japan, which are periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. It is possible that future changes we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results and financial condition.

Any decrease in our financial strength ratings may have an adverse effect on our competitive position.

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company s business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer s ratings due to, for example, a change in an insurer s statutory capital; a change in a rating agency s determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer s investment portfolio; a reduced confidence in management; or other considerations that may or may not be under the insurer s control. Because all of our ratings are subject to continuous review, the retention of these ratings cannot be assured. A multi-level downgrade in any of these ratings could have a material adverse effect on agent recruiting and retention, sales, competitiveness, and the marketability of our products impacting our liquidity, operating results and financial condition.

Table of Contents

We face risks related to litigation.

We are a defendant in various lawsuits considered to be in the normal course of business. Senior legal and financial management review litigation on a quarterly and annual basis. The final results of any litigation cannot be predicted with certainty. Although some of this litigation is pending in states where large punitive damages bearing little relation to the actual damages sustained by plaintiffs have been awarded in recent years, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows. However, litigation could adversely affect us because of the costs of defending these cases, costs of settlement or judgments against us or because of changes in our operations that could result from litigation.

Managing key executive succession is critical to our success.

We would be adversely affected if we fail to adequately plan for succession of our senior management and other key executives. While we have succession plans and employment arrangements with certain key executives, these do not guarantee that the services of these executives will be available to us.

We also face other risks that could adversely affect our business, results of operations or financial condition, which include:

- any requirement to restate financial results in the event of inappropriate application of accounting principles
- failure of our processes to prevent and detect unethical conduct of employees
- a significant failure of internal controls over financial reporting
- failure of our prevention and control systems related to employee compliance with internal policies and regulatory requirements
- failure of corporate governance policies and procedures

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as our worldwide headquarters and house administrative support functions for our U.S. operations. Aflac also leases administrative office space in Georgia, New York, and Nebraska. In 2005, we announced a multi-year building project for additional office space in Columbus, Georgia. The initial phase is to be completed in 2007 and will provide additional space for administrative support functions. The next phase of the expansion is anticipated to begin in mid-2007.

In Tokyo, Japan, Aflac has two primary campuses. The first campus includes a building that Aflac owns that serves as customer service center. The second campus comprises leased space, which serves as our Japan branch headquarters and houses administrative support functions for the Japan branch. Aflac also leases additional office space in Tokyo, along with regional offices located throughout the country.

ITEM 3. LEGAL PROCEEDINGS.

We are a defendant in various lawsuits considered to be in the normal course of business. Senior legal and financial management review litigation on a quarterly and annual basis. The final results of any litigation cannot be predicted with certainty. Although some of this litigation is pending in states where large punitive damages bearing little relation to the actual damages sustained by plaintiffs have been awarded in recent years, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to the security holders for a vote during the quarter ended December 31, 2006.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Aflac Incorporated s common stock is principally traded on the New York Stock Exchange under the symbol AFL. Our stock is also listed on the Tokyo Stock Exchange. The quarterly high and low market prices for the Company s common stock, as reported on the principal exchange market for the two years ended December 31, were as follows:

Quarterly Common Stock Prices

2006	High	Low
4th Quarter	**$ 46.20**	**$ 42.50**
3rd Quarter	**46.85**	**41.63**
2nd Quarter	**49.29**	**44.40**
1st Quarter	**49.40**	**44.72**

2005	High	Low
4th Quarter	$ 49.65	$ 44.38
3rd Quarter	46.33	42.72
2nd Quarter	44.15	35.50
1st Quarter	40.42	36.86

Holders

	2006	2005
Number of common shares outstanding	**492,549,966**	498,893,553
Number of registered common shareholders	**82,647**	80,808

Dividends Paid

	2006	2005
4th Quarter	**$ .16**	$ .11
3rd Quarter	**.13**	.11
2nd Quarter	**.13**	.11
1st Quarter	**.13**	.11

In October 2006, the board of directors declared the first quarter 2007 cash dividend of $.185 per share. The dividend is payable on March 1, 2007, to shareholders of record at the close of business on

February 16, 2007. We expect comparable dividends to continue to be paid in future periods. For

II-1

Table of Contents

information concerning dividend restrictions, see the Capital Resources and Liquidity section of the MD&A and Note 11 of the Notes to the Consolidated Financial Statements presented in this report.

Issuer Purchases of Equity Securities

During the fourth quarter of 2006, we repurchased shares of Aflac stock as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31	1,494,800	$ 44.79	1,494,800	38,283,263
November 1 - November 30	1,638,900	44.74	1,638,900	36,644,363
December 1 - December 31	-	-	-	36,644,363
Total	3,133,700	$ 44.76	3,133,700	36,644,363

Of the shares available for purchase, 6,644,363 shares relate to a 30,000,000 share repurchase authorization approved by the board and announced in February 2004. The remaining 30,000,000 shares relate to a 30,000,000 repurchase authorization approved by the board and announced in February 2006.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

Aflac Incorporated and Subsidiaries
Years Ended December 31,

(In millions, except for share and per-share amounts)	**2006**	**2005**		**2004**		**2003**		**2002**	
Revenues:									
Premiums, principally supplemental health insurance	**$ 12,314**	$ 11,990		$ 11,302		$ 9,921		$ 8,595	
Net investment income	**2,171**	2,071		1,957		1,787		1,614	
Realized investment gains (losses)	**79**	262		(12	)	(301	)	(14	)
Other income	**52**	40		34		40		62	
Total revenues	**14,616**	14,363		13,281		11,447		10,257	
Benefits and expenses:									
Benefits and claims	**9,016**	8,890		8,482		7,529		6,589	
Expenses	**3,336**	3,247		3,026		2,720		2,445	
Total benefits and expenses	**12,352**	12,137		11,508		10,249		9,034	
Pretax earnings	**2,264**	2,226		1,773		1,198		1,223	
Income taxes	**781**	743		507		430		438	
Net earnings	**$ 1,483**	$ 1,483	(1)	$ 1,266	(2)	$ 768		$ 785	(3)
Share and Per-Share Amounts									
Net earnings (basic)	**$ 2.99**	$ 2.96	(1)	$ 2.49	(2)	$ 1.50		$ 1.52	(3)
Net earnings (diluted)	**2.95**	2.92	(1)	2.45	(2)	1.47		1.49	(3)
Cash dividends paid	**.55**	.44		.38		.30		.23	
Common shares used for basic EPS (In thousands)	**495,614**	500,939		507,333		513,220		517,541	
Common shares used for diluted EPS (In thousands)	**501,827**	507,704		516,421		522,138		528,326	
Supplemental Data									
Yen/dollar exchange rate at year-end (yen)	**119.11**	118.07		104.21		107.13		119.90	
Weighted-average yen/dollar exchange rate (yen)	**116.31**	109.88		108.26		115.95		125.15	

(1) Includes a benefit of $34 ($.07 per basic and diluted share) for the release of a valuation allowance for deferred tax assets in 2005

(2) Includes a benefit of $128 ($.25 per basic and diluted share) for the release of the valuation allowance for deferred tax assets and a benefit of $3 ($.01 per basic and diluted share) for the Japan pension obligation transfer in 2004

(3) Includes a charge of $26 ($.05 per basic and diluted share) for the policyholder protection fund in 2002 in Japan

Table of Contents

Aflac Incorporated and Subsidiaries
December 31,

(In millions)	**2006**	**2005**	**2004**	**2003**	**2002**
Assets:					
Investments and cash	**$ 51,972**	$ 48,989	$ 51,955	$ 44,050	$ 39,147
Other	**7,833**	7,372	7,371	6,914	5,911
Total assets	**$ 59,805**	$ 56,361	$ 59,326	$ 50,964	$ 45,058
Liabilities and shareholders equity:					
Policy liabilities	**$ 45,440**	$ 42,329	$ 43,556	$ 39,240	$ 32,726
Notes payable	**1,426**	1,395	1,429	1,409	1,312
Income taxes	**2,462**	2,577	2,445	2,187	2,362
Other liabilities	**2,136**	2,133	4,320	1,480	2,262
Shareholders equity	**8,341**	7,927	7,576	6,648	6,396
Total liabilities and shareholders equity	**$ 59,805**	$ 56,361	$ 59,326	$ 50,964	$ 45,058

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING INFORMATION

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

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

- legislative and regulatory developments
- assessments for insurance company insolvencies
- competitive conditions in the United States and Japan
- new product development and customer response to new products and new marketing initiatives
- ability to attract and retain qualified sales associates and employees
- ability to repatriate profits from Japan
- changes in U.S. and/or Japanese tax laws or accounting requirements
- credit and other risks associated with Aflac s investment activities
- significant changes in investment yield rates
- fluctuations in foreign currency exchange rates
- deviations in actual experience from pricing and reserving assumptions including, but not limited to, morbidity, mortality, persistency, expenses, and investment yields
- level and outcome of litigation

- downgrades in the Company s credit rating
- changes in rating agency policies or practices
- subsidiary s ability to pay dividends to the Parent Company
- ineffectiveness of hedging strategies
- catastrophic events
- general economic conditions in the United States and Japan

Table of Contents

COMPANY OVERVIEW

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-year period ended December 31, 2006. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes.

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

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac s results of operations and financial condition are those related to investments, deferred policy acquisition costs and policy liabilities. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management s analyses and judgments. The application of these critical accounting estimates determines the values at which 95% of our assets and 84% of our liabilities are reported and thus have a direct effect on net earnings and shareholders equity. Subsequent experience or use of other assumptions could produce significantly different results.

Investments

Aflac s investments in debt and equity securities include both publicly issued and privately issued securities. For privately issued securities, we receive pricing data from external sources that take into account each security s credit quality and liquidity characteristics. We also routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with SEC Staff Accounting Bulletin No. 59, Accounting for Non-Current Marketable Equity Securities; Statement of Financial Accounting Standards (SFAS) No. 115,

Table of Contents

Accounting for Certain Investments in Debt and Equity Securities; Financial Accounting Standards Board (FASB) Staff Position 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and related guidance. The identification of distressed investments, the determination of fair value if not publicly traded, and the assessment of whether a decline is other than temporary involve significant management judgment and require evaluation of factors, including but not limited to:

- percentage decline in value and the length of time during which the decline has occurred
- recoverability of principal and interest
- market conditions
- ability to hold the investment to maturity
- review of the issuer s overall operating performance
- rating agency opinions and actions regarding the issuer s credit standing
- adverse changes in the issuer s availability of production resources, revenue sources and technological conditions
- adverse changes in the issuer s economic, regulatory or political environment

Deferred Policy Acquisition Costs and Policy Liabilities

Aflac s products are generally long-duration fixed-benefit indemnity contracts. As such, our products are accounted for under the requirements of SFAS No. 60, Accounting and Reporting by Insurance Enterprises. We make estimates of certain factors that affect the profitability of our business to match expected policy benefits and deferrable acquisition costs with expected policy premiums. These assumptions include persistency, morbidity, mortality, investment yields and expenses. If actual results match the assumptions used in establishing policy liabilities and the deferral and amortization of acquisition costs, profits will emerge as a level percentage of earned premiums. However, because actual results will vary from the assumptions, profits as a percentage of earned premiums will vary from year to year.

We measure the adequacy of our policy reserves and recoverability of deferred policy acquisition costs (DAC) annually by performing gross premium valuations on our business. Our testing indicates that our insurance liabilities are adequate and that our DAC is recoverable.

Deferred Policy Acquisition Costs

Under the requirements of SFAS No. 60, certain costs of acquiring new business are deferred and amortized over the policy s premium payment period in proportion to anticipated premium income. Future amortization of DAC is based upon our estimates of persistency, interest, and future premium revenue generally established at the time of policy issuance. However, the unamortized balance of DAC reflects actual persistency. As presented in the following table, the ratio of unamortized DAC to annualized premiums in force has been relatively stable for Aflac U.S. over the last three years. The ratio of unamortized DAC to annualized premiums in force has shown a slight upward trend for Aflac Japan for the last three years. This trend is a result of a greater proportion of our annualized premiums being under the alternative commission schedule, which pays a higher commission on first-year premiums and lower commissions on renewal premiums. This schedule is very popular with our new agents as it helps them with cash flow for personal and business needs as they build their

Table of Contents

business. While this has resulted in a higher unamortized DAC balance, the overall cost to the company has been reduced.

Deferred Policy Acquisition Cost Ratios

	Aflac Japan (In Yen)			**Aflac U.S. (In Dollars)**		
(In millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Deferred policy acquisition costs	**459,404**	427,894	397,261	**$ 2,168**	$ 1,966	$ 1,783
Annualized premiums in force	**1,083,126**	1,027,762	961,895	**4,101**	3,711	3,374
Deferred policy acquisition costs as a percentage of annualized premiums in force	**42.4 %**	41.6 %	41.3 %	**52.9 %**	53.0 %	52.8 %

Policy Liabilities

The following table provides details of policy liabilities by segment and in total as of December 31.

Policy Liabilities

(In millions)	**2006**	**2005**
U.S. segment:		
Future policy benefits	**$ 4,391**	$ 3,780
Unpaid policy claims	**816**	848
Other policy liabilities	**158**	143
Total U.S. policy liabilities	**$ 5,365**	$ 4,771
Japan segment:		
Future policy benefits	**$ 36,447**	$ 34,071
Unpaid policy claims	**1,574**	1,657
Other policy liabilities	**2,051**	1,828
Total Japan policy liabilities	**$ 40,072**	$ 37,556
Consolidated:		
Future policy benefits	**$ 40,841**	$ 37,853
Unpaid policy claims	**2,390**	2,504
Other policy liabilities	**2,209**	1,972
Total consolidated policy liabilities	**$ 45,440**	$ 42,329

Our policy liabilities, which are determined in accordance with SFAS No. 60 and Actuarial Standards of Practice, include two primary components: future policy benefits and unpaid policy claims, which accounted for 90% and 5% of total policy liabilities as of December 31, 2006, respectively.

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy

Table of Contents

is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

Unpaid policy claims include those claims that have been incurred and are in the process of payment as well as an estimate of those claims that have been incurred but have not yet been reported to us. We compute unpaid policy claims on an undiscounted basis using statistical analyses of historical claims payments, adjusted for current trends and changed conditions. We update the assumptions underlying the estimate of unpaid policy claims regularly and incorporate our historical experience as well as other data that provides information regarding our outstanding liability.

Our insurance products provide fixed-benefit amounts that are not subject to medical-cost inflation. Furthermore, our business is widely dispersed in both the United States and Japan. This geographic dispersion and the nature of our benefit structure mitigate the risk of a significant unexpected increase in claims payments due to epidemics and events of a catastrophic nature. Claims incurred under Aflac s policies are generally reported and paid in a relatively short time frame. The unpaid claims liability is sensitive to morbidity assumptions, in particular, severity and frequency of claims. Severity is the ultimate size of a claim, and frequency is the number of claims incurred. Our claims experience is primarily related to the demographics of our policyholders.

During the fourth quarter of 2006, we increased Aflac s U.S. unpaid policy claims liability by $28 million. As part of our analysis of recent cancer claims experience, we noted that the overall duration of cancer outpatient treatments has lengthened. Since our reserving methods are designed to fully accrue each cancer outpatient treatment as of the date of initial treatment, we increased our estimate of the Aflac U.S. unpaid policy claims liability by $28 million. This change in estimate is reflected in current year s earnings. If we had been using the new claims factors to produce our claim liability estimates at the end of 2005, the increase for 2006 would have been $9 million. We expect that the annual impact on future earnings will be approximately $9 million.

In addition, during the fourth quarter we transferred $170 million of the Aflac U.S. unpaid policy claims liability to future policy benefits. This transfer was primarily related to new product lines where early policy duration claims have been lower than we anticipated. However, our analysis indicates that it is appropriate to hold this liability in future policy benefits. This transfer had no impact on net earnings.

Also during the fourth quarter of 2006, we transferred $85 million from Aflac Japan s unpaid policy claims liability to its future policy benefits liability. This transfer, which was primarily related to a continued decline in current period claims caused by changes to health care delivery in Japan, had no effect on net earnings. Our 2006 claims review indicated that we experienced a continued decline in the average number of hospital days associated with the typical cancer treatment period in Japan. We believe the average number of days declined primarily due to changes in financial incentives provided to hospitals by the government-sponsored health care system in Japan to shorten the average hospital stay. However, our claims statistics also indicated that the declines in the average number of days per hospitalization are generally offset by an increase in the frequency of

Table of Contents

hospitalizations associated with the treatment of cancer. This shift reduced current period claims, and future period claims are anticipated to increase by similar amounts.

In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2006, to changes in severity and frequency of claims. For the years 2004 through 2006, and before the effect of the fourth quarter 2006 adjustments noted above, our assumptions changed on average by approximately 1% in total, and we believe that a variation in assumptions in a range of plus or minus 1% in total is reasonably likely to occur.

Sensitivity of Unpaid Policy Claims Liability

(In millions)	**Total Severity**				
Total Frequency	**Decrease by 2%**	**Decrease by 1%**	**Unchanged**	**Increase by 1%**	**Increase by 2%**
Increase by 2%	$ -	$ 16	$ 31	$ 48	$ 65
Increase by 1%	(16)	-	16	32	48
Unchanged	(31)	(16)	-	16	32
Decrease by 1%	(47)	(32)	(16)	-	16
Decrease by 2%	(62)	(47)	(31)	(16)	-

New Accounting Pronouncements

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. For information on new accounting pronouncements, see Note 1 of the Notes to the Consolidated Financial Statements.

Table of Contents

RESULTS OF OPERATIONS

The following table is a presentation of items impacting net earnings and net earnings per diluted share for the years ended December 31.

Items Impacting Net Earnings

	In Millions			Per Diluted Share		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Net earnings	**$ 1,483**	$ 1,483	$ 1,266	**$ 2.95**	$ 2.92	$ 2.45
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	**51**	167	(5)	**.10**	.33	(.01)
Impact from SFAS 133	**-**	(10)	(13)	**-**	(.02)	(.03)
Release of deferred tax asset valuation allowance	**-**	34	128	**-**	.07	.25
Japanese pension obligation transfer	**-**	-	3	**-**	-	.01

Realized Investment Gains and Losses

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

In 2006, we realized pretax gains of $79 million (after-tax, $51 million, or $.10 per diluted share) primarily as a result of bond swaps and the liquidation of equity securities held by Aflac U.S. In 2005, we realized pretax gains of $262 million (after-tax, $167 million, or $.33 per diluted share) primarily as a result of bond swaps. We began our bond-swap program in the second half of 2005 and concluded it in the first half of 2006. These bond swaps took advantage of tax loss carryforwards and also resulted in an improvement in overall portfolio credit quality and investment income.

During 2004, we received an issuer s offer to redeem certain available-for-sale yen-denominated debt securities held by the Company. We accepted the issuer s offer of $205 million and recorded a pretax loss of $23 million. This investment loss and other investment gains and losses in the normal course of business decreased 2004 pretax earnings by $12 million (after-tax, $5 million, or $.01 per diluted share).

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior notes, which mature in 2009, into a yen-denominated obligation (see Notes 4 and 7 of the Notes to the Consolidated Financial Statements). The effect of issuing fixed-rate, dollar-denominated debt and swapping it into fixed-rate, yen-denominated debt has the same economic impact on Aflac

II-11

Table of Contents

as if we had issued yen-denominated debt of a like amount. However, the accounting treatment for cross-currency swaps is different from issuing yen-denominated Samurai and Uridashi notes. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), requires that the change in the fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting, be reflected in net earnings (other income). This change in fair value is determined by relative dollar and yen interest rates and has no cash impact on our results of operations. At maturity, the fair value will equal initial contract fair value, and the cumulative impact of gains and losses from the changes in fair value of the interest component will be zero. We have the ability and intent to retain the cross-currency swaps until their maturity. The impact from SFAS 133 includes the change in fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting.

We have also issued yen-denominated Samurai and Uridashi notes. We have designated these notes as a hedge of our investment in Aflac Japan. If the value of these yen-denominated notes and the notional amounts of the cross-currency swaps exceed our investment in Aflac Japan, we would be required to recognize the foreign currency effect on the excess, or ineffective portion, in net earnings (other income). The ineffective portion would be included in the impact from SFAS 133. These hedges were effective during the three-year period ended December 31, 2006; therefore, there was no impact on net earnings.

During the third quarter of 2006, we entered into interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes (see Notes 4 and 7 of the Notes to the Consolidated Financial Statements). By entering into these contracts, we have been able to lock in the interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. SFAS 133 requires that the change in the fair value of the swap contracts be recorded in other comprehensive income so long as the hedge is deemed effective. Any ineffectiveness is recognized in net earnings (other income). The impact from SFAS 133 would include any ineffectiveness associated with these interest rate swaps. The fair value of these swaps and related changes in fair value were immaterial during the year ended December 31, 2006. See Notes 1 and 4 of the Notes to the Consolidated Financial Statements for additional information.

Nonrecurring Items

We received regulatory approval for a change in the allocation of expenses under the management fee agreement between Aflac and the Parent Company in 2005. This enabled the Parent Company to fully utilize its tax-basis, non-life operating losses and therefore release the valuation allowance on the associated deferred tax assets, resulting in a benefit of $34 million ($.07 per diluted share) in 2005.

The American Jobs Creation Act of 2004 eliminated the 90% limitation on the utilization of foreign tax credits. As a result of this tax law change, we recognized a benefit of $128 million ($.25 per diluted share) in 2004 for the release of the valuation allowance associated with certain deferred tax

Table of Contents

assets. The 2005 and 2004 tax benefits are included as reductions to income tax expense in the consolidated statements of earnings.

During 2004, we concluded the process of returning the substitutional portion of Aflac Japan s pension plan to the Japanese government as allowed by the Japan Pension Insurance Law. We recognized a one-time gain (other income) as the result of this transfer to the Japanese government in the amount of $6 million (after-tax, $3 million, or $.01 per diluted share) in 2004.

Foreign Currency Translation

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

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

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 34.5% in 2006, 33.4% in 2005, and 28.6% in 2004. Total income taxes were $781 million in 2006, compared with $743 million in 2005 and $507 million in 2004. Japanese income taxes on Aflac Japan s results account for most of our consolidated income tax expense. Our 2005 income tax rate was lower than normal primarily as a result of the release of the valuation allowance for non-life losses discussed previously. Our 2004 income tax rate and tax expense were also lower than normal as a result of the release of the valuation allowance for deferred tax assets discussed previously. See Note 8 of the Notes to the Consolidated Financial Statements for additional information.

Table of Contents

Earnings Guidance

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management s control may have a significant impact on actual results. Therefore, our comparison of net earnings includes certain assumptions to reflect the limitations that are inherent in projections of net earnings. In comparing year-over-year results, we exclude the effect of realized investment gains and losses, the impact from SFAS 133 and nonrecurring items. We also assume no impact from foreign currency translation on the Aflac Japan segment and the Parent Company s yen-denominated interest expense for a given year in relation to the prior year.

Subject to the preceding assumptions, our objective for 2006 was to achieve net earnings per diluted share of at least $2.92, an increase of 15.0% over 2005 using the preceding assumptions. We reported 2006 net earnings per diluted share of $2.95. Adjusting that number for realized investment gains ($.10 per diluted share), the impact from SFAS 133 (nil per diluted share) and foreign currency translation (a loss of $.08 per diluted share), we exceeded our objective for the year.

Our objective for 2007 is to increase net earnings per diluted share by 15% to 16% over 2006, on the basis described above. If we achieve this objective, the following table shows the likely results for 2007 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2007 Net Earnings Per Share (EPS) Scenarios*

Weighted-Average Yen/Dollar Exchange Rate	**Net Earnings Per Diluted Share**	**% Growth Over 2006**	**Yen Impact on EPS**
105.00	$ 3.45 - 3.48	21.1 - 22.1 %	$ .17
110.00	3.37 - 3.40	18.2 - 19.3	.09
116.31**	3.28 - 3.31	15.1 - 16.1	-
120.00	3.23 - 3.26	13.3 - 14.4	(.05)
125.00	3.17 - 3.20	11.2 - 12.3	(.11)

*Excludes realized investment gains/losses, impact from SFAS 133 and nonrecurring items in 2007 and 2006

***Actual 2006 weighted-average exchange rate*

INSURANCE OPERATIONS

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

We measure and evaluate our insurance segments financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our

II-14

Table of Contents

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

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

Table of Contents

AFLAC JAPAN SEGMENT

Aflac Japan Pretax Operating Earnings

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

Aflac Japan Summary of Operating Results

(In millions)	**2006**	**2005**	**2004**
Premium income	**$ 8,762**	$ 8,745	$ 8,368
Net investment income:			
Yen-denominated investment income	**1,064**	1,111	1,087
Dollar-denominated investment income	**624**	524	470
Net investment income	**1,688**	1,635	1,557
Other income	**25**	31	18
Total operating revenues	**10,475**	10,411	9,943
Benefits and claims	**6,847**	6,898	6,679
Operating expenses:			
Amortization of deferred policy acquisition costs	**285**	284	274
Insurance commissions	**859**	892	881
Insurance and other expenses	**832**	822	730
Total operating expenses	**1,976**	1,998	1,885
Total benefits and expenses	**8,823**	8,896	8,564
Pretax operating earnings*	**$ 1,652**	$ 1,515	$ 1,379
Weighted-average yen/dollar exchange rate	**116.31**	109.88	108.26

	In Dollars			**In Yen**		
Percentage change over previous year:	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Premium income	**.2 %**	4.5%	14.2%	**5.9 %**	6.3 %	6.7 %
Net investment income	**3.2**	5.0	9.6	**9.0**	7.0	2.3
Total operating revenues	**.6**	4.7	13.4	**6.3**	6.6	6.0
Pretax operating earnings*	**9.1**	9.9	22.9	**15.4**	11.5	14.7

**See Page II-14 for our definition of segment operating earnings.*

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 5.4% in 2006 and 6.8% in both 2005 and 2004, reflect the high persistency of Aflac Japan s business and the sales of new policies. Annualized premiums in force at December 31, 2006, were 1.08 trillion yen, compared with 1.03 trillion yen in 2005 and 961.9 billion yen in 2004. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $9.1 billion in 2006, $8.7 billion in 2005 and $9.2 billion in 2004.

Aflac Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 37% of Aflac Japan s investment income in 2006,

Table of Contents

compared with 32% in 2005 and 30% in 2004. In years when the yen strengthens in relation to the dollar, translating Aflac Japan s dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. On a constant currency basis, dollar-denominated investment income accounted for approximately 36% of Aflac Japan s investment income during 2006, compared with 32% in both 2005 and 2004. The following table illustrates the effect of translating Aflac Japan s dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the prior year.

Aflac Japan Percentage Changes Over Prior Year
(Yen Operating Results)

	Including Foreign Currency Changes			**Excluding Foreign Currency Changes****		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Net investment income	**9.0 %**	7.0 %	2.3 %	**6.8 %**	6.3 %	4.5 %
Total operating revenues	**6.3**	6.6	6.0	**6.0**	6.4	6.3
Pretax operating earnings*	**15.4**	11.5	14.7	**13.3**	10.8	15.3

*See Page II-14 for our definition of segment operating earnings.

***Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current year as each respective prior year.*

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

Ratios to total revenues, in dollars:	**2006**	**2005**	**2004**
Benefits and claims	**65.4%**	66.2%	67.2%
Operating expenses:			
Amortization of deferred policy acquisition costs	**2.7**	2.7	2.8
Insurance commissions	**8.2**	8.6	8.9
Insurance and other expenses	**7.9**	8.0	7.2
Total operating expenses	**18.8**	19.3	18.9
Pretax operating earnings*	**15.8**	14.5	13.9

**See Page II-14 for our definition of segment operating earnings.*

The benefit ratio has declined over the past several years, reflecting the impact of newer products with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders. However, this decline is partially offset by the effect of low investment yields, which impacts our profit margin by reducing the spread between investment yields and required interest on policy reserves (see table and discussion on Page II-27). The operating expense ratio was higher in 2005 as a result of additional advertising expenditures and the write-off of previously capitalized systems development costs.

We expect the operating expense ratio to be relatively stable

Table of Contents

in 2007. Due to improvement in the benefit ratio, the pretax operating profit margin expanded to 15.8% in 2006. We expect continued expansion in the profit margin in 2007.

Aflac Japan Sales

Aflac Japan s total new annualized premium sales declined 8.8% in 2006. The sales decline primarily reflected industry-wide weakness in the market for stand-alone medical insurance as well as continued declines in the sale of Rider MAX. The following table presents Aflac Japan s total new annualized premium sales for the years ended December 31.

	In Dollars			**In Yen**		
(In millions of dollars and billions of yen)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Total new annualized premium sales	**$ 1,010**	$ 1,167	$ 1,133	**117.5**	128.8	122.5
Percentage change over prior year	**(13.5)%**	3.0 %	8.2 %	**(8.8)%**	5.1 %	1.1 %

Aflac Japan s sales mix has been shifting during the last few years. The following table details the contributions to total new annualized premium sales by major product for the years ended December 31.

	2006	2005	2004
Medical policies	**33 %**	37 %	31 %
Cancer life	**28**	26	23
Ordinary life	**23**	18	19
Rider MAX	**10**	11	20
Other	**6**	8	7
Total	**100 %**	100 %	100 %

We believe the 2006 sales decline for our medical product category primarily reflected consumers concern over the claims-paying issues facing the industry in general. We expect this weakness will continue into 2007. However, with continued cost pressure on Japan s health care system, we expect demand for medical products will continue to rise in the future and we remain encouraged about the outlook for the medical insurance market. Although that market is very competitive, Aflac Japan retains the distinction of being the number one seller of stand-alone medical insurance in Japan. We believe that our number one position benefits us in the marketplace. As a result, we continue to believe that the medical category will be an important part of our product portfolio.

The ordinary life category increased 16.9% in 2006, benefiting from the sale of WAYS, the innovative life insurance product we introduced in January 2006. Unlike traditional life insurance, WAYS allows a policyholder to convert a portion of the life insurance coverage to medical, nursing care, or fixed annuity benefits at retirement age. We remain very pleased with the initial response to WAYS, which accounted for approximately 8% of new sales in 2006.

In June 2006, we began selling a new cancer plan aimed at existing cancer insurance policyholders. This new product provides additional benefits for inpatient and outpatient care. Our

Table of Contents

cancer life policies are also marketed by Dai-ichi Mutual Life and in June 2006, Dai-ichi Life began selling a new cancer product customized for their market. As a result, new sales from cancer insurance products were stable in 2006. We are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio.

We continue to expect 2007 to be a challenging year from a sales perspective and look for sales to again decline in the first half of the year, followed by modest sales increases in the second half of 2007.

Aflac Japan Investments

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

The following table presents the results of Aflac Japan s investment activities for the years ended December 31.

	2006	**2005**	**2004**
New money yield - yen only	**3.10 %**	2.95 %	2.94 %
New money yield - blended	**3.33**	3.19	3.13
Return on average invested assets, net of investment expenses	**4.11**	4.14	4.26

At December 31, 2006, the yield on Aflac Japan s investment portfolio, including dollar-denominated investments, was 4.14%, compared with 4.22% a year ago. See Investments and Cash on Page II-28 for additional information.

Japanese Economy

Recent events indicate that Japan s economy has begun to recover. The Bank of Japan s January 2007 Monthly Report of Recent Economic & Financial Developments stated that Japan s economy is expanding moderately, noting increases in exports and capital expenditures and moderate increases in household income, private consumption and housing investment, all against the backdrop of high corporate profits and expansion of overseas economies. The report did note a downward trend related to public investment and projected the trend to continue. However, it also included an expectation that the economy would continue to expand moderately, supported by expectations of increasing exports and domestic private demand. Nevertheless, the time required for a full economic recovery remains uncertain.

Table of Contents

Japan s system of compulsory public health care insurance provides medical coverage to every Japanese citizen. These public medical expenditures are covered by a combination of premiums paid by insureds and their employers, taxes, and copayments from the people who receive medical service. However, given Japan s aging population, the resources available to these publicly funded social insurance programs have come under increasing pressure. As a result, copayments and other out-of-pocket expenses have been rising and affecting more people. In 2003, copayments were raised from 20% to 30% for most consumers and other reforms were implemented in 2006. Additional reforms are being considered. We believe higher out-of-pocket expenses will lead more consumers to purchase supplemental insurance plans. Many insurance companies have recognized the opportunities for selling supplemental medical insurance in Japan and have launched new products in recent years. However, we believe our favorable cost structure compared with other insurers makes us a very effective competitor. In addition, we believe our brand, customer service, and financial strength also benefit our market position.

Japanese Regulatory Environment

The FSA adopted new mortality tables effective April 1, 2007, that will be used when developing our policy premium and reserving assumptions on newly underwritten policies. These new tables reflect recent improvements in survival rates in Japan. If our other assumptions remain unchanged, these revisions will generally lead to a decrease in policy premiums for death benefit products and an increase in premium rates for third sector products and annuities.

Additionally, the FSA has implemented a new rule for third sector product reserving. The new reserving rule will be implemented in the Japanese fiscal year starting April 1, 2007. Under the new rule, we are required to conduct stress testing of our reserves using a prescribed method that incorporates actual incidence rates. The results of the tests and their relation to our reserves determine whether reserve strengthening is required. We do not anticipate that the new reserving requirements will have a material impact on our FSA-based financial statements or our pricing.

As disclosed in our third quarter 2006 Form 10-Q, Aflac Japan, along with the entire life insurance industry, began a review of the last five years of paid claims to determine if those claims were paid fully and accurately. In a recent notification from the FSA, the review process has been changed from a voluntary program to one that is mandatory and has been expanded to include a review of cash surrender value payments. Additionally, the FSA established a reporting deadline of April 13, 2007. We expect to complete our review of claims and cash surrender value payments and report our findings to the FSA within the time frame specified. As a result of this review, we have found some payment errors and we are correcting them. Additionally, we are using this review to identify process changes that will help ensure that payment errors such as these are not repeated. Although immaterial to our financial statements, we have recorded a liability for our estimate of the underpaid portion of those claims in our 2006 financial statements.

Table of Contents

AFLAC U.S. SEGMENT

Aflac U.S. Pretax Operating Earnings

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

Aflac U.S. Summary of Operating Results

(In millions)	**2006**		2005		2004	
Premium income	**$ 3,552**		$ 3,245		$ 2,935	
Net investment income	**465**		421		396	
Other income	**10**		10		9	
Total operating revenues	**4,027**		3,676		3,340	
Benefits and claims	**2,169**		1,991		1,803	
Operating expenses:						
Amortization of deferred policy acquisition costs	**290**		258		245	
Insurance commissions	**444**		410		371	
Insurance and other expenses	**539**		492		424	
Total operating expenses	**1,273**		1,160		1,040	
Total benefits and expenses	**3,442**		3,151		2,843	
Pretax operating earnings*	**$ 585**		$ 525		$ 497	
Percentage change over previous year:						
Premium income	**9.5**	**%**	10.6	%	13.1	%
Net investment income	**10.4**		6.5		9.4	
Total operating revenues	**9.5**		10.0		12.6	
Pretax operating earnings*	**11.4**		5.6		11.7	

**See Page II-14 for our definition of segment operating earnings.*

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 10.5% in 2006, 10.0% in 2005, and 10.9% in 2004 were favorably affected by increased sales at the worksite primarily through cafeteria plans and a slight improvement in the persistency of several products. Annualized premiums in force at December 31 were $4.1 billion in 2006, compared with $3.7 billion in 2005 and $3.4 billion in 2004.

Table of Contents

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

Ratios to total revenues:	2006	2005	2004
Benefits and claims	**53.9 %**	54.2 %	54.0 %
Operating expenses:			
Amortization of deferred policy acquisition costs	**7.2**	7.0	7.3
Insurance commissions	**11.0**	11.2	11.1
Insurance and other expenses	**13.4**	13.3	12.7
Total operating expenses	**31.6**	31.5	31.1
Pretax operating earnings*	**14.5**	14.3	14.9

**See Page II-14 for our definition of segment operating earnings.*

After several years of trending upward, the benefit ratio declined modestly in 2006. As a percentage of premium income, the benefit ratio was 61.0% in 2006, 61.3% in 2005, and 61.4% in 2004. We expect the benefit ratio to decline slightly in future periods due to favorable claim cost trends. The 2006 operating expense ratio reflects the write-off of remaining deferred policy acquisition costs associated with a large payroll account that terminated in the first quarter. We expect the operating expense ratio, excluding discretionary promotional expenses, to remain relatively stable in future periods. The pretax operating profit margin is expected to increase slightly in 2007.

Aflac U.S. Sales

For 2006, total new annualized premium sales increased 13.1%, which exceeded our objective of 8% to 12% growth for the year. These record sales results were due, in part, to the re-enrollment of a large payroll account. Our accident/disability and cancer expense products were again the primary contributors to sales. The following table presents Aflac s U.S. total new annualized premium sales for the years ended December 31.

(In millions)	2006	2005	2004
Total new annualized premium sales	**$ 1,423**	$ 1,259	$ 1,186
Increase over prior year	**13.1 %**	6.1 %	5.1 %

Our objective for 2007 is to increase total new annualized premium sales by 6% to 10%.

The following table details the contributions to total new annualized premium sales by major product category for the years ended December 31.

(In millions)	2006	2005	2004
Accident/disability coverage	**52 %**	51 %	52 %
Cancer expense insurance	**17**	19	20
Hospital indemnity products	**12**	11	11
Fixed-benefit dental coverage	**6**	8	7
Other	**13**	11	10
Total	**100 %**	100 %	100 %

II-22

Table of Contents

One aspect of our growth strategy is the continued enhancement of our product line. During the third quarter of 2006, we launched revised specified health event and intensive care plans. In 2007 we will introduce an innovative care policy that provides benefits to help offset costs associated with caring for dependents as a result of their accident or illness.

Another aspect of our growth strategy is our focus on growing and improving our U.S. sales force, and we were encouraged to see continued expansion in 2006. Although we did not set a specific recruiting target for 2006, we continued to emphasize recruiting as a means for growing our producer base. We recruited more than 26,000 new associates during 2006, which was 7.8% higher than 2005. At December 31, 2006, Aflac U.S. was represented by more than 68,300 licensed sales associates, which was 8.5% higher than a year ago. Our primary focus has been on increasing producing sales associates. We believe that we can achieve better producer growth through more effective and standardized training for our sales associates and sales management. On an average weekly basis, the number of producing associates rose 6.4% in 2006 to approximately 10,300, compared with a year ago. As previously disclosed, our focus has shifted from average monthly producers to average weekly producers as both a reporting and management metric. This shift provides for a more active management of our sales associates and allows our sales management to monitor progress and needs on a real-time basis.

Aflac U.S. Investments

The following table presents the results of Aflac s U.S. investment activities.

	2006	**2005**	**2004**
New money yield	**6.44 %**	6.16 %	6.30 %
Return on average invested assets, net of investment expenses	**6.86**	6.54	6.68

At December 31, 2006, the portfolio yield on Aflac s U.S. portfolio was 7.15%, compared with 7.24% a year ago. See Investments and Cash on Page II-28 for additional information.

OTHER OPERATIONS

Corporate operating expenses consist primarily of personnel compensation, benefits, and facilities expenses. Corporate expenses, excluding investment income, were $57 million in 2006, $56 million in 2005, and $67 million in 2004. Investment income included in reported corporate expenses was $16 million in 2006, $14 million in 2005, and $5 million in 2004. Corporate expenses in 2004 were higher than normal primarily as a result of increased expenses associated with our retirement obligations.

Table of Contents

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The exchange rate at December 31, 2006, was 119.11 yen to one dollar, or .9% weaker than the December 31, 2005, exchange rate of 118.07. The weaker yen decreased reported investments and cash by $357 million; total assets by $400 million; and total liabilities by $392 million, compared with the amounts that would have been reported for 2006 if the exchange rate had remained unchanged from December 31, 2005.

Market Risks of Financial Instruments

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

Currency Risk

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

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

On a consolidated basis, we attempt to minimize the exposure of shareholders equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan s investment portfolio in dollar-denominated securities, by the Parent Company s issuance of yen-denominated debt and by the use of cross-currency swaps (see Hedging Activities on Page II-35 for additional information). As a result, the effect of currency fluctuations on our net assets is mitigated. The dollar values of our yen-denominated net assets, which are subject to foreign currency translation fluctuations for financial reporting purposes, are summarized as follows (translated at end-of-period exchange rates) for the years ended December 31:

(In millions)	**2006**	**2005**
Aflac Japan yen-denominated net assets	**$ 2,317**	$ 2,184
Parent Company yen-denominated net liabilities	**(1,434)**	(1,403)
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	**$ 883**	$ 781

Table of Contents

The following table demonstrates the effect of foreign currency fluctuations by presenting the dollar values of our yen-denominated assets and liabilities, and our consolidated yen-denominated net asset exposure at selected exchange rates as of December 31.

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

(In millions)	2006			2005		
Yen/dollar exchange rates	**104.11**	**119.11**	***134.11**	103.07	118.07	*133.07
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$ 21,712**	**$ 18,978**	**$ 16,856**	$ 21,732	$ 18,971	$ 16,832
Perpetual debentures	**4,246**	**3,711**	**3,296**	4,191	3,659	3,246
Equity securities	**29**	**25**	**22**	70	61	54
Securities held to maturity:						
Fixed maturities	**15,404**	**13,464**	**11,958**	12,428	10,849	9,626
Perpetual debentures	**4,565**	**3,990**	**3,544**	4,779	4,172	3,702
Cash and cash equivalents	**383**	**335**	**297**	553	483	429
Other financial instruments	**32**	**28**	**25**	35	31	27
Subtotal	**46,371**	**40,531**	**35,998**	43,788	38,226	33,916
Liabilities:						
Notes payable	**1,117**	**976**	**868**	1,083	945	839
Cross-currency swaps	**534**	**467**	**414**	539	471	417
Japanese policyholder protection fund	**200**	**175**	**155**	232	203	180
Subtotal	**1,851**	**1,618**	**1,437**	1,854	1,619	1,436
Net yen-denominated financial instruments	**44,520**	**38,913**	**34,561**	41,934	36,607	32,480
Other yen-denominated assets	**5,550**	**4,852**	**4,309**	5,332	4,654	4,130
Other yen-denominated liabilities	**(49,060)**	**(42,882)**	**(38,086)**	(46,371)	(40,480)	(35,917)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	**$ 1,010**	**$ 883**	**$ 784**	$ 895	$ 781	$ 693

**Actual year-end exchange rate*

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This primarily occurs when we repatriate funds from Aflac Japan to Aflac U.S., which is done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits were earned. These repatriations have not been greater than 80% of Aflac Japan s prior year earnings determined in accordance with standards established by the FSA. A portion of the repatriation may be used to service Aflac Incorporated s yen-denominated notes payable with the remainder converted into dollars.

Table of Contents

Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt securities. We use modified duration analysis, which measures price percentage volatility, to estimate the sensitivity of fair values to interest rate changes on debt securities we own. For example, if the current duration of a debt security is 10, then the fair value of that security will increase by approximately 10% if market interest rates decrease by 100 basis points, assuming all other factors remain constant. Likewise, the fair value of the debt security will decrease by approximately 10% if market interest rates increase by 100 basis points, assuming all other factors remain constant.

The estimated effect of potential increases in interest rates on the fair values of debt securities we own, notes payable, cross-currency swaps and our obligation for the Japanese policyholder protection fund as of December 31 follows:

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

	2006		**2005**	
(In millions)	**Fair Value**	**+100 Basis Points**	**Fair Value**	**+100 Basis Points**
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	**$ 32,328**	**$ 28,712**	$ 29,791	$ 26,427
Dollar-denominated	**9,845**	**9,033**	9,190	8,407
Perpetual debentures:				
Yen-denominated	**7,735**	**6,965**	7,911	7,086
Dollar-denominated	**698**	**653**	711	661
Total debt securities	**$ 50,606**	**$ 45,363**	$ 47,603	$ 42,581
Notes payable*	**$ 1,421**	**$ 1,386**	$ 1,395	$ 1,362
Cross-currency and interest rate swap liabilities	**$ 7**	**$ 5**	$ 12	$ 10
Japanese policyholder protection fund	**$ 175**	**$ 175**	$ 203	$ 203

**Excludes capitalized lease obligations*

Changes in the interest rate environment have contributed to the unrealized gains on debt securities we own. However, we do not expect to realize a majority of these unrealized gains because we have the intent and ability to hold these securities to maturity. Likewise, should significant amounts of unrealized losses occur because of increases in market yields, we would not expect to realize these losses because we have the intent and ability to hold such securities to maturity or recovery of value. For additional information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

Table of Contents

We attempt to match the duration of our assets with the duration of our liabilities. The following table presents the approximate duration of our yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2006	2005
Yen-denominated debt securities	**13**	12
Policy benefits and related expenses to be paid in future years	**13**	13
Premiums to be received in future years on policies in force	**10**	10

The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

Comparison of Interest Rates for Future Policy Benefits and Investment Yields
(Net of investment expenses)

	2006		**2005**		**2004**	
	U.S.	**Japan***	**U.S.**	**Japan***	**U.S.**	**Japan***
Policies issued during year:						
Required interest on policy reserves	**5.50%**	**2.77%**	5.50%	2.88%	6.36%	2.97%
New money yield on investments	**6.40**	**3.12**	6.11	3.01	6.25	3.00
Policies in force during year:						
Required interest on policy reserves	**6.28**	**4.71**	6.36	4.79	6.40	4.87
Return on average invested assets	**6.86**	**3.88**	6.54	3.92	6.68	4.02

**Represents yen-denominated investments for Aflac Japan that support policy obligations and therefore excludes Aflac Japan s annuities, and dollar-denominated investments and related investment income*

In response to low interest rates in the United States, we lowered our required interest assumption for newly issued products to 5.5% in 2005. In Japan, we lowered our required interest assumption for some newly issued products to 2.5% in 2005. However, the majority of Japan s newly issued products have a required interest assumption of 3.0%. We continue to monitor the spread between our new money yield and the required interest assumption for newly issued products in both the United States and Japan and will re-evaluate those assumptions as necessary.

Over the next two years, we have yen-denominated securities that will mature with yields in excess of Aflac Japan s current net investment yield of 3.88%. These securities total $1.1 billion at amortized cost and have an average yield of 5.80%. Currently, when debt securities we own mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. As a result, securities that mature may contribute to a decline in our overall portfolio yield. However, adding riders to our older policies has helped offset the negative investment spread. And despite negative investment spreads, adequate overall profit margins still exist in Aflac Japan s aggregate block of business because of profits that have emerged from changes in mix of business and favorable experience from mortality, morbidity, and expenses.

II-27

Table of Contents

Investments and Cash

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

The following table details investment securities by segment as of December 31.

Investment Securities by Segment

	Aflac Japan		**Aflac U.S.**	
(In millions)	**2006**	**2005**	**2006**	**2005**
Securities available for sale, at fair value:				
Fixed maturities	**$ 22,044**	$ 21,907	**$ 6,659***	$ 6,134*
Perpetual debentures	**3,935**	3,888	**473**	482
Equity securities	**25**	61	**-**	23
Total available for sale	**26,004**	25,856	**7,132**	6,639
Securities held to maturity, at amortized cost:				
Fixed maturities	**13,464**	10,849	**19**	18
Perpetual debentures	**3,990**	4,172	**-**	-
Total held to maturity	**17,454**	15,021	**19**	18
Total investment securities	**$ 43,458**	$ 40,877	**$ 7,151**	$ 6,657

**Excludes investment-grade fixed-maturity securities held by the Parent Company of $102 in 2006 and $100 in 2005.*

We have investments in both publicly issued and privately issued securities. However, the status of issuance should not be viewed as an indicator of liquidity or as a limitation on the determination of fair value. The outstanding amount(s) of a particular issuance, as well as the level of activity in a particular issuance and the state of the market, including credit events and the interest rate environment, affect liquidity regardless of type of issuance. We routinely assess the fair value of all of our investments. This process includes evaluating quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources, as described more fully in Note 3 of the Notes to the Consolidated Financial Statements. The following table details investment securities by type of issuance as of December 31.

Table of Contents

Investment Securities by Type of Issuance

	2006		2005	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	**$ 15,092**	**$ 16,269**	$ 14,872	$ 16,540
Perpetual debentures	**173**	**176**	173	180
Equity securities	**13**	**22**	14	51
Total publicly issued	**15,278**	**16,467**	15,059	16,771
Privately issued securities:				
Fixed maturities	**25,490**	**25,905**	21,855	22,441
Perpetual debentures	**8,158**	**8,256**	8,254	8,442
Equity securities	**3**	**3**	16	33
Total privately issued	**33,651**	**34,164**	30,125	30,916
Total investment securities	**$ 48,929**	**$ 50,631**	$ 45,184	$ 47,687

Privately issued securities accounted for 68.8% of total debt securities, at amortized cost, at December 31, 2006, compared with 66.6% at December 31, 2005. Privately issued securities held by Aflac Japan at amortized cost accounted for $31.3 billion, or 64.0%, of total debt securities at December 31, 2006, and $27.9 billion, or 61.8%, of total debt securities at December 31, 2005. Reverse-dual currency debt securities accounted for $9.7 billion, or 28.9%, of total privately issued securities at December 31, 2006, compared with $8.9 billion, or 29.6%, of total privately issued securities at December 31, 2005. Aflac Japan has invested in privately issued securities to secure higher yields than those available from Japanese government bonds. Aflac Japan s investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers and have longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities are issued under medium-term note programs and have standard documentation commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

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

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and

Table of Contents

internal credit analysis. The distributions by credit rating of our purchases of debt securities for the years ended December 31, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

	2006	2005	2004
AAA	**10.6 %**	6.1 %	9.1 %
AA	**48.9**	45.5	41.2
A	**35.1**	42.9	36.7
BBB	**5.4**	5.5	13.0
Total	**100.0%**	100.0%	100.0%

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

Composition by Credit Rating

	December 31, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	**5.8 %**	**5.7 %**	4.0 %	3.9 %
AA	**35.0**	**35.8**	33.7	34.9
A	**39.4**	**39.2**	38.9	38.7
BBB	**17.2**	**17.2**	21.1	20.6
BB or lower	**2.6**	**2.1**	2.3	1.9
Total	**100.0%**	**100.0 %**	100.0%	100.0 %

The overall credit quality of our portfolio remained high in part because our investment policy prohibits us from purchasing below-investment-grade securities. In the event of a credit rating downgrade to below-investment-grade status, we do not automatically liquidate our position. However, if the security is in the held-to-maturity portfolio, we immediately transfer it to the available-for-sale portfolio so that the security s fair value and its unrealized gain/loss are reflected on the balance sheet.

Once we designate a security as below investment grade, we intensify our monitoring of the issuer. We do not automatically recognize an impairment if the security s amortized cost exceeds its fair value. Our investment management starts by reviewing its credit analysis. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the issuer. We then obtain fair value information from at least three independent pricing sources. Upon determining the fair value, we move our focus to an analysis of whether or not the decline in fair value, if any, is other than temporary. For securities with an amortized cost in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than

Table of Contents

temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section on Page II-6. Securities classified as below investment grade as of December 31 were as follows:

Below-Investment-Grade Securities

(In millions)	2006 Amortized Cost	Fair Value	2005 Amortized Cost	Fair Value
Ahold	**$ 300**	**$ 245**	$ 302	$ 236
KLM Royal Dutch Airlines	**252**	**229**	254	227
Ford Motor Credit	**252**	**229**	254	209
CSAV	**201**	**145**	*	*
Ford Motor Company	**122**	**100**	123	84
BAWAG	**118**	**103**	*	*
LeGrand	*	*	46	52
Cooper Tire & Rubber Co.	**	**	45	45
Tennessee Gas Pipeline	**30**	**35**	31	33
Total	**$ 1,275**	**$ 1,086**	$ 1,055	$ 886

*Investment grade at respective reporting date

***Sold during 2006*

Occasionally a debt security will be split rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. Our policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the issuer s credit position as well as current market pricing and other factors, such as the issuer s or security s inclusion on a credit rating downgrade watch list. Split-rated securities as of December 31, 2006, represented .2% of total debt securities at amortized cost and were as follows:

Split-Rated Securities

(In millions)	Amortized Cost	Moody s Rating	S&P Rating	Fitch Rating	Investment-Grade Status
Tyco Electronics AMP (AMP Japan)	$ 50	Ba1	BBB+	BBB+	Investment Grade
LeGrand	46	Baa3	BB+	BBB-	Investment Grade
Union Carbide Corp.	15	Ba2	BBB-	BBB	Investment Grade

Table of Contents

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt securities by investment-grade status as of December 31, 2006.

(In millions)	Total Amortized Cost	Total Fair Value	Percent of Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available-for-sale securities:					
Investment-grade securities	$ 30,165	$ 32,127	63.5 %	$ 2,341	$ 379
Below-investment-grade securities	1,275	1,086	2.1	6	195
Held-to-maturity securities:					
Investment-grade securities	17,473	17,393	34.4	488	568
Total	$ 48,913	$ 50,606	100.0%	$ 2,835	$ 1,142

The following table presents an aging of securities in an unrealized loss position as of December 31, 2006.

Aging of Unrealized Losses

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than Six Months Amortized Cost	Unrealized Loss	Six Months to 12 Months Amortized Cost	Unrealized Loss	Over 12 Months Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	$ 9,163	$ 379	$ 1,965	$ 17	$ 782	$ 19	$ 6,416	$ 343
Below-investment-grade securities	1,209	195	-	-	16	-	1,193	195
Held-to-maturity securities:								
Investment-grade securities	10,148	568	1,221	58	1,692	58	7,235	452
Total	$ 20,520	$ 1,142	$ 3,186	$ 75	$ 2,490	$ 77	$ 14,844	$ 990

Table of Contents

The following table presents a distribution of unrealized losses by magnitude as of December 31, 2006.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less than 20% Amortized Cost	Unrealized Loss	20% to 28% Amortized Cost	Unrealized Loss
Available-for-sale securities:						
Investment-grade securities	$ 9,163	$ 379	$ 9,104	$ 367	$ 59	$ 12
Below-investment-grade securities	1,209	195	643	61	566	134
Held-to-maturity securities:						
Investment-grade securities	10,148	568	9,980	534	168	34
Total	$ 20,520	$ 1,142	$ 19,727	$ 962	$ 793	$ 180

The following table presents the 10 largest unrealized loss positions in our portfolio as of December 31, 2006.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
CSAV	BB	$ 201	$ 145	$ 56
Ahold	BB	300	245	55
KBC Group	A	227	196	31
EFG Euro Bank Ergasias	A	285	256	29
National Bank of Greece	A	252	225	27
SLM Corp	A	284	258	26
Nordea Bank	A	336	310	26
Unique Zurich Airport	BBB	311	287	24
Ford Motor Credit	B	252	229	23
KLM Royal Dutch Airlines	N/R*	252	229	23

**Not rated*

The fair value of our investments in debt securities can fluctuate as a result of changes in interest rates, foreign currency exchange rates, and credit issues. Declines in fair value noted above resulted from changes in interest rates, yen/dollar exchange rates, and issuer credit status. However, we believe that it would be inappropriate to recognize impairment charges because we believe the changes in fair value are temporary. Based on our evaluation and analysis of specific issuers in accordance with our impairment policy, impairment charges recognized in each of the years in the three-year period ended December 31, 2006 were immaterial.

Table of Contents

Realized losses on debt securities were as follows for the year ended December 31, 2006:

Realized Losses on Debt Securities

(In millions)	**Proceeds**	**Realized Loss**
Investment-grade securities, length of consecutive unrealized loss:		
Less than six months	$ 426	$ 15
Six months to 12 months	617	14
Over 12 months	37	1
Below-investment-grade securities, length of consecutive unrealized loss:		
Less than six months	37	3
Six months to 12 months	17	2
Total	$ 1,134	$ 35

Realized losses on below-investment-grade securities primarily relate to the 2006 disposition of Cooper Tire & Rubber Co.

Cash, cash equivalents, and short-term investments totaled $1.2 billion, or 2.3% of total investments and cash, as of December 31, 2006, compared with $1.3 billion, or 2.6%, at December 31, 2005.

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

Deferred Policy Acquisition Costs

Deferred policy acquisition costs totaled $6.0 billion at December 31, 2006, an increase of $435 million, or 7.8% over 2005. The following table presents deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	**2006**	**2005**
Aflac Japan	**$ 3,857**	$ 3,624
Aflac U.S.	**2,168**	1,966

Aflac Japan s deferred policy acquisition costs increased 6.4% (7.4% increase in yen). The weaker yen at year-end decreased reported deferred policy acquisition costs by $34 million. Deferred policy acquisition costs of Aflac U.S. increased 10.3%. The increase in deferred policy acquisition costs was primarily driven by total new annualized premium sales.

II-34

Table of Contents

Policy Liabilities

Policy liabilities totaled $45.4 billion at December 31, 2006, an increase of $3.1 billion, or 7.3% over 2005. The following table presents policy liabilities by segment for the years ending December 31.

(In millions)	**2006**	**2005**
Aflac Japan	**$ 40,072**	$ 37,556
Aflac U.S.	**5,365**	4,771

Aflac Japan s policy liabilities increased 6.7% (7.6% increase in yen). The weaker yen at year-end decreased reported policy liabilities by $353 million. Policy liabilities of Aflac U.S. increased 12.5%. The increase in total policy liabilities is the result of the growth and aging of our in-force business.

Notes Payable

Notes payable totaled $1.4 billion at both December 31, 2006 and 2005. The ratio of debt to total capitalization (debt plus shareholders equity, excluding the unrealized gains and losses on investment securities) was 17.2% as of December 31, 2006, compared with 18.8% a year ago. See Note 7 of the Notes to the Consolidated Financial Statements for additional information.

Benefit Plans

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 12 of the Notes to the Consolidated Financial Statements.

Policyholder Protection Fund

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. In 2002, the members of the Life Insurance Policyholder Protection Corporation (LIPPC) approved the Financial Services Agency s proposal, which increased the industry s obligation to the policyholder protection fund. In 2005, legislation was enacted extending the LIPPC framework, which included government fiscal measures supporting the LIPPC through March 2009. These new measures do not contemplate additional industry assessments through March 2009 absent an event requiring LIPPC funds. The likelihood and timing of future assessments, if any, cannot be determined at this time.

Hedging Activities

Aflac has limited hedging activities. Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, we have taken the following courses of action. First, Aflac Japan owns dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. Second, we have designated the Parent Company s yen-denominated liabilities (Samurai and Uridashi notes payable and cross-currency swaps) as a hedge of our investment in Aflac Japan. If the total of these

Table of Contents

yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the hedge that exceeds our investment in Aflac Japan would be deemed ineffective. As required by SFAS No. 133, we would then recognize the foreign exchange effect on the ineffective portion in net earnings (other income). We estimate that if the ineffective portion was 10 billion yen, we would report a foreign exchange gain/loss of approximately $1 million for every one yen weakening/strengthening in the end-of-period yen/dollar exchange rate. At December 31, 2006, our hedge was effective with yen-denominated assets exceeding yen-denominated liabilities by 105.4 billion yen, compared with 92.3 billion yen at December 31, 2005.

During the third quarter of 2006, we entered into interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. By entering into these contracts, we have been able to lock in our interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. Changes in the fair value of the swap contracts are recorded in other comprehensive income. The fair value of these swaps and related changes in fair value were immaterial during the year ended December 31, 2006.

Off-Balance Sheet Arrangements

As of December 31, 2006, we had no material unconditional purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. Aflac declared dividends to the Parent Company in the amount of $665 million in 2006, compared with $526 million in 2005 and $643 million in 2004. During 2006, Aflac paid $68 million to the Parent Company for management fees, compared with $73 million in 2005 and $33 million in 2004. The increase in management fees in 2005 resulted from a change in the allocation of expenses under the management fee agreement between Aflac and the Parent Company. The primary uses of cash by the Parent Company are shareholder dividends and our share repurchase program. The Parent Company s sources and uses of cash are reasonably predictable and are not expected to change materially in the future.

The Parent Company also accesses debt security markets to provide additional sources of capital. Capital is primarily used to fund business expansion and capital expenditures. In 2003, we filed a Shelf Registration Statement (SRS) with Japanese regulatory authorities to issue up to 100 billion yen of Samurai notes in Japan. In July 2005, we issued 40 billion yen (approximately $360 million) of these securities with a coupon of .71% and a five-year maturity. These securities are not available to U.S. persons. The remaining 60 billion yen of the 2003 SRS expired in December 2005. As a result,

Table of Contents

we filed a new SRS with Japanese regulatory authorities in February 2006 to issue up to 100 billion yen (approximately $840 million using the December 31, 2006, exchange rate) of Samurai notes in Japan. If issued, these securities will not be available to U.S. persons. We also filed an SRS in August 2006 with Japanese regulatory authorities to issue up to 100 billion yen (approximately $840 million using the December 31, 2006, period-end exchange rate) of Uridashi notes in Japan. In September 2006, the Parent Company issued 45 billion yen of yen-denominated Uridashi notes from this SRS. If issued, the remaining 55 billion yen of yen-denominated Uridashi notes will not be available to U.S. persons. We believe outside sources for additional debt and equity capital, if needed, will continue to be available. For additional information, see Note 7 of the Notes to the Consolidated Financial Statements.

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

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

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

The following table presents the estimated payments by period of our major contractual obligations as of December 31, 2006. We translated our yen-denominated obligations using the December 31, 2006, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

Distribution of Payments by Period

(In millions)	**Total Liability***		**Total Payments**	**Less Than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
Future policy benefits liability	$ 40,841		$ 208,221	$ 6,403	$ 12,791	$ 12,496	$ 176,531
Unpaid policy claims liability	2,390		2,390	1,794	378	130	88
Long-term debt - principal	1,416		1,416	252	450	630	84
Long-term debt - interest	4		71	18	30	14	9
Policyholder protection fund	175		175	29	47	53	46
Operating service agreements	N/A	**	530	47	128	121	234
Operating lease obligations	N/A	**	143	42	36	19	46
Capitalized lease obligations	10		10	4	5	1	-
	$ 44,836		$ 212,956	$ 8,589	$ 13,865	$ 13,464	$ 177,038

Total contractual obligations

*Liability amounts are those reported on the consolidated balance sheet as of December 31, 2006.

**Not applicable.*

II-37

Table of Contents

The distribution of payments for future policy benefits is an estimate of all future benefit payments for policies in force as of December 31, 2006. These projected values contain assumptions for future policy persistency, mortality and morbidity. The distribution of payments for unpaid policy claims includes assumptions as to the timing of policyholders reporting claims for prior periods and the amount of those claims. Actual amounts and timing of both future policy benefits and unpaid policy claims payments may differ significantly from the estimates above. We anticipate that the future policy benefit liability of $40.8 billion at December 31, 2006, along with future net premiums and investment income, will be sufficient to fund future policy benefit payments.

Consolidated Cash Flows

We translate cash flows for Aflac Japan s yen-denominated items into U.S. dollars using weighted-average exchange rates. In years when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The following table summarizes consolidated cash flows by activity for the years ended December 31.

Consolidated Cash Flows by Activity

(In millions)	2006	2005	2004
Operating activities	**$ 4,397**	$ 4,433	$ 4,486
Investing activities	**(4,057)**	(6,692)	(1,418)
Financing activities	**(434)**	(196)	(313)
Exchange effect on cash and cash equivalents	**-**	(61)	6
Net change in cash and cash equivalents	**$ (94)**	$ (2,516)	$ 2,761

Operating Activities

Consolidated cash flow from operations was $4.4 billion in both 2006 and 2005, and $4.5 billion in 2004. The following table summarizes operating cash flows by source for the years ended December 31.

Cash Provided by Operating Activities

(In millions)	2006	2005	2004
Aflac Japan	**$ 3,437**	$ 3,691	$ 3,670
Aflac U.S. and Other Operations	**960**	742	816

The decrease in Aflac Japan cash flows was due primarily to an increase in income tax payments in 2006 as a result of realized gains related to our bond-swap program.

Table of Contents

Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. The following table summarizes investing cash flows by source for the years ended December 31.

Cash Provided (Used) by Investing Activities

(In millions)	**2006**	2005	2004
Aflac Japan	**$ (3,372)**	$ (3,574)	$ (3,692)
Aflac U.S. and Other Operations	**(685)**	(3,118)	2,274

Cash flows for Aflac U.S. and Other Operations included the January 2005 return of cash collateral from the security lending activities of Aflac U.S. at the end of 2004 (approximately $2.6 billion).

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. Currently, when debt securities we own mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provide us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt securities that are available for sale to improve the duration matching of our assets and liabilities and/or improve future investment yields. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were approximately 7% of the annual average investment portfolio of debt securities available for sale during the year ended December 31, 2006, compared with 11% in 2005 and 5% in 2004. The increase of dispositions before maturity in 2006 and 2005 primarily resulted from the bond swaps we executed from the third quarter of 2005 through the second quarter of 2006.

Financing Activities

Consolidated cash used by financing activities was $434 million in 2006, $196 million in 2005 and $313 million in 2004. In September 2006, we received $382 million in connection with the Parent Company s issuance of yen-denominated Uridashi notes. In June 2006, the Parent Company paid $355 million in connection with the maturity of the 2001 Samurai notes. In October 2005, we paid $261 million in connection with the maturity of the 2000 Samurai notes. In July 2005, the Parent Company received $360 million from its issuance of yen-denominated Samurai notes. Cash provided by investment-type contracts was $217 million in 2006, compared with $257 million in 2005 and $220 million in 2004.

Table of Contents

The following table presents a summary of treasury stock activity during the years ended December 31.

(In millions of dollars and millions of shares)	2006	2005	2004
Treasury stock purchases	**$ 470**	$ 438	$ 392
Shares purchased	**10**	10	10
Stock issued from treasury	**$ 42**	$ 50	$ 39
Shares issued	**3**	4	3

Cash dividends paid in 2006 of $.55 per share increased 25.0% over 2005. The 2005 dividend of $.44 per share increased 15.8% over 2004. The following table presents the sources of dividends to shareholders for the years ended December 31.

(In millions)	2006	2005	2004
Dividends paid in cash	**$ 258**	$ 209	$ 182
Dividends declared but not paid	**91**	-	-
Dividends through issuance of treasury shares	**15**	11	10
Total dividends to shareholders	**$ 364**	$ 220	$ 192

Regulatory Restrictions

Aflac is domiciled in Nebraska and is subject to its regulations. The Nebraska insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed 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. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. These regulatory limitations are not expected to affect the level of management fees or dividends paid by Aflac to the Parent Company. A life insurance company s statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company s state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency.

The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. Aflac s insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC s risk-based capital (RBC) formula is used by insurance regulators to facilitate identification of inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer s operations. Aflac s RBC ratio remains high and reflects a very strong capital and surplus position. Currently, the NAIC has ongoing regulatory initiatives relating to revisions to the RBC

Table of Contents

formula as well as numerous initiatives covering insurance products, investments, and other actuarial and accounting matters. We believe that we will continue to maintain a strong RBC ratio and statutory capital and surplus position in future periods.

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

Payments are made from Aflac Japan to the Parent Company for management fees and to Aflac U.S. for allocated expenses and profit repatriations. During 2006, Aflac Japan paid $25 million to the Parent Company for management fees, compared with $28 million in 2005 and $24 million in 2004. Expenses allocated to Aflac Japan were $32 million in 2006, $30 million in 2005 and $26 million in 2004. During 2006, Aflac Japan repatriated profits of $442 million (50.0 billion yen) to Aflac U.S., compared with $374 million (41.2 billion yen) in 2005 and $220 million (23.9 billion yen) in 2004. Profits repatriated in 2004 were lower primarily as a result of realized investment losses recognized in 2003. For additional information on regulatory restrictions on dividends, profit repatriations and other transfers, see Note 11 of the Notes to the Consolidated Financial Statements.

Rating Agencies

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

Other

In October 2006, the board of directors declared the first quarter 2007 cash dividend of $.185 per share. The dividend is payable on March 1, 2007, to shareholders of record at the close of business on February 16, 2007. In 2004, the board of directors authorized the purchase of up to 30 million shares of our common stock. In 2006, the board of directors authorized the purchase of an additional 30 million shares of our common stock. As of December 31, 2006, approximately 37 million shares were available for purchase under our share repurchase programs.

For information regarding commitments and contingent liabilities, see Note 13 of the Notes to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required by Item 7A is incorporated by reference from the Market Risks of Financial Instruments section of MD&A in Part II, Item 7, of this report.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings
Years Ended December 31,

(In millions, except for share and per-share amounts)	**2006**	**2005**	**2004**
Revenues:			
Premiums, principally supplemental health insurance	**$ 12,314**	$ 11,990	$ 11,302
Net investment income	**2,171**	2,071	1,957
Realized investment gains (losses)	**79**	262	(12)
Other income	**52**	40	34
Total revenues	**14,616**	14,363	13,281
Benefits and expenses:			
Benefits and claims	**9,016**	8,890	8,482
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	**574**	542	519
Insurance commissions	**1,303**	1,302	1,252
Insurance expenses	**1,337**	1,281	1,128
Interest expense	**19**	23	23
Other operating expenses	**103**	99	104
Total acquisition and operating expenses	**3,336**	3,247	3,026
Total benefits and expenses	**12,352**	12,137	11,508
Earnings before income taxes	**2,264**	2,226	1,773
Income tax expense:			
Current	**419**	499	391
Deferred	**362**	278	244
Release of valuation allowance on deferred tax assets	**-**	(34)	(128)
Total income taxes	**781**	743	507
Net earnings	**$ 1,483**	1,483	$ 1,266
Net earnings per share:			
Basic	**$ 2.99**	$ 2.96	$ 2.49
Diluted	**2.95**	2.92	2.45
Common shares used in computing earnings per share (In thousands):			
Basic	**495,614**	500,939	507,333
Diluted	**501,827**	507,704	516,421

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets
December 31,

(In millions)	2006	2005
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $27,099 in 2006 and $25,860 in 2005)	**$ 28,805**	$ 28,142
Perpetual debentures (amortized cost $4,341 in 2006 and $4,255 in 2005)	**4,408**	4,370
Equity securities (cost $16 in 2006 and $30 in 2005)	**25**	84
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $13,369 in 2006 and $10,839 in 2005)	**13,483**	10,867
Perpetual debentures (fair value $4,024 in 2006 and $4,252 in 2005)	**3,990**	4,172
Other investments		