Management's Discussion and Analysis of Financial Condition and Results of Operations

AFLAC Incorporated is the parent company of American Family Life Assurance Company of Columbus, AFLAC. Our principal business is supplemental health and life insurance, which is marketed and administered through AFLAC. Most of AFLAC's policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee. Our operations in Japan (AFLAC Japan) and the United States (AFLAC U.S.) service the two markets for our insurance business.

On February 13, 2001, the board of directors declared a two-for-one stock split, effectively increasing the number of shares by 100%. All share and per-share amounts have been restated for the split.

RESULTS OF OPERATIONS

Several significant nonoperating items affected earnings during the three-year period ended December 31, 2000.

In the second quarter of 2000, the release of an accrued unfunded liability for projected retirement payments increased pretax earnings by $101 million ($99 million after taxes, or $.19 per basic share and $.18 per diluted share). (See Note 10 of the Notes to the Consolidated Financial Statements.)

During the second quarter of 2000, we sold one security reported as available for sale at a pretax loss of $34 million. We also recorded a pretax impairment loss of $57 million on another security, which was carried in the held-to-maturity category. These losses are included in realized investment gains and losses. The combined effect of these losses decreased net earnings by $58 million ($.11 per basic and diluted share) for the year ended December 31, 2000.

In both 1998 and 1999, corporate income tax rate reductions were enacted in Japan. The statutory tax rate for AFLAC Japan declined from 45.3% to 41.7% in 1998, and from 41.7% to 36.2% in 1999. These tax rate declines caused reductions in our deferred income tax liability. The deferred tax effect for the 1998 tax reduction was recognized in the first quarter of 1998, increasing net earnings by $121 million ($.23 per basic share and $.22 per diluted share). The deferred tax effect for the 1999 tax reduction was recognized in the first quarter of 1999, increasing net earnings by $67 million ($.13 per basic share and $.12 per diluted share).

Another factor affecting net earnings was the policyholder protection system established by the Japanese government during the first quarter of 1998. The pretax charge for our obligation to the protection fund was $111 million ($65 million after taxes, or $.12 per basic and diluted share). In 1999, the Japanese government and the life insurance industry agreed to legislation that increased the life insurance industry's

Summary of Operating Results by Business Segment

(In millions, except for per-share amounts)

	Percentage change over previous year		Years ended December 31,		
	2000	1999	**2000**	1999	1998
Operating earnings:					
AFLAC Japan	**18.6%**	29.6%	**$ 771**	$ 651	$ 502
AFLAC U.S.	**13.3**	11.4	**290**	256	230
Other business segments			**(6)**	(4)	2
Total business segments	**16.8**	23.2	**1,055**	903	734
Interest expense, noninsurance operations	**(9.3)**	(40.9)	**(16)**	(15)	(10)
Corporate and eliminations	**19.9**	45.0	**(26)**	(32)	(60)
Pretax operating earnings	**18.3**	28.9	**1,013**	856	664
Income taxes	**16.4**	30.4	**356**	306	235
Operating earnings	**19.4**	28.1	**657**	550	429
Nonoperating items:					
Realized investment gains (losses), net of tax			**(69)**	(5)	2
Release of retirement liability, net of tax			**99**	–	–
Deferred income tax benefit from Japanese tax rate reductions			**–**	67	121
Provisions for the policyholder protection fund, net of tax			**–**	(41)	(65)
Net earnings	**20.3%**	17.4%	**$ 687**	$ 571	$ 487
Operating earnings per basic share	**20.4%**	27.2%	**$ 1.24**	$ 1.03	$ .81
Operating earnings per diluted share	**20.0**	28.2	**1.20**	1.00	.78
Net earnings per basic share	**21.5%**	17.6%	**$ 1.30**	$ 1.07	$ .91
Net earnings per diluted share	**21.2**	18.2	**1.26**	1.04	.88

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

legal obligation to the fund. Our share of the industry's obligation was recognized in the fourth quarter of 1999 and decreased pretax earnings by $64 million ($41 million after taxes, or $.08 per basic share and $.07 per diluted share). For further information regarding the policyholder protection fund, see Note 2 of the Notes to the Consolidated Financial Statements.

The results of operations by business segment, together with nonoperating items, for the three-year period ended December 31, 2000, appear in the table to the left.

The following discussion of earnings comparisons focuses on operating earnings and excludes realized investment gains/losses, the gain from the release of the retirement accrual in 2000, the deferred income tax benefits from the Japanese income tax rate reductions, and the charges for the policyholder protection fund. Operating earnings per share amounts referenced in the following discussion are based on the diluted number of average outstanding shares and reflect the two-for-one stock split payable on March 16, 2001.

Foreign Currency Translation

Due to the relative size of AFLAC Japan, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. 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 table below illustrates the effect of foreign currency translation by comparing our reported operating results with those that would have been reported had foreign currency rates remained unchanged from the previous year.

The yen strengthened in relation to the dollar during 1999 and 2000 after several years of weakening. The average yen/dollar exchange rates were 107.83 in 2000, 113.96 in 1999 and 130.89 in 1998. The stronger yen in 2000 and 1999 increased operating earnings per share by $.02 in 2000 compared with 1999 and by $.06 in 1999 compared with 1998. The weaker yen in 1998 lowered operating earnings per share by $.02 in 1998 compared with 1997. Reported operating earnings per share increased 20.0% to $1.20 in 2000, 28.2% to $1.00 in 1999 and 18.2% to $.78 in 1998.

Our primary financial objective is the growth of operating earnings per share excluding the effect of foreign currency fluctuations. Our goal for 2000 was 17% growth, which we exceeded. Excluding the effect of currency fluctuations, operating earnings per share increased 18.0% in 2000 compared with 1999, 20.5% in 1999 compared with 1998, and 21.2% in 1998 compared with 1997.

2001 Operating EPS Scenarios

Annual Average Yen Exchange Rate	Annual Operating Diluted EPS	% Growth Over 2000	Yen Impact on EPS
100.00	$1.45	20.8%	$.05
105.00	1.42	18.3	.02
107.83*	1.40	16.7	–
110.00	1.39	15.8	(.01)
115.00	1.36	13.3	(.04)
120.00	1.34	11.7	(.06)
125.00	1.31	9.2	(.09)

* Actual 2000 average exchange rate

Foreign Currency Translation Effect on Operating Results

(Years ended December 31)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes*		
	2000	1999	1998	**2000**	1999	1998
Premium income	**13.4%**	22.2%	1.2%	**8.5%**	9.4%	7.7%
Net investment income	**13.2**	20.3	5.6	**9.6**	10.7	11.1
Operating revenues	**13.5**	21.8	1.7	**8.8**	9.5	8.0
Total benefits and expenses	**13.0**	21.0	.9	**8.0**	8.3	7.4
Operating earnings	**19.4**	28.1	14.6	**16.5**	20.6	18.6
Operating earnings per share	**20.0**	28.2	18.2	**18.0**	20.5	21.2

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

Our objective for 2001 and 2002 is to increase operating earnings per share by 15% to 17% excluding the impact of currency translation. We expect to achieve the high end of our objective for 2001. If we achieve a 16.7% increase, the above table shows the likely results for operating earnings per share in 2001 using various yen/dollar exchange rate scenarios.

Income Taxes

Our combined U.S. and Japanese effective income tax rates on operating earnings were 35.2% in 2000, 35.8% in 1999 and 35.4% in 1998. Japanese income taxes on AFLAC Japan's operating results accounted for most of our income tax expense.

Insurance Operations, AFLAC Japan

AFLAC Japan, a branch of AFLAC and the principal contributor to our earnings, ranks number one in terms of premium income and profits among all foreign life and non-life insurance companies operating in Japan. Among all life insurance companies operating in Japan, AFLAC Japan ranked second in terms of individual policies in force and 12th in terms of assets according to Financial Services Agency (FSA) data as of September 30, 2000.

The following table presents a summary of AFLAC Japan's operating results.

Japanese Economy

For the last several years, Japan has been working to overcome its depressed economy. The financial strength of many Japanese businesses continued to deteriorate in 2000 with some experiencing bankruptcy or requesting financial protection or assistance. As we have indicated in the past, Japan's weak economy has created a challenging environment for AFLAC Japan, as yields available for new investments remain at historically low levels and consumer confidence continues to lag. The time required for the Japanese economy to fully recover remains uncertain.

AFLAC Japan Sales

AFLAC Japan produced strong sales results during the last three years, despite the weak Japanese economy. New annualized premium sales were: $921 million in 2000, up 20.4%; $765 million in 1999, up 32.2%; and $579 million in 1998, up 11.4%. New annualized premium sales in yen were: ¥99.8 billion in 2000, up 14.6%; ¥87.0 billion in 1999, up 15.4%; and ¥75.4 billion in 1998, up 19.9%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 6.3% in 2000, 8.7% in 1999 and 7.2% in 1998 reflect the high persistency of AFLAC Japan's business and the sales of new policies. Annualized premiums in force were: ¥740.4 billion, ¥696.6 billion and ¥640.8 billion at December 31, 2000, 1999 and 1998, respectively. As a result of fluctuations in year-end exchange rates, annualized premiums in force, as measured in dollars, were: $6.5 billion, $6.8 billion and $5.5 billion at December 31, 2000, 1999 and 1998, respectively.

AFLAC Japan Summary of Operating Results

(In millions)	**2000**	1999	1998
Premium income	**$ 6,684**	$ 5,906	$ 4,738
Investment income	**1,261**	1,111	917
Other income	**7**	4	2
Total revenues	**7,952**	7,021	5,657
Benefits and claims	**5,649**	5,039	4,119
Operating expenses	**1,532**	1,331	1,036
Total benefits and expenses	**7,181**	6,370	5,155
Pretax operating earnings	**$ 771**	$ 651	$ 502

	In Dollars			In Yen		
Percentage changes over previous year:	**2000**	1999	1998	**2000**	1999	1998
Premium income	**13.2%**	24.6%	(1.4)%	**7.1%**	8.5%	6.6%
Investment income	**13.5**	21.2	2.7	**7.4**	5.2	11.0
Total revenues	**13.3**	24.1	(.7)	**7.2**	8.0	7.3
Pretax operating earnings	**18.6**	29.6	(.4)	**12.3**	12.3	7.5

Ratios to total revenues in dollars:	**2000**	1999	1998
Benefits and claims	**71.0%**	71.8%	72.8%
Operating expenses	**19.3**	18.9	18.3
Pretax operating earnings	**9.7**	9.3	8.9

In addition to strong sales growth, we also continued to grow our distribution system in Japan. During 2000, we recruited 2,039 new agencies. We believe that new agencies will continue to be attracted to AFLAC Japan's high commissions, superior products, customer service and brand image.

We continued to invest in marketing to improve sales. An improved incentive pay system for AFLAC Japan's employed sales managers was introduced in 2000 to provide better rewards for sales performance. We introduced a new optional commission contract in July 2000 that was structured to attract new agents. The new contract pays a higher first-year commission and limits renewal commissions to nine years. Our original contract pays renewal commissions for the life of the policy.

We increased expenditures during the last three years for expanded sales promotion efforts in Japan and will continue to do so in 2001. Additionally, we will continue to aggressively promote our brand and products through advertising. We plan on improving the products we offer and introducing new ones. We will invest in new technologies, including our laptop sales aid, to maintain our cost and service advantages.

We also continued to refine our product line. In mid-2000, we began selling new, lower-premium cancer life and care products to meet the needs of cost-sensitive buyers. Approximately 29% of new cancer life and 59% of care policy sales were from the lower-premium products. At the end of 2000, we introduced a major revision to our cancer life product. Our new cancer life product offers a variety of coverage choices to our customers. As a result, employers will be able to customize an AFLAC cancer life policy that best suits the needs of their workers.

Rider MAX, which provides accident and medical/sickness benefits as a rider to our cancer life policy, has been extremely popular since its introduction in 1998.

AFLAC Japan's sales mix as measured in yen has changed during the last few years. Cancer life sales accounted for 40.3% of total sales in 2000, 46.7% in 1999, and 49.7% in 1998. Rider MAX accounted for 41.2% of sales in 2000, 39.6% in 1999, and 33.0% in 1998. Ordinary life and annuities accounted for 13.6% of sales in 2000 compared with 7.8% in 1999 and 3.8% in 1998.

Although consumer confidence continued to lag because of the economic worries and concerns over the financial strength of insurers, AFLAC products remained popular. Our reputation for financial strength, combined with a diverse product line and aggressive sales and marketing, helped us grow over the last three years in spite of the difficult economy. AFLAC sold more insurance policies than any other life insurance company in Japan for the first half of the Japanese fiscal year.

Our objective for 2001 is to increase sales in yen by 15% compared with 2000.

AFLAC Japan Investments

Investment income is affected by available cash flow from operations, investment yields achievable on new investments and foreign currency exchange rates on dollar-denominated investment income. The stronger yen has the effect of reducing dollar-denominated investment income as reported in yen. Also, rates of return on yen-denominated debt securities in Japan remained low in 2000. For instance, the yield on 10-year Japanese government bonds, as measured by a composite index, fluctuated from a high of 1.97% in September 2000 to a low of 1.54% in December 2000 and closed the year at 1.63%. Investment income in yen increased 7.4% in 2000, compared with 5.2% in 1999 and 11.0% in 1998.

AFLAC Japan's new money rates for investments in debt securities (including dollar-denominated investments) were 3.78% for 2000, 4.74% for 1999 and 4.19% for 1998. The overall rate of return, net of investment expenses, on AFLAC Japan's average investments and cash at amortized cost has declined. These returns, which were 4.82% in 2000, 5.01% in 1999 and 5.26% in 1998, reflect the cumulative effect of lower investment yields available in Japan since the early 1990s.

AFLAC Japan has invested in reverse-dual currency securities and other private placement securities to secure higher yields than Japanese government bonds would have provided while still adhering to prudent standards for credit quality. We believe that we can invest new money in the near term at an adequate spread over policy premium pricing assumptions for new business and assumed interest rates for policy liabilities. To compensate for lower investment yields, we have implemented premium rate increases over the last several years, including one in 1999, which should contribute to stability in the pretax operating profit margin.

Insurance Deregulation in Japan

Trade talks in 1994 and 1996 between the governments of the United States and Japan, and Japan's 1996 plan for a financial "Big Bang," produced a framework for the deregulation of the Japanese insurance industry. These measures called for the gradual liberalization of the industry through the year 2001 and included provisions to avoid "radical change" in the third sector of the insurance industry. AFLAC and other foreign-owned insurers, as well as many small to medium-sized Japanese insurers, operate primarily in the third sector.

As of January 1, 2001, additional insurance companies were permitted to sell the type of third-sector products that AFLAC Japan currently offers. We anticipate that by July 1, 2001, all insurance companies will be permitted to compete in the third sector. As a result, we expect competition to increase. However, we also expect increased product and distribution opportunities for AFLAC Japan. In order to respond to the expected increase in competition and the opportunities available to us, we have taken action to expand our marketing initiatives and enhance our competitiveness.

In the third quarter of 2000, AFLAC Japan and Dai-ichi Mutual Life Insurance Company (Dai-ichi Life) agreed to a major marketing alliance that anticipates the sale of each company's products through their respective distribution systems. The initial focus will be the sale of AFLAC Japan's cancer life and Rider MAX products through Dai-ichi Life's sales force of 50,000 people. Sales are expected to commence in the second quarter of 2001, pending approval by regulatory authorities.

As previously mentioned, we plan to continue expanding our distribution system through the addition of new agencies. In support of this objective, we introduced a commission contract in July 2000 that is structured to attract new agents.

We recognize that we will face increasing competition in the future, and we continue to look for ways to improve. At the same time, we believe companies will find it difficult to compete with us because our low-cost structure allows us to provide competitive benefits and services to policyholders and above-average compensation to our sales force.

AFLAC Japan – Other

The increase in the expense ratio in 2000 and 1999 was primarily due to increased expenditures for sales promotion, marketing and advertising.

The benefit ratio has declined primarily due to the mix of business shifting to newer products, which have a lower loss ratio than the earlier versions of the cancer life product. The pretax operating profit margin was 9.7% in 2000, compared with 9.3% in 1999 and 8.9% in 1998. The expansion of the margin was largely due to the declining benefit ratio.

In July 2000, we initiated a voluntary internal compliance review to examine the solicitation practices of our agents and to determine the extent to which inappropriate premium discounts, if any, may have been given to customers, and to put in place any corrective measures necessary to ensure full regulatory compliance in the future. We informed the FSA at the time the review was initiated. The results of this review have been provided to the FSA, including AFLAC Japan's proposed steps to strengthen and improve the internal control system and the internal disciplinary actions that have been taken against certain employees. The FSA requested that AFLAC Japan make periodic reports regarding the progress being made to implement these measures. The FSA also notified AFLAC Japan that it will not impose any administrative sanction in connection with the results of this compliance review.

Although Japan's economic outlook remains uncertain, we continue to believe it is one of the best insurance markets in the world for supplemental insurance products. The need for our products in Japan continues, and we remain optimistic about increasing penetration within existing groups, selling new products, opening new accounts and developing additional supplemental products for the Japanese market.

AFLAC U.S. Summary of Operating Results

(In millions)	2000	1999	1998
Premium income	**$ 1,554**	$ 1,358	$ 1,198
Investment income	**277**	245	216
Other income	**5**	3	4
Total revenues	**1,836**	1,606	1,418
Benefits and claims	**969**	845	749
Operating expenses	**577**	505	439
Total benefits and expenses	**1,546**	1,350	1,188
Pretax operating earnings	**$ 290**	$ 256	$ 230
Percentage changes over previous year:			
Premium income	**14.4%**	13.4%	12.8%
Investment income	**13.2**	13.1	20.3
Total revenues	**14.3**	13.2	14.1
Pretax operating earnings	**13.3**	11.4	24.9
Ratios to total revenues:			
Benefits and claims	**52.8%**	52.6%	52.8%
Operating expenses	**31.4**	31.4	31.0
Pretax operating earnings	**15.8**	16.0	16.2

Insurance Operations, AFLAC U.S.

The table above presents a summary of AFLAC U.S. operating results.

AFLAC U.S. Sales

New annualized premium sales were: $712 million in 2000, up 28.3%; $555 million in 1999, up 15.1%; and $482 million in 1998, up 20.3%. Accident/disability coverage continued to be our best-selling product, accounting for approximately 55% of sales in 2000 and 56% of sales in both 1999 and 1998. Cancer expense insurance accounted for 23% to 25% of sales during the three-year period ending December 31, 2000. Our newest product, dental insurance, was introduced in July 2000 and generated 3.4% of sales in 2000. Our objective for 2001 is to increase sales by 12% to 15%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 16.9% in 2000, 14.3% in 1999 and 14.6% in 1998 were favorably affected by increased sales at the worksite primarily through cafeteria plans and an improvement in the persistency of several products. Annualized premiums in force were: $1.9 billion at December 31, 2000; $1.6 billion at December 31, 1999; and $1.4 billion at December 31, 1998.

AFLAC U.S. Investments

Investment income increased 13.2% in 2000, compared with 13.1% in 1999 and 20.3% in 1998. The larger increase in 1998 was due to investing the majority of the annual profits repatriated from AFLAC Japan in 1997. Investment income in 1998 also benefited from investing the proceeds from the sale of the television business in 1997. During 2000, available cash flow was invested at an average yield of 8.22% compared with 7.93% during 1999 and 7.71% during 1998. The overall return on average invested assets, net of investment expenses, was 7.62% for 2000, compared with 7.51% for 1999 and 7.44% for 1998.

AFLAC U.S. – Other

We expect the operating expense ratio, excluding discretionary advertising expenses, to remain relatively level in the future. State-of-the-art technology is one way we can control expense growth, and SmartApp, a laptop-based, point-of-sale system, is a good example. In 2000, SmartApp enabled us to process approximately 78% of our payroll business electronically. About half of these policies required no human intervention. The electronic imaging of our claims and correspondence is also benefiting our expense ratio. By improving administrative systems and controlling other costs, we have been able to redirect funds in recent years to our advertising program without significantly affecting the operating expense ratio.

The aggregate benefit ratio has been relatively stable. The mix of business has shifted toward accident/disability policies, which have lower benefit ratios than other products.

We expect the pretax operating profit margin to remain approximately the same in 2001.

We continue to believe that there are significant opportunities to market high-quality, affordable supplemental insurance products in the U.S. marketplace.

Other Operations

Corporate expenses are presented net of investment income of $12 million in 2000, $13 million in 1999 and $2 million in 1998. Corporate operating expenses consist primarily of salary and facilities expenses. Corporate expenses, excluding investment income, were $38 million in 2000, $45 million in 1999 and $60 million in 1998. The reduction in corporate expenses primarily reflects lower retirement expense.

Financial Accounting Standards Board Statements

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

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

For information regarding other new Statements of Financial Accounting Standards, see Note 1 of the Notes to the Consolidated Financial Statements.

Analysis of Financial Condition Balance Sheet

During the last two years, our financial condition has remained strong in the functional currencies of our operations. The investment portfolios of AFLAC Japan and AFLAC U.S. have continued to grow and primarily consist of investment-grade securities.

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, 2000, was 114.75 yen to one U.S. dollar, or 10.8% weaker than the December 31, 1999, exchange rate of 102.40. The weaker yen rate decreased reported investments and cash by $3.2 billion, total assets by $3.6 billion and total liabilities by $3.5 billion, compared with the amounts that would have been reported for 2000 if the exchange rate had remained unchanged from year-end 1999 (see Note 2 of the Notes to the Consolidated Financial Statements).

Market Risks of Financial Instruments

Our financial instruments are exposed primarily to three types of market risks: interest rate, equity price and foreign currency exchange rate.

Interest Rate Risk

Our primary interest rate exposure results from the effect of changes in interest rates on the fair value of our investments in debt securities. We use modified duration analysis, which provides a measure of price percentage volatility, to estimate the amount of sensitivity to interest rate changes in our debt securities. For example, if the current duration of a debt security is five, then the fair value of that security will increase by approximately 5% if market interest rates decrease by 100 basis points. Likewise, the fair value of the debt security will decrease by approximately 5% if market interest rates increase by 100 basis points.

The estimated effect of potential increases in interest rates on the fair values of our debt security investments, notes payable and cross-currency swaps follows:

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(December 31)

	2000		1999	
(In millions)	**Market Value**	**+100 Basis Points**	Market Value	+100 Basis Points
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	**$ 20,615**	**$ 18,760**	$ 20,379	$ 18,613
Dollar-denominated	**5,259**	**4,879**	4,760	4,400
Perpetual debentures:				
Yen-denominated	**5,035**	**4,550**	5,450	4,917
Dollar-denominated	**334**	**313**	306	285
Total debt securities	**$ 31,243**	**$ 28,502**	$ 30,895	$ 28,215
Notes payable*	**$ 1,043**	**$ 1,004**	$ 962	$ 934
Cross-currency swaps included in other liabilities	**$ 30**	**$ 21**	$ 108	$ 91

* Excludes capitalized leases

Should significant amounts of unrealized losses occur because of increases in market yields, we would not expect to realize significant losses because we have the ability to hold such securities to maturity.

The unrealized gains and losses on debt securities, less amounts applicable to policy liabilities and deferred income taxes, are reported in accumulated other comprehensive income. The portion of unrealized gains credited to policy liabilities represents gains that would not inure to the benefit of our shareholders if such gains were actually realized. (See Note 3 of the Notes to the Consolidated Financial Statements.)

The following is a comparison of average actuarially assumed interest rates for policy reserves and investment yields, based on amortized cost, for the years ended December 31:

Comparison of Interest Rates for Policy Reserves and Investment Yields

(Net of investment expenses)

	2000		1999		1998	
	U.S.	**Japan***	U.S.	Japan*	U.S.	Japan*
Policies issued during year:						
Required interest on policy reserves	**6.48%**	**3.00%**	6.59%	3.42%	6.81%	3.50%
New money yield on investments	**8.15**	**3.51**	7.85	4.48	7.62	3.76
Policies in force at end of year:						
Required interest on policy reserves	**6.42**	**5.21**	6.42	5.29	6.41	5.38
Investment yield	**7.62**	**4.65**	7.51	4.94	7.44	5.17

* Represents yen-denominated investments for Japan

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

We have outstanding interest rate swaps on ¥19.1 billion ($167 million) of variable-interest-rate yen-denominated bank borrowings. These swaps reduce the impact of fluctuations in interest rates on borrowing costs and effectively change our interest rates from variable to fixed. Therefore, movements in market interest rates should have no material effect on earnings.

At December 31, 2000, we also had yen-denominated bank borrowings in the amount of ¥19.6 billion ($171 million) with a blended variable interest rate of .73%. The effect on net earnings in 2000 due to changes in market interest rates was immaterial. For further information on our notes payable, see Note 6 of the Notes to the Consolidated Financial Statements.

Equity Price Risk

Equity securities at December 31, 2000, totaled $236 million, or .7% of total investments and cash on a consolidated basis. We use beta analysis to measure the sensitivity of our equity securities portfolio to fluctuations in the broad market. The beta of our equity securities portfolio is .92. For example, if the overall stock market value changed by 10%, the value of AFLAC's equity securities would be expected to change by approximately 9.2%, or $22 million.

Currency Risk

Most of AFLAC Japan's investments and cash are denominated in yen. When yen-denominated financial instruments mature or are sold, the proceeds are generally reinvested in yen-denominated securities and are held to fund yen-denominated policy obligations.

In addition to the yen-denominated financial instruments held by AFLAC Japan, AFLAC Incorporated has yen-denominated notes payable that have been designated as a hedge of our investment in AFLAC Japan. The unrealized foreign currency translation gains and losses related to these borrowings are reported in accumulated other comprehensive income.

AFLAC Incorporated entered into cross-currency swaps to convert the dollar-denominated principal and interest into yen-denominated obligations on the $450 million senior notes that were issued in 1999. The cross-currency swaps have a notional amount of $450 million (¥55.6 billion). These swaps have also been designated as a hedge of our investment in AFLAC Japan. The unrealized foreign currency translation gains and losses related to these swaps are reported in accumulated other comprehensive income. For information regarding new accounting requirements for derivative instruments as of January 1, 2001, see Accounting Pronouncements Not Yet Adopted on page 45.

We attempt to match yen-denominated assets to yen-denominated liabilities on a consolidated basis in order to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations. The table below compares the dollar values of yen-denominated assets and liabilities at various exchange rates.

For information regarding the effect of foreign currency translation on operating earnings per share, see Foreign Currency Translation on page 23 and Note 2 of the Notes to the Consolidated Financial Statements.

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

(December 31)

	2000			1999		
(In millions)	**99.75 Yen**	**114.75* Yen**	**129.75 Yen**	87.40 Yen	102.40* Yen	117.40 Yen
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$ 19,457**	**$ 16,913**	**$ 14,958**	$ 18,857	$ 16,099	$ 14,039
Perpetual debentures	**1,969**	**1,712**	**1,514**	2,015	1,718	1,500
Equity securities	**79**	**68**	**61**	66	56	49
Securities held to maturity:						
Fixed maturities	**4,193**	**3,645**	**3,223**	5,143	4,389	3,829
Perpetual debentures	**3,960**	**3,442**	**3,044**	4,572	3,903	3,404
Cash and cash equivalents	**618**	**537**	**475**	659	563	491
Other financial instruments	**3**	**4**	**3**	5	2	2
Subtotal	**30,279**	**26,321**	**23,278**	31,317	26,730	23,314
Liabilities:						
Notes payable	**1,139**	**1,048**	**980**	1,094	999	929
Cross-currency swaps	**107**	**34**	**(22)**	186	93	23
Subtotal	**1,246**	**1,082**	**958**	1,280	1,092	952
Net yen-denominated financial instruments	**29,033**	**25,239**	**22,320**	30,037	25,638	22,362
Other yen-denominated assets	**4,118**	**3,580**	**3,166**	4,412	3,766	3,285
Other yen-denominated liabilities	**(32,470)**	**(28,227)**	**(24,962)**	(34,140)	(29,141)	(25,417)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	**$ 681**	**$ 592**	**$ 524**	$ 309	$ 263	$ 230

* Actual year-end rates

Investments and Cash

The continued growth in investments and cash reflects the substantial cash flows from operations. Net unrealized gains of $1.5 billion on investment securities at December 31, 2000, consisted of $2.6 billion in gross unrealized gains and $1.1 billion in gross unrealized losses.

AFLAC invests primarily within the Japanese, U.S. and Euroyen debt securities markets. We are exposed to credit risk in our investment activity. Credit risk is a consequence of extending credit and/or carrying investment positions. We require that all securities have an initial rating of Class 1 or 2 as determined by the Securities Valuation Office of the National Association of Insurance Commissioners. We use specific criteria to judge the credit quality and liquidity of our investments and use a variety of credit rating services to monitor these criteria. Applying those various credit ratings to a standardized rating system based on the categories of a nationally recognized rating service, the percentages of our debt securities, at amortized cost, as of December 31 were as follows:

	2000	1999
AAA	**25.0%**	28.0%
AA	**22.4**	24.6
A	**36.8**	33.5
BBB	**15.1**	12.1
BB	**.7**	1.8
	100.0%	100.0%

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

Private placement investments accounted for 51.5% and 49.0% of our total debt securities as of December 31, 2000 and 1999, respectively. AFLAC Japan has made investments in the private placement market to secure higher yields than those available from Japanese government bonds. At the same time, we have adhered to prudent standards for credit quality. Most of AFLAC's private placements are issued under medium-term note programs and have standard covenants commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

Securities that are available for sale are reported in the balance sheet at fair value, and securities that are held to maturity are reported at amortized cost.

The following table shows an analysis of investment securities (at cost or amortized cost) at December 31:

	AFLAC Japan		AFLAC U.S.	
(In millions)	**2000**	1999	**2000**	1999
Securities available for sale:				
Fixed maturities	**$ 16,757**	$ 15,491	**$ 3,648***	$ 3,405*
Perpetual debentures	**2,173**	2,411	**174**	153
Equity securities	**64**	45	**97**	92
Subtotal	**18,994**	17,947	**3,919**	3,650
Securities held to maturity:				
Fixed maturities	**3,645**	4,389	**–**	–
Perpetual debentures	**3,442**	3,903	**–**	–
Subtotal	**7,087**	8,292	**–**	–
Total investment securities	**$ 26,081**	$ 26,239	**$ 3,919**	$ 3,650

* Includes securities held by the parent company of $262 in 2000 and $240 in 1999

Mortgage loans on real estate and other long-term investments remained immaterial at both December 31, 2000 and 1999. Cash, cash equivalents and short-term investments totaled $610 million, or 1.9% of total investments and cash, as of December 31, 2000, compared with $617 million, or 1.9% of total investments and cash, at December 31, 1999.

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

Policy Liabilities

Policy liabilities decreased $1.0 billion, or 3.5%, during 2000. AFLAC Japan policy liabilities decreased $1.3 billion, or 4.7%, and AFLAC U.S. policy liabilities increased $252 million, or 10.9%. The decrease in policy liabilities was primarily due to the weaker yen, partially offset by the aging of policies in force, the addition of new business and the effect of the market value adjustment for securities available for sale (see Note 3 of the Notes to the Consolidated Financial Statements). The weaker yen at year-end 2000 compared with 1999 decreased reported policy liabilities by $3.1 billion.

Debt

In September 2000, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes. United States residents or entities are not permitted to purchase or hold these securities. On October 25, 2000, we issued in Japan ¥30 billion ($278 million) of Samurai notes with a 1.55% coupon, payable semiannually, due October 25, 2005. These notes are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a premium. We received net proceeds of ¥29.9 billion ($277 million) after issue costs.

In April 1999, we issued $450 million of senior notes with a 6.50% coupon, payable semiannually, due April 15, 2009. At December 31, 2000, the outstanding principal, less unamortized discount, was $449 million. The notes are redeemable at our option at any time at a redemption price equal to the principal amount of the notes being redeemed plus a make-whole amount. We received net proceeds of $446 million after discount and issue costs. A portion of the proceeds is being used to construct a new administrative office building in the United States. We entered into cross-currency swaps that have the effect of converting the dollar-denominated principal and interest into yen-denominated obligations. The notional amount of the cross-currency swaps is $450 million (¥55.6 billion) with a blended fixed interest rate of 1.67%. At December 31, 2000, we recorded a liability in the amount of $30 million for the fair value of the swaps.

AFLAC Incorporated has an unsecured reducing revolving credit agreement that provides for bank borrowings through July 2001 in either U.S. dollars or Japanese yen. At December 31, 2000, ¥12.9 billion ($113 million) were outstanding under this agreement.

AFLAC Incorporated also has an unsecured revolving credit agreement that provides for bank borrowings through November 2002 in either U.S. dollars or Japanese yen. At December 31, 2000, ¥25.8 billion ($225 million) were outstanding.

We have entered into interest rate swaps that effectively change the interest rates on a portion of these bank borrowings from variable to fixed. We make interest payments to the banks based on variable interest rates, and we pay to, or receive from, the swap counterparties an amount necessary to equal the fixed rate.

When any portion of these loans or notes is denominated in yen, the principal amounts as stated in dollars will fluctuate due to changes in the yen/dollar exchange rate. We have designated these yen-denominated borrowings and the cross-currency swaps as a hedge of our net investment in AFLAC Japan. Foreign currency translation gains/losses are included in accumulated other comprehensive income. Outstanding principal and related accrued interest payable on these yen-denominated items are translated into dollars at end-of-period exchange rates.

The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains on investment securities) was 25.1% as of December 31, 2000, and 26.4% as of December 31, 1999. For further information concerning swaps and notes payable, see Notes 4 and 6 of the Notes to the Consolidated Financial Statements.

Policyholder Guaranty Funds

Under insurance guaranty fund laws in most U.S. states, insurance companies doing business in those states can be assessed for policyholder losses up to prescribed limits that are incurred by insolvent companies with similar lines of business. Such assessments have not been material to us in the past. We believe that future assessments relating to companies in the United States currently involved in insolvency proceedings will not materially impact the consolidated financial statements.

In 1998, the Japanese government established the Life Insurance Policyholders Protection Corporation. Funding by the life insurance industry, as determined by government legislation, is made over a 10-year period. We recognize charges for our estimated share of any assessment as funding legislation is enacted. We periodically review our estimated liability for policyholder protection fund assessments based on updated information and any adjustments are reflected in net earnings. For further information regarding the policyholder protection fund, see Note 2 of the Notes to the Consolidated Financial Statements.

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

Shareholders' Equity

Our insurance operations continue to provide the primary sources of liquidity. Capital needs are also supplemented by borrowed funds. The principal sources of cash from insurance operations are premiums and investment income. The primary uses of cash for insurance operations are policy claims, commissions, operating expenses, income taxes and payments to AFLAC Incorporated for management fees and dividends. Both the sources and uses of cash are reasonably predictable. Our investment objectives provide for liquidity through the ownership of investment-grade debt securities. AFLAC insurance policies generally are not interest-sensitive and therefore are not subject to unexpected policyholder redemptions due to investment yield changes. Also, the majority of our policies provide indemnity benefits rather than reimbursement for actual medical costs and therefore are generally not subject to the risks of medical-cost inflation.

The achievement of continued long-term growth will require growth in AFLAC's statutory capital and surplus. We may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by AFLAC Incorporated from funds generated through debt or equity offerings. In October 2000, we received $277 million from the issuance of Samurai notes in Japan and in April 1999, we received net proceeds of $446 million from the issuance of senior notes, which increased our capital resources. We believe outside sources for additional debt and equity capital, if needed, will continue to be available for capital expenditures, business expansion and the funding of our share repurchase program.

AFLAC Incorporated capital resources are largely dependent upon the ability of AFLAC to pay management fees and dividends. The Georgia insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by AFLAC to AFLAC Incorporated. The Georgia insurance statutes require prior approval for dividend distributions that exceed the greater of statutory earnings for the previous year, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Georgia insurance department must approve service arrangements and other transactions within the affiliated group. These regulatory limitations are not expected to affect the level of management fees or dividends paid by AFLAC to AFLAC Incorporated. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the National Association of Insurance Commissioners (NAIC), as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from generally accepted accounting principles and are intended to emphasize policyholder protection and company solvency.

The NAIC has recodified Statutory Accounting Principles (SAP) to promote standardization throughout the industry. These new accounting principles were effective January 1, 2001, and are to be applied prospectively. Previously, prescribed or permitted SAP could vary among states and among companies. The transition adjustments to adopt the new accounting principles increased statutory capital and surplus by approximately $130 million as of January 1, 2001.

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. AFLAC's NAIC risk-based capital ratio remains high and reflects a very strong capital and surplus position. Also, there are various ongoing regulatory initiatives by the NAIC relating to insurance products, investments, revisions to the risk-based capital formula and other actuarial and accounting matters.

In addition to restrictions by U.S. insurance regulators, the Japanese FSA may impose restrictions on transfers of funds from AFLAC Japan. Payments are made from AFLAC Japan to AFLAC Incorporated for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. Total funds received from AFLAC Japan were $199 million in 2000, $282 million in 1999 and $192 million in 1998. These amounts include annual profit transfers from AFLAC Japan of $157 million in 2000, $243 million in 1999 and $154 million in 1998. In light of deregulation in the insurance market, we elected to repatriate less than the maximum amount in 2000 in order to maintain a strong solvency margin in Japan. In 2000, the maximum amount we could have repatriated was $351 million. We repatriated the maximum amounts in 1999 and 1998. The FSA may not allow transfers of funds if the payment would cause AFLAC Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standards, a version of risk-based capital requirements. AFLAC Japan's solvency margin significantly exceeds regulatory minimums. The FSA is also in the process of modifying the solvency margin used by regulators in Japan to monitor the financial strength of insurance companies. For additional information on regulatory restrictions on dividends, profit transfers and other remittances, see Note 9 of the Notes to the Consolidated Financial Statements.

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

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

Rating Agencies

AFLAC is rated 'AA' by both Standard & Poor's and Fitch IBCA, Duff & Phelps, and 'Aa3' by Moody's for financial strength. A.M. Best assigned AFLAC an 'A+, superior' rating for financial strength and operating performance. AFLAC Incorporated's credit rating for senior debt is 'A' by both Standard & Poor's and Fitch IBCA, Duff & Phelps, and 'A2' by Moody's.

Other

AFLAC Japan is developing a new computerized policy administration system at an estimated cost of approximately $150 million. The project is scheduled to be completed in 2002. The project will be financed with operating cash flow.

For information regarding pending litigation, see Note 11 of the Notes to the Consolidated Financial Statements.

Cash Flow

Operating cash flows for AFLAC Japan's yen-denominated items are translated into dollars using average monthly exchange rates for the year. 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.

For additional information, see the Consolidated Statements of Cash Flows on page 41.

Operating Activities

In 2000 consolidated cash flow from operations increased 16.9% to $3.3 billion, compared with $2.8 billion in 1999 and $2.5 billion in 1998. Net cash flow from operations for AFLAC Japan increased 18.7% (increased 18.0% in yen) to $2.9 billion in 2000, compared with $2.5 billion in 1999 and $2.2 billion in 1998. AFLAC Japan represented 89% of the consolidated net cash flow from operations in 2000, 88% in 1999 and 89% in 1998.

Investing Activities

Consolidated cash flow used by investing activities increased 11.7% to $3.1 billion in 2000, compared with $2.7 billion in 1999 and $2.2 billion in 1998. AFLAC Japan accounted for 90% of the consolidated net cash used by investing activities in 2000, compared with 74% in 1999 and 86% in 1998.

Operating cash flow is primarily used to purchase debt securities. When market opportunities arise, we dispose of selected debt securities available for sale to improve future investment yields or lengthen maturities. Therefore, dispositions before maturity can vary significantly from year to year. Dispositions before maturity ranged between 3% and 5% of the annual average investment portfolio of debt securities available for sale during the three years ended December 31, 2000.

Financing Activities

In 2000 net cash used by financing activities was $168 million, compared with net cash provided by financing activities of $113 million in 1999 and net cash used by financing activities of $151 million in 1998. In 2000, we received net proceeds of $277 million in connection with the issuance in Japan of 1.55% Samurai bonds due in 2005. In 1999, we received net proceeds of $446 million in connection with the issuance of 6.50% senior notes due in 2009. Treasury stock purchases of $239 million, $224 million, and $125 million were made in 2000, 1999 and 1998, respectively.

Dividends to shareholders in 2000 were $87 million ($82 million paid in cash; $5 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 1999 were $77 million ($72 million paid in cash; $5 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 1998 were $67 million ($63 million paid in cash; $4 million through issuance of treasury shares under the dividend reinvestment plan). The 2000 dividend of $.167 per share increased 13.6% over 1999. The 1999 dividend of $.147 per share represented an increase of 14.8% over the 1998 dividend of $.128 per share.

We issued treasury shares for certain AFLAC stock options, the AFL Stock Plan and the AFLAC Associate Stock Bonus Plan (see Note 10 of the Notes to the Consolidated Financial Statements).

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 discussed. 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 in this discussion and analysis, and in any other statements made by company officials in oral discussions 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. In particular, statements containing words such as “expect,” “anticipate,” “believe,” “goal,” “objective,” or similar words as well as specific projections of future results, generally qualify as forward-looking. AFLAC undertakes no obligation to update such forward-looking statements.

We caution readers that the following factors, in addition to other factors mentioned from time to time in our reports filed with the SEC, could cause actual results to differ materially: regulatory developments, assessments for insurance company insolvencies, competitive conditions, new products, ability to repatriate profits from Japan, general economic conditions in the United States and Japan, changes in U.S. and/or Japanese tax laws or accounting requirements, adequacy of reserves, credit and other risks associated with AFLAC’s investment activities, significant changes in interest rates, and fluctuations in foreign currency exchange rates.