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

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. We desire to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks, and uncertainties. In particular, statements containing words such as "expect," "anticipate," "believe," "goal," "objective," "may," "should," "estimate," "intends," "projects," "will," "assumes," "potential," "target," 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 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
- 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 yields
- 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 used to minimize exposure of our shareholders' equity to foreign currency translation fluctuations
- catastrophic events
- general economic conditions in the United States and Japan

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, 2005. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes. Prior-year results have been adjusted to reflect adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (revised), Share-Based Payment, on January 1, 2005. For additional information, see Notes 1 and 9 of the Notes to the Consolidated Financial Statements.

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 83% 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

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; SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities; 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 in order to match expected policy benefits and expenses with expected policy premiums. These assumptions include persistency, morbidity, mortality, investment yields and expenses. If actual results mirror 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 at 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. and Aflac Japan over the last three years.

Deferred Policy Acquisition Cost Ratios

	Aflac Japan			Aflac U.S.		
(In millions)	**2005**	2004	2003	**2005**	2004	2003
Deferred policy acquisition costs	**¥ 427,894**	¥ 397,261	¥ 368,535	**$1,966**	$ 1,783	$1,604
Annualized premiums in force	**1,027,762**	961,895	900,251	**3,711**	3,374	3,043
Deferred policy acquisition costs as a percentage of annualized premiums in force	**41.6%**	41.3%	40.9%	**53.0%**	52.8%	52.7%

Policy Liabilities

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 89% and 6% of total policy liabilities as of December 31, 2005, 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 established at the time a policy 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. Assumptions underlying the estimate of unpaid policy claims are updated regularly and incorporate our historical experience as well as other data that provides information regarding our outstanding liability.

Claims incurred under Aflac's policies are generally reported and paid in a relatively short time frame. They are sensitive to frequency and severity of claims. They are not, however, subject to medical cost inflation because benefits are based on a fixed indemnity. Our claims experience is primarily related to the demographics of our policyholders.

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. However, if current period claims were to change by 1%, we would expect the unpaid policy claim liability to change by approximately $19 million.

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

Policy Liabilities

(In millions)	**2005**	2004
U.S. segment:		
Future policy benefits	**$ 3,780**	$ 3,354
Unpaid policy claims	**848**	708
Other policy liabilities	**143**	136
Total U.S. policy liabilities	**$ 4,771**	$ 4,198
Japan segment:		
Future policy benefits	**$ 34,071**	$ 36,005
Unpaid policy claims	**1,657**	1,646
Other policy liabilities	**1,828**	1,705
Total Japan policy liabilities	**$ 37,556**	$ 39,356
Consolidated:		
Future policy benefits	**$ 37,853**	$ 39,360
Unpaid policy claims	**2,504**	2,355
Other policy liabilities	**1,972**	1,841
Total consolidated policy liabilities	**$ 42,329**	$ 43,556

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 on issues, including equity-based compensation, pensions, variable interest entities, special purpose entities, derivatives, intangible assets and business combinations.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised), Share-Based Payment (SFAS 123R). This standard amends SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, such as granting stock options. It requires that companies use a fair value method to value share-based awards and recognize the related compensation expense in net earnings. We adopted SFAS 123R January 1, 2005, using the modified-retrospective application method. As a result, prior-year results have been adjusted to reflect the expensing of share-based awards. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

In November 2005, the FASB issued Staff Position Number FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1). FSP 115-1 addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP 115-1 amends FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and was effective January 1, 2006. We do not expect the adoption of this staff position to have a material effect on our financial position or results of operations.

In September 2005, the Accounting Standards Executive Committee of the AICPA issued Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1). SOP 05-1 provides accounting guidance on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. Retrospective application of this SOP to previously issued financial statements is not permitted. We are currently evaluating the impact of this SOP on our accounting for internal replacements.

For additional information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

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		
	2005	2004	2003	**2005**	2004	2003
Net earnings	**$1,483**	$ 1,266	$ 768	**$2.92**	$ 2.45	$ 1.47
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	**167**	(5)	(191)	**.33**	(.01)	(.37)
Impact from SFAS 133	**(10)**	(13)	(3)	**(.02)**	(.03)	–
Release of valuation allowance on deferred tax assets	**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 in order to provide a reliable stream of investment income, which is one of the drivers of the Company's profitability. We do not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers. 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 2005, we realized pretax gains of $262 million (after-tax, $167 million, or $.33 per diluted share). The significant realized investment gains in 2005 primarily resulted from the execution of bond swaps in the third and fourth quarters that took advantage of tax loss carryforwards. These bond swaps also improved overall portfolio credit quality and investment income.

During the third quarter of 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).

Realized investment losses in 2003 related primarily to the sale of our investment in Parmalat at a pretax loss of $257 million. We also sold our investment in Levi Strauss at a pretax loss of $38 million. These investment losses and other investment transactions in the normal course of business decreased 2003 pretax earnings by $301 million (after-tax, $191 million, or $.37 per diluted share).

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior debt obligation, which matures in 2009, into a yen-denominated obligation (see Notes 4 and 6 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 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 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 swap, 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 swaps' fair value and their initial contract fair value will be equal, 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 notes. We have designated ¥110 billion of these notes as a hedge of our investment in Aflac Japan. If the value of these yen-denominated notes and the cross-currency swaps exceeds 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, 2005; therefore, there was no impact on net earnings. 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 assets. The 2005 and 2004 tax benefits are included as reductions to income tax expense in the consolidated statement 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. For additional information on the transfer, see Note 11 of the Notes to the Consolidated Financial Statements.

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 causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be 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 33.4% in 2005, 28.6% in 2004 and 35.8% in 2003. Total income taxes were $743 million in 2005, compared with $507 million in 2004 and $430 million in 2003. The lower than normal income tax rate primarily resulted from the release of the valuation allowance for non-life losses in 2005. Our 2004 effective income tax rate and tax expense were impacted by the release of the valuation allowance for deferred tax assets discussed previously. Japanese income taxes on Aflac Japan's results accounted for most of our consolidated income tax expense. See Note 7 of the Notes to the Consolidated Financial Statements for additional information.

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 2005 was to achieve net earnings per diluted share of at least $2.56, an increase of 14.8%. Based on 2005 net earnings per diluted share of $2.92, adjusted for realized investment gains ($.33 per diluted share), the impact from SFAS 133 (a loss of $.02 per diluted share), the release of the valuation allowance for deferred tax assets (a gain of $.07 per diluted share) and foreign currency translation (a loss of $.02 per diluted share), we met our objective for the year.

Our objective for 2006 is to achieve net earnings per diluted share of at least $2.92, an increase of 15.0% over 2005 using the preceding assumptions. If we achieve this objective, the following table shows the likely results for 2006 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2006 Net Earnings Per Share (EPS) Scenarios*

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share	% Growth Over 2005	Yen Impact on EPS
100.00	$3.06	20.5%	$.14
105.00	2.99	17.7	.07
109.88**	2.92	15.0	–
115.00	2.86	12.6	(.06)
120.00	2.80	10.2	(.12)

*Excludes realized investment gains/losses, impact from SFAS 133 and nonrecurring items in 2006 and 2005; and assumes no impact from currency translation in 2006

**Actual 2005 weighted-average exchange rate

Our objective for 2007 had been to increase net earnings per diluted share by 13% to 16%, on the basis described above. However, based on the development of our business, we now expect net earnings per diluted share to increase by 15% to 16%, on the basis described above.

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 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.

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 table at the top of the following page presents a summary of operating results for Aflac Japan.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 6.8% in 2005, 6.8% in 2004, and 7.9% in 2003, reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized premiums in force at December 31, 2005, were ¥1.03 trillion, compared with ¥961.9 billion in 2004, and ¥900.3 billion in 2003. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $8.7 billion in 2005, $9.2 billion in 2004, and $8.4 billion in 2003.

Aflac Japan Summary of Operating Results

(In millions)	2005	2004	2003
Premium income	**$ 8,745**	$ 8,368	$ 7,326
Net investment income	**1,635**	1,557	1,421
Other income	**31**	18	18
Total operating revenues	**10,411**	9,943	8,765
Benefits and claims	**6,898**	6,679	5,943
Operating expenses:			
Amortization of deferred policy acquisition costs	**284**	274	255
Insurance commissions	**892**	881	812
Insurance and other expenses	**822**	730	633
Total operating expenses	**1,998**	1,885	1,700
Total benefits and expenses	**8,896**	8,564	7,643
Pretax operating earnings*	**$ 1,515**	$ 1,379	$ 1,122
Weighted-average yen/dollar exchange rate	**109.88**	108.26	115.95

	In Dollars			In Yen		
Percentage changes over previous year:	**2005**	2004	2003	**2005**	2004	2003
Premium income	**4.5%**	14.2%	15.0%	**6.3%**	6.7%	6.4%
Net investment income	**5.0**	9.6	11.3	**7.0**	2.3	3.1
Total operating revenues	**4.7**	13.4	14.6	**6.6**	6.0	6.1
Pretax operating earnings*	**9.9**	22.9	23.0	**11.5**	14.7	10.9

Ratios to total revenues in dollars:	**2005**	2004	2003
Benefits and claims	**66.2%**	67.2%	67.8%
Operating expenses:			
Amortization of deferred policy acquisition costs	**2.7**	2.8	2.9
Insurance commissions	**8.6**	8.9	9.3
Insurance and other expenses	**8.0**	7.2	7.2
Total operating expenses	**19.3**	18.9	19.4
Pretax operating earnings*	**14.5**	13.9	12.8

*See page 29 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 effects of low investment yields, which affect our profit margin by reducing the spread between investment yields and required interest on policy reserves (see table and discussion on Page 35). The operating expense ratio increased 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 in 2006 as we continue our investment in systems development. Due to improvement in the benefit ratio, the pretax operating profit margin expanded to 14.5% in 2005. We expect a modest expansion in the profit margin in 2006 and 2007.

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 32% of Aflac Japan's investment income in 2005, compared with 30% in 2004 and 29% in 2003. 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. The following table illustrates the effect of translating Aflac Japan's dollar-denominated investment income and related items 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**		
	2005	2004	2003	**2005**	2004	2003
Net investment income	**7.0%**	2.3%	3.1%	**6.3%**	4.5%	5.5%
Total operating revenues	**6.6**	6.0	6.1	**6.4**	6.3	6.5
Pretax operating earnings*	**11.5**	14.7	10.9	**10.8**	15.3	13.8

*See page 29 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.

Aflac Japan Sales

For 2005, sales increased 5.1% in yen, which was in line with our objective of 5% to 10% growth for the year. We saw strong sales results in our stand-alone medical product category and from cancer life sales through Dai-ichi Mutual Life. However, as expected, sales continued to be affected by sharp declines in Rider MAX sales. 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)	**2005**	2004	2003	**2005**	2004	2003
Total new annualized premium sales	**$1,167**	$ 1,133	$ 1,047	**¥128.8**	¥ 122.5	¥ 121.2
Increase over prior year	**3.0%**	8.2%	20.8%	**5.1%**	1.1%	11.9%

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.

	2005	2004	2003
Medical policies	**37%**	31%	28%
Rider MAX	**11**	20	27
Cancer life	**26**	23	27
Ordinary life	**18**	19	13
Other	**8**	7	5
Total	**100%**	100%	100%

Our medical products, which include our EVER product line, sustained strong sales growth in 2005. 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 status provides us with a distinct advantage in the marketplace. As a result, we continue to believe that the medical category will be an important part of our product portfolio.

As we have disclosed previously, we expect Rider MAX conversions and sales to continue to decline in future periods. Conversion activity accounted for approximately 17% of total Rider MAX sales in 2005, compared with 25% in 2004 and 24% in 2003. For policy conversions, new annualized premium sales include only the incremental annualized premium amount over the original term policy. We expect that conversions will continue to decline in future periods.

Cancer life sales benefited from a new product introduction in 2005, as well as our program that converted payroll policies to a direct-billing mode. Our cancer life policies are also marketed by Dai-ichi Mutual Life. In 2005, Dai-ichi Life's sales of our cancer life product increased to 277,700 policies, compared with 244,400 in 2004 and 305,600 in 2003. Dai-ichi Life sales of our cancer life policies accounted for 8% of total new annualized premium sales in 2005, compared with 7% in 2004 and 10% in 2003.

For 2006, we expect to generate solid sales growth from our medical products. However, we anticipate that lower Rider MAX sales and weaker conversions will continue to restrain sales growth. As a result, our objective for 2006 is to increase total new annualized premium sales in yen by 5% to 8%.

We continued to focus on the growth of our distribution system in Japan. During 2005, the number of licensed sales associates rose 14.6% to approximately 81,700, compared with 71,400 at December 31, 2004. The growth of licensed sales associates resulted primarily from individual agency recruitment. In 2005, we recruited 4,388 agencies, compared with our goal of 4,400 agencies. We believe that new agencies and sales associates will continue to be attracted to Aflac Japan's high commissions, superior products, customer service and brand image. Furthermore, we believe that these new agencies and associates will enable us to further expand our reach in the Japanese market.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, 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 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 table at the top of the following page compares the results of Aflac Japan's investment activities.

	2005	2004	2003
New money yield - yen only	**2.95%**	2.94%	3.20%
New money yield - blended	**3.19**	3.13	3.61
Return on average invested assets, net of investment expenses	**4.14**	4.26	4.45
Portfolio yield, including dollar-denominated investments, end of year	**4.22%**	4.35%	4.54%

See Investments and Cash on Page 36 for additional information.

Japanese Economy

Recent events indicate that Japan's economy has begun to recover. The Bank of Japan's January 2006 Monthly Report of Recent Economic & Financial Developments indicates continued increases in exports, an upward trend in industrial production, and continued increases in capital expenditures and household income. The same report also expressed the Bank of Japan's opinion that the economy is expected to continue a steady recovery trend. This opinion is based on expectations of increases in domestic private demand and exports, while issues such as excess corporate debt are dissipating. Nevertheless, the time required for a full economic recovery remains uncertain.

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 and as a result, copayments have been rising and affecting more people. In 2003, copayments were raised from 20% to 30% and additional reforms are being considered for 2006 and 2008. We believe the trend of higher copayments will lead more consumers to purchase supplemental insurance plans. Many insurance companies have recognized the opportunities for selling supplemental 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.

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)	2005	2004	2003
Premium income	**$ 3,245**	$ 2,935	$ 2,594
Net investment income	**421**	396	362
Other income	**10**	9	9
Total operating revenues	**3,676**	3,340	2,965
Benefits and claims	**1,991**	1,803	1,585
Operating expenses:			
Amortization of deferred policy acquisition costs	**258**	245	209
Insurance commissions	**410**	371	334
Insurance and other expenses	**492**	424	392
Total operating expenses	**1,160**	1,040	935
Total benefits and expenses	**3,151**	2,843	2,520
Pretax operating earnings*	**$ 525**	$ 497	$ 445
Percentage changes over previous year:			
Premium income	**10.6%**	13.1%	16.8%
Net investment income	**6.5**	9.4	9.3
Total operating revenues	**10.0**	12.6	15.8
Pretax operating earnings*	**5.6**	11.7	12.9
Ratios to total revenues:			
Benefits and claims	**54.2%**	54.0%	53.5%
Operating expenses:			
Amortization of deferred policy acquisition costs	**7.0**	7.3	7.1
Insurance commissions	**11.2**	11.1	11.3
Insurance and other expenses	**13.3**	12.7	13.1
Total operating expenses	**31.5**	31.1	31.5
Pretax operating earnings*	**14.3**	14.9	15.0

*See page 29 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 10.0% in 2005, 10.9% in 2004, and 13.8% in 2003 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 $3.7 billion in 2005, $3.4 billion in 2004, and $3.0 billion in 2003.

The benefit ratio has increased slightly over the past several years, primarily due to the impact of declining investment yields on the growth of our investment income. As a percentage of premium income, the benefit ratio has been fairly stable at 61.3% in 2005, 61.4% in 2004 and 61.1% in 2003. We expect the benefit ratio to decline slightly in future periods due to favorable claim cost trends. We also expect the operating expense ratio, excluding discretionary promotional expenses, to remain relatively stable. The pretax operating profit margin is expected to improve modestly in 2006.

Overall, the financial effect from hurricanes in 2005 was not material. In early September, we announced that we were allowing a 90-day grace period for premium payments in the hurricane-affected areas as defined by the Federal Emergency Management Agency. Additionally, the insurance departments in Louisiana, Mississippi and Alabama have mandated various grace periods for the affected areas, some of which extended into early 2006. In 2005, we saw a modest increase in policy terminations in the areas impacted by the hurricanes. However, these additional terminations did not have a material impact on our financial results.

Aflac U.S. Sales

We were pleased with the sales results of Aflac U.S. For 2005, sales increased 6.1%, which met our objective of 3% to 8% growth for the year. 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)	**2005**	2004	2003
Total new annualized premium sales	**$ 1,259**	$ 1,186	$ 1,128
Increase over prior year	**6.1%**	5.1%	5.4%

Our objective for 2006 is to increase total new annualized premium sales by 8% to 12%.

One aspect of our growth strategy is the continued enhancement of our product line. Based on consumer feedback, we revised our dental product in November 2004. We also introduced Vision Now, an innovative vision care product, in July 2005. The table at the top of the page details the contributions to total new annualized premium sales by major product category for the years ended December 31.

	2005	2004	2003
Accident/disability coverage	**51%**	52%	51%
Cancer expense insurance	**19**	20	20
Hospital indemnity products	**11**	11	11
Fixed-benefit dental coverage	**8**	7	7
Other	**11**	10	11
Total	**100%**	100%	100%

We recruited more than 24,200 new associates during 2005, which was 8% higher than 2004 and in line with our expectation of a 5% to 10% increase for the year. Aflac U.S. was represented by more than 63,000 licensed sales associates in 2005, or 7% higher than a year ago.

Aflac U.S. Investments

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

	2005	2004	2003
New money yield	**6.16%**	6.30%	6.52%
Return on average invested assets, net of investment expenses	**6.54**	6.68	7.36
Portfolio yield, end of year	**7.24%**	7.39%	7.56%

The returns on average invested assets for Aflac U.S. in 2005 and 2004 were reduced by higher-than-usual securities lending at the end of 2004. Excluding loaned securities, and the related investment income earned from our security lending program, the adjusted return was 7.12% in 2005 and 7.22% in 2004. In 2003, securities lending did not have a material effect on the return on average invested assets. See Investments and Cash on Page 36 for additional information.

OTHER OPERATIONS

Corporate operating expenses consist primarily of personnel compensation, benefits, and facilities expenses. Corporate expenses, excluding investment income, were $56 million in 2005, $67 million in 2004 and $51 million in 2003. Investment income included in reported corporate expenses was $14 million in 2005, and $5 million in both 2004 and 2003. The increase in the 2004 corporate expenses was primarily the result of increased expenses associated with our retirement obligations.

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, 2005, was 118.07 yen to one dollar, or 11.7% weaker than the December 31, 2004, exchange rate of 104.21. The weaker yen decreased reported investments and cash by $5.1 billion, total assets by $5.7 billion, and total liabilities by $5.6 billion, compared with the amounts that would have been reported for 2005 if the exchange rate had remained unchanged from December 31, 2004.

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 40 for additional information). As a result, the effect of currency fluctuations on our net assets is mitigated. At December 31, consolidated yen-denominated net assets subject to foreign currency fluctuation were $781 million in 2005 and $735 million in 2004. Aflac Japan's yen-denominated net assets were $2.2 billion at both December 31, 2005 and 2004. Aflac Incorporated's yen-denominated net liabilities were $1.4 billion at December 31, 2005, and $1.5 billion at December 31, 2004. The table below 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)		**2005**			2004	
Yen/dollar exchange rates	**103.07**	**118.07***	**133.07**	89.21	104.21*	119.21
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$ 21,732**	**$ 18,971**	**$ 16,832**	$ 24,201	$ 20,718	$ 18,111
Perpetual debentures	**4,191**	**3,659**	**3,246**	3,924	3,358	2,937
Equity securities	**70**	**61**	**54**	55	47	41
Securities held to maturity:						
Fixed maturities	**12,428**	**10,849**	**9,626**	11,755	10,064	8,797
Perpetual debentures	**4,779**	**4,172**	**3,702**	5,560	4,759	4,160
Cash and cash equivalents	**553**	**483**	**429**	667	571	499
Other financial instruments	**35**	**31**	**27**	–	–	–
Subtotal	**43,788**	**38,226**	**33,916**	46,162	39,517	34,545
Liabilities:						
Notes payable	**1,083**	**945**	**839**	1,144	980	856
Cross-currency swaps	**539**	**471**	**417**	623	533	466
Japanese policyholder protection fund	**232**	**203**	**180**	308	254	230
Other financial instruments	**–**	**–**	**–**	42	36	32
Subtotal	**1,854**	**1,619**	**1,436**	2,117	1,803	1,584
Net yen-denominated financial instruments	**41,934**	**36,607**	**32,480**	44,045	37,714	32,961
Other yen-denominated assets	**5,332**	**4,654**	**4,130**	5,733	4,908	4,290
Other yen-denominated liabilities	**(46,371)**	**(40,480)**	**(35,917)**	(48,920)	(41,887)	(36,609)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	**$ 895**	**$ 781**	**$ 693**	$ 858	$ 735	$ 642

*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 transfer funds from Aflac Japan to Aflac U.S., which is done annually. The exchange rates prevailing at the time of transfer 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 FSA-based earnings. A portion of the repatriation may be used to service Aflac Incorporated's yen-denominated notes payable with the remainder converted into dollars.

Interest Rate Risk

Our primary interest rate exposure is to the effect 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

(In millions)	2005 Fair Value	2005 +100 Basis Points	2004 Fair Value	2004 +100 Basis Points
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	**$29,791**	**$26,427**	$ 31,225	$ 28,134
Dollar-denominated	**9,190**	**8,407**	8,463	7,740
Perpetual debentures:				
Yen-denominated	**7,911**	**7,086**	8,282	7,466
Dollar-denominated	**711**	**661**	661	619
Total debt securities	**$47,603**	**$42,581**	$ 48,631	$ 43,959
Notes payable*	**$ 1,395**	**$ 1,362**	$ 1,461	$ 1,428
Cross-currency swap liabilities	**$ 12**	**$ 10**	$ 66	$ 64
Japanese policyholder protection fund	**$ 203**	**$ 203**	$ 254	$ 254

*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. For additional information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. For Aflac Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. The following table presents the approximate duration of our yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2005	2004
Yen-denominated debt securities	**12**	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)

	2005 U.S.	2005 Japan*	2004 U.S.	2004 Japan*	2003 U.S.	2003 Japan*
Policies issued during year:						
Required interest on policy reserves	**5.50%**	**2.88%**	6.36%	2.97%	6.40%	2.98%
New money yield on investments	**6.11**	**3.01**	6.25	3.00	6.46	3.27
Policies in force during year:						
Required interest on policy reserves	**6.36**	**4.79**	6.40	4.87	6.40	4.93
Return on average invested assets	**6.54**	**3.92**	6.68	4.02	7.36	4.18

*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 5.50% in 2005. In Japan, we also lowered our required interest assumption for some newly issued products to 2.50%. However, the majority of Japan's newly issued products have a required interest assumption of 3.00%. 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 several yen-denominated securities that will mature with yields in excess of Aflac Japan's current net investment yield of 3.92%. These securities total $640 million at amortized cost and have an average yield of 5.91%. These maturities will contribute to a continued decline in our overall portfolio yield. Currently, when debt securities we own mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, adding riders to our older policies has helped offset the negative investment spread. 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.

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. 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). In addition, we perform extensive internal credit reviews to ensure that we are consistent in applying rating criteria for all of our securities. The following table details investment securities by segment as of December 31.

Investment Securities by Segment

	Aflac Japan		Aflac U.S.	
(In millions)	**2005**	2004	**2005**	2004
Securities available for sale, at fair value:				
Fixed maturities	**$ 21,907**	$ 23,485	**$ 6,134***	$ 5,681
Perpetual debentures	**3,888**	3,580	**482**	439
Equity securities	**61**	47	**23**	30
Total available for sale	**25,856**	27,112	**6,639**	6,150
Securities held to maturity, at amortized cost:				
Fixed maturities	**10,849**	10,064	**18**	16
Perpetual debentures	**4,172**	4,759	**–**	–
Total held to maturity	**15,021**	14,823	**18**	16
Total investment securities	**$ 40,877**	$ 41,935	**$ 6,657**	$ 6,166

*Excludes investment-grade fixed-maturity securities held by the Parent Company of $100 in 2005; the Parent Company had no investment securities as of December 31, 2004.

The decrease in investments during 2005 reflected the effect of a weaker yen/dollar exchange rate partially offset by the substantial cash flows in the functional currencies of our operations. See Capital Resources and Liquidity on Page 41 for additional information.

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 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.

Investment Securities by Type of Issuance

	2005		2004	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	**$ 14,872**	**$ 16,540**	$ 15,737	$ 18,122
Perpetual debentures	**203**	**210**	109	120
Equity securities	**14**	**51**	15	54
Total publicly issued	**15,089**	**16,801**	15,861	18,296
Privately issued securities:				
Fixed maturities	**21,855**	**22,441**	20,481	21,566
Perpetual debentures	**8,224**	**8,412**	8,602	8,823
Equity securities	**16**	**33**	19	23
Total privately issued	**30,095**	**30,886**	29,102	30,412
Total investment securities	**$ 45,184**	**$ 47,687**	$ 44,963	$ 48,708

Total privately issued securities accounted for 66.6%, at amortized cost, of total debt securities as of December 31, 2005, compared with 64.7% at December 31, 2004. Privately issued securities held by Aflac Japan at amortized cost accounted for $27.9 billion, or 61.8%, and $27.0 billion, or 60.1%, of total debt securities at December 31, 2005 and 2004, respectively. Reverse-dual currency debt securities accounted for $8.9 billion, or 29.6%, of total privately issued securities as of December 31, 2005, compared with $7.8 billion, or 26.8%, at December 31, 2004. 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.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. All of our securities have ratings from either a nationally recognized statistical rating organization or the SVO of the NAIC. 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

	2005	2004	2003
AAA	**6.1%**	9.1%	9.0%
AA	**45.5**	41.2	18.1
A	**42.9**	36.7	32.4
BBB	**5.5**	13.0	40.5
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, 2005		December 31, 2004	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**4.0%**	**3.9%**	3.5%	3.5%
AA	**33.7**	**34.9**	32.7	34.3
A	**38.9**	**38.7**	36.2	36.1
BBB	**21.1**	**20.6**	25.8	24.6
BB or lower	**2.3**	**1.9**	1.8	1.5
Total	**100.0%**	**100.0%**	100.0%	100.0%

The increase in below-investment-grade securities primarily resulted from credit rating downgrades of the securities of two U.S. issuers. 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 for the difference between fair value and amortized cost. Our investment management starts by reviewing its credit analysis. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the issuer. We then obtain fair value information from at least three independent pricing sources. Upon determining the fair value, we move our focus to an analysis of whether or not the decline in fair value, if any, is other than temporary. For securities with an amortized cost in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section on Page 25. Securities classified as below investment grade as of December 31 were as follows:

Below-Investment-Grade Securities

	2005		2004	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Ahold	**$ 302**	**$ 236**	$ 338	$ 300
KLM Royal Dutch Airlines	**254**	**227**	288	239
Ford Motor Credit	**254**	**209**	*	*
Ford Motor Company	**123**	**84**	*	*
Toys R Us Japan	**	**	96	108
LeGrand	**46**	**52**	46	51
Cooper Tire & Rubber Co.	**45**	**45**	*	*
Tennessee Gas Pipeline	**31**	**33**	31	33
Ikon Inc.	**	**	8	9
Total	**$ 1,055**	**$ 886**	$ 807	$ 740

*Investment grade at respective reporting date
**Sold during 2005

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, 2005, represented .7% of total debt securities at amortized cost and were as follows:

Split-Rated Securities

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	Fitch Rating	Investment-Grade Status
Ford Motor Credit	$254	Baa3	BB+	BB+	Below Investment Grade
Tyco Electronics (AMP Japan)	51	Ba1	BBB+	BBB+	Investment Grade
Union Carbide Corp.	15	B1	BBB-	BBB	Investment Grade

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, 2005.

(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	$ 29,060	$ 31,626	66.4%	$ 2,967	$ 401
Below-investment-grade securities	1,055	886	1.9	11	180
Held-to-maturity securities:					
Investment-grade securities	15,039	15,091	31.7	564	512
Total	$ 45,154	$ 47,603	100.0%	$ 3,542	$ 1,093

For a presentation of values and unrealized gains and losses for our investments in debt and equity securities as of December 31, 2005, see Note 3 of the Notes to the Consolidated Financial Statements.

The following table presents an aging of securities in an unrealized loss position as of December 31, 2005.

Aging of Unrealized Losses

	Total	Total	Less Than Six Months		Six Months to 12 Months		Over 12 Months	
(In millions)	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	$ 7,163	$ 401	$ 3,721	$ 209	$ 1,895	$ 58	$ 1,547	$ 134
Below-investment-grade securities	921	180	273	47	111	34	537	99
Held-to-maturity securities:								
Investment-grade securities	8,008	512	3,578	109	2,351	182	2,079	221
Total	$ 16,092	$ 1,093	$ 7,572	$ 365	$ 4,357	$ 274	$ 4,163	$ 454

The table at the top of the following page presents a distribution of unrealized losses by magnitude as of December 31, 2005.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than 20% Amortized Cost	Less Than 20% Unrealized Loss	20% to 36% Amortized Cost	20% to 36% Unrealized Loss
Available-for-sale securities:						
Investment-grade securities	$ 7,163	$ 401	$ 7,104	$ 389	$ 59	$ 12
Below-investment-grade securities	921	180	532	75	389	105
Held-to-maturity securities:						
Investment-grade securities	8,008	512	7,839	477	169	35
Total	$ 16,092	$ 1,093	$ 15,475	$ 941	$ 617	$ 152

As part of our investment activities, we have investments in variable interest entities (VIEs) and qualifying special purpose entities (QSPEs). See Note 3 of the Notes to the Consolidated Financial Statements for additional information.

The following table presents the 10 largest unrealized loss positions in our portfolio as of December 31, 2005.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
Ahold	BB	$ 302	$ 236	$ 66
Ford Motor Credit	BB	254	209	45
CSAV	BBB	203	163	40
Ford Motor Company	BB	123	84	39
Unique Zurich Airport	BBB	313	283	30
Kredietbank	A	230	200	30
Oman	BBB	296	266	30
EFG Euro Bank Ergasias	A	287	258	29
National Bank of Greece	A	254	227	27
KLM Royal Dutch Airlines	N/R*	254	227	27

*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. Impairment charges were immaterial in each of the years in the three-year period ended December 31, 2005.

Realized losses on debt securities by investment-grade status were as follows for the year ended December 31, 2005.

Realized Losses on Debt Securities

(In millions)	Proceeds	Realized Loss
Investment-grade securities, length of consecutive unrealized loss:		
Less than six months	$ 257	$ 4
Six months to 12 months	51	4
Over 12 months	121	5
Below-investment-grade securities, length of consecutive unrealized loss:		
Six months to 12 months	14	7
Over 12 months	7	4
Total	$ 450	$ 24

Cash, cash equivalents, and short-term investments totaled $1.3 billion, or 2.6% of total investments and cash, as of December 31, 2005, compared with $3.8 billion, or 7.3%, at December 31, 2004. The decrease, compared with a year ago, was due to the return of cash collateral in early 2005 ($2.6 billion) associated with a higher level of loaned securities at December 31, 2004.

For additional information concerning investments and fair values, including information on the maturities of our investments in fixed maturities and perpetual debentures presented by segment at amortized cost and fair value, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs totaled $5.6 billion at December 31, 2005, a decrease of $5 million, or .1% over 2004. The following table presents deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	**2005**	2004
Aflac Japan	**$ 3,624**	$ 3,812
Aflac U.S.	**1,966**	1,783

Aflac Japan's deferred policy acquisition costs decreased 4.9% (7.7% increase in yen). The weaker yen at year-end decreased reported deferred policy acquisition costs by $482 million. At December 31, 2005, deferred policy acquisition costs of Aflac U.S. increased 10.3%. The increase in deferred policy acquisition costs was primarily driven by increases in total new annualized premium sales.

Policy Liabilities

Policy liabilities totaled $42.3 billion at December 31, 2005, a decrease of $1.2 billion, or 2.8% over 2004. The following table presents policy liabilities by segment for the years ending December 31.

(In millions)	2005	2004
Aflac Japan	$37,556	$ 39,356
Aflac U.S.	4,771	4,198

Aflac Japan's policy liabilities decreased 4.6% (8.1% increase in yen). The weaker yen at year-end decreased reported policy liabilities by $5.0 billion. At December 31, 2005, policy liabilities of Aflac U.S. increased 13.7%. The increase in policy liabilities is the result of the growth and aging of our in-force business.

Notes Payable

The Parent Company has issued yen-denominated Samurai notes in Japan. In June 2001, we issued ¥40 billion (approximately $333 million); in July 2002, we issued ¥30 billion (approximately $254 million); and in July 2005, we issued ¥40 billion (approximately $360 million). Each of these issuances has a five-year maturity. Proceeds were used for various corporate purposes. In October 2005, we used ¥30 billion of the July 2005 Samurai proceeds to pay in full the 1.55% Samurai notes issued in 2000.

In April 1999, the Parent Company issued $450 million of senior notes with a 10-year maturity. Proceeds were used for various corporate purposes. We entered into cross-currency swaps that effectively convert the dollar-denominated principal and interest of these notes into yen-denominated obligations. See Notes 1 and 4 of the Notes to the Consolidated Financial Statements for additional information on the cross-currency swaps.

The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 18.8% as of December 31, 2005, compared with 21.7% a year ago.

Off-Balance Sheet Arrangements

As of December 31, 2005, 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.

Security Lending

We use short-term security lending arrangements to increase investment income with minimal risk. For further information regarding such arrangements, see Note 3 of the Notes to the Consolidated Financial Statements.

Benefit Plans

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 11 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 required the industry to contribute additional funds 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. In order 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 notes payable and cross-currency swaps) as a hedge of our investment in Aflac Japan. If the total of these yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the hedge that exceeds our investment in Aflac Japan would be deemed ineffective. As required by SFAS 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 $100 million, 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, 2005, and 2004, our hedge was effective with yen-denominated assets exceeding yen-denominated liabilities by ¥92.3 billion and ¥76.6 billion, respectively. In 2005, we chose not to increase our hedge for the increase in our yen-denominated net asset position.

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 $526 million in 2005, compared with $643 million in 2004 and $408 million in 2003. During 2005, Aflac paid $73 million to the Parent Company for management fees, compared with $33 million in 2004 and $37 million in 2003. The increase in management fees in 2005 resulted from the previously discussed 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, capital expenditures and our share repurchase program. In 2003, we filed a Shelf Registration Statement with Japanese regulatory authorities to issue up to ¥100 billion of Samurai notes in Japan. In July 2005, we issued ¥40 billion (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 or entities. The remaining ¥60 billion of the 2003 Shelf Registration Statement expired in December 2005. As a result, in February 2006 we filed a new Shelf Registration Statement with Japanese regulatory authorities to issue up to ¥100 billion (approximately $847 million using the December 31, 2005, exchange rate) of Samurai notes in Japan. If issued, these securities will not be available to U.S. persons or entities. We believe outside sources for additional debt and equity capital, if needed, will continue to be available.

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.

In general, 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. Additionally, our insurance policies generally are not interest-sensitive and therefore are not subject to unexpected policyholder redemptions due to investment yield changes. 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 table below presents the estimated payments by period of our major contractual obligations as of December 31, 2005. We translated our yen-denominated obligations using the December 31, 2005, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

The distribution of payments for future policy benefits is an estimate of all future benefit payments for policies in force as of December 31, 2005. 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 $37.9 billion at December 31,

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	$ 37,853	$ 193,313	$ 5,990	$ 11,836	$ 11,873	$ 163,614
Unpaid policy claims liability	2,504	2,504	1,930	361	123	90
Long-term debt – principal	1,382	1,382	339	254	789	–
Long-term debt – interest	3	41	14	21	6	–
Policyholder protection fund	203	203	26	53	50	74
Operating service agreements	–	239	19	51	52	117
Operating lease obligations	–	140	35	30	21	54
Capitalized lease obligations	13	13	6	6	1	–
Total contractual obligations	$ 41,958	$ 197,835	$ 8,359	$ 12,612	$ 12,915	$ 163,949

*Liability amounts are those reported on the consolidated balance sheet as of December 31, 2005.

2005, 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)	**2005**	2004	2003
Operating activities	**$ 4,433**	$ 4,486	$ 3,389
Investing activities	**(6,692)**	(1,418)	(3,500)
Financing activities	**(196)**	(313)	(298)
Exchange effect on cash and cash equivalents	**(61)**	6	82
Net change in cash and cash equivalents	**$(2,516)**	$ 2,761	$ (327)

Operating Activities

In 2005 consolidated cash flow from operations decreased 1.4% to $4.4 billion, compared with $4.5 billion in 2004 and $3.4 billion in 2003. The following table summarizes operating cash flows by source for the years ended December 31.

Cash Provided by Operating Activities

(In millions)	**2005**	2004	2003
Aflac Japan	**$ 3,691**	$ 3,670	$ 2,726
Aflac U.S. and Other Operations	**742**	816	663

The increase in Aflac Japan cash flows in 2004 was primarily attributable to the growth of our business, lower cash surrender values as a result of improved policy persistency, and the stronger yen.

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)	**2005**	2004	2003
Aflac Japan	**$ (3,574)**	$ (3,692)	$ (3,128)
Aflac U.S. and Other Operations	**(3,118)**	2,274	(372)

Cash flows for Aflac U.S. and Other Operations were impacted by 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. For Aflac Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. 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 provides 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 11% of the annual average investment portfolio of debt securities available for sale during the year ended December 31, 2005, compared with 5% in 2004 and 7% in 2003. The increase in dispositions before maturity primarily resulted from the bond swaps we executed in the third and fourth quarters of 2005.

Financing Activities

Consolidated cash used by financing activities was $196 million in 2005, $313 million in 2004 and $298 million in 2003. In 2005, we received net proceeds of $360 million in connection with the issuance of Samurai notes due in 2010 and paid in full the 2000 Samurai notes at their maturity. Cash provided by investment-type contracts increased to $257 million in 2005, compared with $220 million in 2004 and $159 million in 2003.

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

(In millions)	**2005**	2004	2003
Treasury stock purchases	**$ 438**	$ 392	$ 343
Shares purchased	**10**	10	10
Stock issued from treasury	**$ 50**	$ 39	$ 33
Shares issued	**4**	3	3

The 2005 dividend of $.44 per share increased 15.8% over 2004. The 2004 dividend of $.38 per share increased 26.7% over 2003. Dividend payments by year were as follows:

(In millions)	2005	2004	2003
Dividends paid in cash	**$ 209**	$ 182	$ 146
Dividends through issuance of treasury shares	**11**	10	8
Total dividends to shareholders	**$ 220**	$ 192	$ 154

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. 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 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 restrictions by U.S. insurance regulators, Japan's FSA may not allow transfers of funds from Aflac Japan if the transfers 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 remittances of earnings. In 2005, expenses allocated to Aflac Japan were $30 million, $26 million in 2004 and $22 million in 2003. During 2005, Aflac Japan also remitted profits of $374 million (¥41.2 billion) to Aflac U.S., compared with $220 million (¥23.9 billion) in 2004 and $385 million (¥45.6 billion) in 2003. Profits remitted in 2004 were lower primarily as a result of realized investment losses recognized in 2003. For additional information on regulatory restrictions on dividends, profit transfers and other remittances, see Note 10 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 and Samurai notes are rated A by Standard & Poor's, A+ by Fitch Ratings, and A2 by Moody's.

Other

In February 2006, the board of directors declared the first quarter cash dividend of $.13 per share. The dividend is payable on March 1, 2006, to shareholders of record at the close of business on February 17, 2006. In 2004, the board of directors authorized the purchase of up to 30 million shares of our common stock. As of December 31, 2005, approximately 17 million shares were available for purchase under our share repurchase program. In February 2006, the board of directors authorized the purchase of an additional 30 million shares.

For information regarding commitments and contingent liabilities, see Notes 11 and 12 of the Notes to the Consolidated Financial Statements.