Consolidated Statements of Comprehensive Income

Aflac Incorporated and Subsidiaries

(In millions) Years Ended December 31,	**2005**	2004	2003
Net earnings	**$ 1,483**	$ 1,266	$ 768
Other comprehensive income (loss) before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	**44**	(24)	(121)
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	**(538)**	143	(604)
Reclassification adjustment for realized (gains) losses included in net earnings	**(262)**	12	301
Minimum pension liability adjustment during year	**(13)**	14	(40)
Total other comprehensive income (loss) before income taxes	**(769)**	145	(464)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**(115)**	28	(327)
Other comprehensive income (loss) net of income taxes	**(654)**	117	(137)
Total comprehensive income	**$ 829**	$ 1,383	$ 631

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.
See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Aflac Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance 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. Aflac Japan accounted for 74% of the Company's total revenues in 2005, 75% in 2004 and 74% in 2003, and 82% of total assets at December 31, 2005, compared with 80% a year ago.

Basis of Presentation: We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). The preparation of financial statements in conformity with GAAP requires us to make estimates when recording transactions resulting from business operations based on currently available information. The most significant items on our balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments, deferred policy acquisition costs, and liabilities for future policy benefits and unpaid policy claims. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, mortality, morbidity, commission and other acquisition expenses, and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, we believe the amounts provided are adequate.

The consolidated financial statements include the accounts of the Parent Company, its majority-owned subsidiaries and those entities required to be consolidated under applicable accounting standards. All material intercompany accounts and transactions have been eliminated.

Translation of Foreign Currencies: The functional currency of Aflac Japan's insurance operations is the Japanese yen. We translate our yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses and cash flows are translated using average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period ended December 31, 2005.

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

We have designated the yen-denominated Samurai notes issued by the Parent Company and the cross-currency swaps as a hedge of our investment in Aflac Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are included in accumulated other comprehensive income.

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

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

The calculation of deferred policy acquisition costs and the liability for future policy benefits requires the use of estimates consistent with sound actuarial valuation techniques. For new policy issues, we review our actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, we evaluate deferred policy acquisition costs by major product groupings to determine that they are recoverable from future revenues. Any resulting adjustment is charged against net earnings.

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

Investments: Our debt securities include fixed-maturity securities and perpetual debentures, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other debt securities and our equity securities are classified as available for sale and are carried at fair value. If the fair value is higher than the amortized cost for debt securities, or the purchase cost for equity securities, the excess is an unrealized gain, and if lower than cost, the difference is an unrealized loss.

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

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

We do not consolidate our investments in qualifying special purpose entities (QSPEs), rather we recognize these investments as fixed-maturity or perpetual securities. All of our investments in QSPEs are held in our available-for-sale portfolio.

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

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

Our portfolio managers and credit research personnel routinely monitor and evaluate the difference between the amortized cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in fair value is other than temporary. For investments with a fair value below amortized cost, the process includes evaluating the length of time and the extent to which amortized cost exceeds fair value, the prospects and financial condition of the issuer, and our evaluation for a potential recovery in fair value, among other factors. This process is not exact and requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's amortized cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If, after monitoring and analyses, management believes that a decline in fair value is other than temporary, we adjust the amortized cost of the security and report a realized loss in the consolidated statements of earnings.

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

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

Policy Liabilities: Future policy benefits represent claims that may occur in the future and are computed by a net level premium method using estimated future investment yields, persistency and recognized morbidity and mortality tables modified to reflect our experience, including a provision for adverse deviation. These assumptions are established at the time a policy is issued.

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

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

Derivatives: We have limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions. At December 31, 2005, our only outstanding derivative contracts were cross-currency swaps related to our $450 million senior notes (see Notes 4 and 6).

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

We have designated our cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. We include the fair value of the cross-currency swaps in either other assets or other liabilities on the balance sheet. We report the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component are reflected in other income in the consolidated statements of earnings.

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

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

Treasury Stock: Treasury stock is reflected as a reduction of shareholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued. We include any gains and losses in additional paid-in capital when treasury stock is reissued.

Earnings Per Share: We compute basic earnings per share (EPS) by dividing net earnings by the weighted-average number of shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of share-based awards.

New Accounting Pronouncements: In December 2004, the FASB issued Statement of Financial Accounting Standards (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 establishes the accounting for grants of share-based awards in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or transactions that may be settled by the issuance of those equity instruments. SFAS 123R requires that companies use a fair value method to value share-based awards and recognize the related compensation expense in net earnings. The provisions of SFAS 123R, as amended by the Securities and Exchange Commission, are effective as of the beginning of the first fiscal year after June 15, 2005, although earlier application is encouraged. In accordance with the standard's early adoption provisions, we began accounting for share-based awards using the modified-retrospective application method effective January 1, 2005. Prior-year results have been adjusted to reflect the expensing of share-based awards in accordance with this new standard (see Note 9).

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.

Recently, various accounting standard-setting bodies have been active, issuing a number of accounting pronouncements with various effective dates. These pronouncements, which were not discussed above, do not have a material effect on our financial position or results of operations.

Adjustments and Reclassifications: Certain adjustments have been made to prior-year balances and results of operations to reflect the adoption of SFAS 123R. Additionally, certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

2. BUSINESS SEGMENT AND FOREIGN INFORMATION

The Company consists of two reportable insurance business segments: Aflac Japan and Aflac U.S., both of which sell individual supplemental health and life insurance.

Operating business segments that are not individually reportable are included in the "Other business segments" category. We do not allocate corporate overhead expenses to business segments. We evaluate and manage our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings as presented in this report excludes the following items from net earnings on an after-tax basis: realized investment gains/losses, the impact from SFAS 133, and nonrecurring items. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment for the years ended December 31 follows:

(In millions)	2005	2004	2003
Revenues:			
Aflac Japan:			
Earned premiums:			
Cancer life	**$ 5,147**	$ 5,223	$ 4,864
Other accident and health	**2,577**	2,220	1,687
Life insurance	**1,021**	925	775
Net investment income	**1,635**	1,557	1,421
Other income	**31**	18	18
Total Aflac Japan	**10,411**	9,943	8,765
Aflac U.S.:			
Earned premiums:			
Accident/disability	**1,424**	1,261	1,085
Cancer expense	**982**	918	842
Other health	**721**	649	574
Life insurance	**118**	107	93
Net investment income	**421**	396	362
Other income	**10**	9	9
Total Aflac U.S.	**3,676**	3,340	2,965
Other business segments	**39**	33	43
Total business segments	**14,126**	13,316	11,773
Realized investment gains (losses)	**262**	(12)	(301)
Japanese pension obligation transfer	**–**	6	–
Corporate*	**74**	24	39
Intercompany eliminations	**(99)**	(53)	(64)
Total revenues	**$ 14,363**	$ 13,281	$ 11,447

*Includes investment income of $14 in 2005 and $5 in both 2004 and 2003. Also includes a loss of $15 in both 2005 and 2004 and $3 in 2003 related to the impact from SFAS 133.

(In millions)	2005	2004	2003
Pretax Earnings:			
Aflac Japan	**$ 1,515***	$ 1,379*	$ 1,122
Aflac U.S.	**525**	497	445
Other business segments	**–**	–	–
Total business segments	**2,040**	1,876	1,567
Interest expense, noninsurance operations	**(20)**	(20)	(19)
Corporate and eliminations	**(41)**	(62)	(46)
Pretax operating earnings	**1,979**	1,794	1,502
Realized investment gains (losses)	**262**	(12)	(301)
Impact from SFAS 133	**(15)**	(15)	(3)
Japanese pension obligation transfer	**–**	6	–
Total earnings before income taxes	**$ 2,226**	$ 1,773	$ 1,198
Income taxes applicable to pretax operating earnings	**$ 687**	$ 641	$ 540
Effect of foreign currency translation on operating earnings	**(8)**	39	33

*Includes charges of $46 in 2005 and $26 in 2004 related to the write-down of previously capitalized systems development costs for Aflac Japan's administration system.

Assets as of December 31 were as follows:

(In millions)	2005	2004
Assets:		
Aflac Japan	**$ 46,200**	$ 47,556
Aflac U.S.	**9,547**	11,393
Other business segments	**90**	85
Total business segments	**55,837**	59,034
Corporate	**9,559**	9,288
Intercompany eliminations	**(9,035)**	(8,996)
Total assets	**$ 56,361**	$ 59,326

The costs of buildings, furniture and equipment are depreciated principally on a straight-line basis over their estimated useful lives (maximum of 45 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are expensed as incurred; expenditures for betterments are capitalized and depreciated. Classes of property and equipment as of December 31 were as follows:

(In millions)	2005	2004	2003
Property and equipment:			
Land	**$ 119**	$ 146	$ 142
Buildings	**361**	404	392
Equipment	**226**	225	243
Total property and equipment	**706**	775	777
Less accumulated depreciation	**258**	260	259
Net property and equipment	**$ 448**	$ 515	$ 518

Depreciation and amortization expenses, which are included in insurance expenses in the consolidated statements of earnings, were as follows for the years ended December 31:

(In millions)	2005	2004	2003
Depreciation expense	**$ 44**	$ 48	$ 48
Amortization expense	**60**	38	11
Total depreciation and amortization expense*	**$ 104**	$ 86	$ 59

*Aflac Japan accounted for $77 in 2005, $60 in 2004, and $33 in 2003.

The increases in amortization expense in 2005 and 2004 were primarily attributable to the write-down of previously capitalized systems development costs for Aflac Japan's administration system ($46 million before taxes in 2005 and $26 million before taxes in 2004).

Advertising expense is reported as incurred in insurance expenses in the consolidated statements of earnings and was as follows for each of the three years ended December 31:

(In millions)	**2005**	2004	2003
Advertising expense:			
Aflac Japan	**$ 87**	$ 70	$ 64
Aflac U.S.	**87**	71	62
Total advertising expense	**$ 174**	$ 141	$ 126

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2005, $192 million, or 40.0% of total receivables, were related to Aflac Japan's operations, compared with $183 million, or 43.9%, at December 31, 2004.

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for or during the periods ended December 31. Exchange effects were calculated using the same yen/dollar exchange rate for the current year as for each respective prior year.

	2005	2004
Balance Sheets:		
Yen/dollar exchange rate at December 31	**118.07**	104.21
Yen percent strengthening (weakening)	**(11.7)%**	2.8%
Exchange effect on total assets (billions)	**$ (5.7)**	$ 1.2
Exchange effect on total liabilities (billions)	**(5.6)**	1.2

	2005	2004	2003
Statements of Earnings:			
Weighted-average yen/dollar exchange rate	**109.88**	108.26	115.95
Yen percent strengthening (weakening)	**(1.5)%**	7.1%	7.9%
Exchange effect on net earnings (millions)	**$ (16)**	$ 39	$ 7

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

(In millions)	**2005**	2004
Aflac Japan net assets	**$ 5,494**	$ 5,383
Aflac Japan dollar-denominated net assets	**(3,310)**	(3,155)
Aflac Japan yen-denominated net assets	**2,184**	2,228
Parent Company yen-denominated net liabilities	**(1,403)**	(1,493)
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	**$ 781**	$ 735

Remittances from Aflac Japan: Aflac Japan makes payments to the Parent Company for management fees and to Aflac U.S. for allocated expenses and remittances of earnings. Information on remittances for each of the years ended December 31 is shown below. See Note 10 for information concerning restrictions on remittances from Aflac Japan.

(In millions)	**2005**	2004	2003
Management fees	**$ 28**	$ 24	$ 26
Allocated expenses	**30**	26	22
Remittances of earnings	**374**	220	385
Total remittances from Aflac Japan	**$ 432**	$ 270	$ 433

Policyholder Protection Fund: The total liability accrued for our obligations to the Japanese life insurance policyholder fund was $203 million (¥23.9 billion) at December 31, 2005, compared with $254 million (¥26.5 billion) a year ago. The obligation is payable in semi-annual installments through 2013.

3. INVESTMENTS

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

(In millions)	2005 Cost or Amortized Cost	2005 Gross Unrealized Gains	2005 Gross Unrealized Losses	2005 Fair Value	2004 Cost or Amortized Cost	2004 Gross Unrealized Gains	2004 Gross Unrealized Losses	2004 Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	**$ 8,686**	**$ 1,033**	**$ 34**	**$ 9,685**	$ 8,572	$ 1,522	$ 43	$ 10,051
Municipalities	**–**	**–**	**–**	**–**	3	–	–	3
Mortgage- and asset-backed securities	**4**	**–**	**–**	**4**	43	1	–	44
Public utilities	**1,560**	**200**	**24**	**1,736**	2,427	247	34	2,640
Sovereign and supranational	**859**	**75**	**30**	**904**	1,036	104	25	1,115
Banks/financial institutions	**3,433**	**342**	**49**	**3,726**	3,231	312	37	3,506
Other corporate	**2,952**	**168**	**205**	**2,915**	3,304	199	144	3,359
Total yen-denominated	**17,494**	**1,818**	**342**	**18,970**	18,616	2,385	283	20,718
Dollar-denominated:								
Government	**375**	**5**	**6**	**374**	199	7	1	205
Municipalities	**76**	**6**	**–**	**82**	75	7	–	82
Mortgage- and asset-backed securities	**290**	**6**	**5**	**291**	259	8	2	265
Public utilities	**869**	**113**	**2**	**980**	854	122	1	975
Sovereign and supranational	**398**	**83**	**–**	**481**	292	55	–	347
Banks/financial institutions	**2,825**	**294**	**6**	**3,113**	2,698	319	5	3,012
Other corporate	**3,533**	**382**	**64**	**3,851**	3,145	424	7	3,562
Total dollar-denominated	**8,366**	**889**	**83**	**9,172**	7,522	942	16	8,448
Total fixed maturities	**25,860**	**2,707**	**425**	**28,142**	26,138	3,327	299	29,166
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	**3,571**	**234**	**146**	**3,659**	3,344	181	167	3,358
Dollar-denominated:								
Banks/financial institutions	**684**	**37**	**10**	**711**	608	53	–	661
Total perpetual debentures	**4,255**	**271**	**156**	**4,370**	3,952	234	167	4,019
Equity securities	**30**	**54**	**–**	**84**	34	43	–	77
Total securities available for sale	**$ 30,145**	**$ 3,032**	**$ 581**	**$ 32,596**	$ 30,124	$ 3,604	$ 466	$ 33,262
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Mortgage- and asset-backed securities	**$ 44**	**$ –**	**$ –**	**$ 44**	$ 52	$ –	$ 1	$ 51
Public utilities	**1,213**	**28**	**49**	**1,192**	1,186	31	39	1,178
Sovereign and supranational	**2,478**	**95**	**53**	**2,520**	2,532	159	42	2,649
Banks/financial institutions	**5,152**	**115**	**273**	**4,994**	3,779	200	81	3,898
Other corporate	**1,962**	**125**	**16**	**2,071**	2,515	220	4	2,731
Total yen-denominated	**10,849**	**363**	**391**	**10,821**	10,064	610	167	10,507
Dollar-denominated:								
Government	**18**	**–**	**–**	**18**	16	–	1	15
Total dollar-denominated	**18**	**–**	**–**	**18**	16	–	1	15
Total fixed maturities	**10,867**	**363**	**391**	**10,839**	10,080	610	168	10,522
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	**4,172**	**201**	**121**	**4,252**	4,759	288	123	4,924
Total perpetual debentures	**4,172**	**201**	**121**	**4,252**	4,759	288	123	4,924
Total securities held to maturity	**$ 15,039**	**$ 564**	**$ 512**	**$ 15,091**	$ 14,839	$ 898	$ 291	$ 15,446

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

(In millions)	**2005**	2004	2003
Fixed-maturity securities	**$ 1,693**	$ 1,621	$ 1,486
Perpetual debentures	**378**	349	314
Equity securities and other	**1**	1	2
Short-term investments and cash equivalents	**20**	7	6
Gross investment income	**2,092**	1,978	1,808
Less investment expenses	**21**	21	21
Net investment income	**$ 2,071**	$ 1,957	$ 1,787

Investment exposures, which individually exceeded 10% of shareholders' equity as of December 31, were as follows:

	2005			2004		
(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	Credit Rating	Amortized Cost	Fair Value
Japan National Government	**AA**	**$ 8,178**	**$ 9,167**	AA	$ 8,065	$ 9,536
HSBC**	**AA/A**	**784***	**850**	AA/A	883	1,007
Credit Suisse First Boston	*	*	*	A	846	870
The Israel Electric Corporation Ltd.	*	*	*	BBB	809	808
Republic of Tunisia	*	*	*	BBB	796	817

*Less than 10%
**For this issuer, we own more than one security with different ratings.

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. Total privately issued securities, at amortized cost, accounted for $30.1 billion, or 66.6%, of our total debt securities as of December 31, 2005, compared with $29.1 billion, or 64.7%, at December 31, 2004. Of the total privately issued securities, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for $8.9 billion, or 29.6%, and $7.8 billion, or 26.8%, at amortized cost as of December 31, 2005 and 2004, respectively.

At December 31, 2005, we owned below-investment-grade debt securities in the amount of $1.1 billion at amortized cost ($886 million at fair value), or 2.3% of total debt securities, compared with $807 million at amortized cost ($740 million at fair value), or 1.8% of total debt securities a year ago. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. These securities are held in the available-for-sale portfolio.

As of December 31, 2005, $131 million, at fair value, of Aflac Japan's debt securities had been pledged to Japan's policyholder protection fund. At December 31, 2005, debt securities with a fair value of $13 million were on deposit with regulatory authorities in the United States and Japan. We retain ownership of all securities on deposit and receive the related investment income.

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

(In millions)	**2005**	2004	2003
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	**$ 284**	$ 36	$ 72
Gross losses from sales	**(22)**	(54)	(366)
Net gains (losses) from redemptions	**(1)**	6	8
Total debt securities	**261**	(12)	(286)
Equity securities:			
Gross gains from sales	**1**	1	19
Gross losses from sales	**–**	–	(33)
Impairment losses	**–**	(1)	(1)
Total equity securities	**1**	–	(15)
Total realized investment gains (losses)	**$ 262**	$ (12)	$ (301)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	**$ (697)**	$ 216	$ (331)
Transferred to held to maturity	**(113)**	(64)	(16)
Equity securities	**11**	4	44
Change in unrealized gains (losses)	**$ (799)**	$ 156	$ (303)

In 2005, we realized pretax gains of $262 million (after-tax $167 million, or $.33 per diluted share) primarily as a result of the execution of bond swaps.

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 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 in 2003 at a pretax loss of $38 million. These investment losses and other investment transactions in the normal course of business decreased pretax earnings by $301 million (after-tax, $191 million or $.37 per diluted share).

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

The fair values and unrealized losses for debt and equity securities in a continuous unrealized loss position as of December 31, 2005, were as follows:

	2005						2004					
	Total		**Less than 12 months**		**12 months or longer**		Total		Less than 12 months		12 months or longer	
(In millions)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:												
Government and guaranteed:												
Dollar-denominated	**$ 294**	**$ 6**	**$ 269**	**$ 6**	**$ 25**	**$ –**	$ 86	$ 1	$ 55	$ –	$ 31	$ 1
Yen-denominated	**1,328**	**33**	**1,087**	**20**	**241**	**13**	621	43	556	41	65	2
Municipalities:												
Dollar-denominated	**13**	**–**	**11**	**–**	**2**	**–**	12	–	–	–	12	–
Mortgage- and asset-backed securities:												
Dollar-denominated	**148**	**5**	**147**	**5**	**1**	**–**	129	3	111	2	18	1
Yen-denominated	**31**	**–**	**24**	**–**	**7**	**–**	36	1	8	–	28	1
Public Utilities:												
Dollar-denominated	**59**	**1**	**51**	**1**	**8**	**–**	19	–	11	–	8	–
Yen-denominated	**970**	**73**	**706**	**45**	**264**	**28**	1,169	74	542	13	627	61
Sovereign and supranational:												
Dollar-denominated	**–**	**–**	**–**	**–**	**–**	**–**	9	–	9	–	–	–
Yen-denominated	**1,235**	**83**	**953**	**51**	**282**	**32**	912	66	595	28	317	38
Banks/financial institutions:												
Dollar-denominated	**241**	**6**	**215**	**5**	**26**	**1**	132	4	63	1	69	3
Yen-denominated	**4,422**	**323**	**3,426**	**232**	**996**	**91**	2,511	118	1,488	58	1,023	60
Other corporate:												
Dollar-denominated	**677**	**64**	**640**	**57**	**37**	**7**	180	7	96	3	84	4
Yen-denominated	**2,090**	**222**	**1,471**	**104**	**619**	**118**	1,762	148	362	3	1,400	145
Perpetual debentures:												
Dollar-denominated	**189**	**10**	**189**	**10**	**–**	**–**	–	–	–	–	–	–
Yen-denominated	**3,300**	**267**	**2,002**	**91**	**1,298**	**176**	3,262	292	837	85	2,425	207
Total debt securities	**14,997**	**1,093**	**11,191**	**627**	**3,806**	**466**	10,840	757	4,733	234	6,107	523
Equity securities	**2**	**–**	**1**	**–**	**1**	**–**	4	–	1	–	3	–
Total temporarily impaired securities	**$14,999**	**$ 1,093**	**$ 11,192**	**$ 627**	**$ 3,807**	**$ 466**	$ 10,844	$ 757	$ 4,734	$ 234	$ 6,110	$ 523

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 displayed 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, and we have the ability and intent to hold until recovery of value.

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

(In millions)	2005	2004
Unrealized gains on securities available for sale	**$ 2,452**	$ 3,138
Unamortized unrealized gains on securities transferred to held to maturity	**430**	544
Deferred income taxes	**(965)**	(1,265)
Shareholders' equity, unrealized gains on investment securities	**$ 1,917**	$ 2,417

We attempt to match the duration of our assets with the duration of our liabilities. For Aflac Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related investment assets due to the unavailability of acceptable 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

Currently, when our debt securities mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, our strategy of developing and marketing riders to our older policies has helped offset the negative investment spread. In spite of the negative investment spreads, overall profit margins in Aflac Japan's aggregate block of business are adequate because of profits that continue to emerge from changes in mix of business and favorable mortality, morbidity, and expenses.

The contractual maturities of our investments in fixed maturities at December 31, 2005, were as follows:

	Aflac Japan		Aflac U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 111	$ 113	$ 22	$ 22
Due after one year through five years	2,258	2,571	256	268
Due after five years through 10 years	5,073	6,027	456	518
Due after 10 years	12,604	13,068	4,691	5,163
Mortgage- and asset-backed securities	124	128	165	163
Total fixed maturities available for sale	$ 20,170	$ 21,907	$ 5,590	$ 6,134
Held to maturity:				
Due after one year through five years	$ 44	$ 46	$ –	$ –
Due after five years through 10 years	1,131	1,243	–	–
Due after 10 years	9,630	9,488	18	18
Mortgage- and asset-backed securities	44	44	–	–
Total fixed maturities held to maturity	$ 10,849	$ 10,821	$ 18	$ 18

The Parent Company has a portfolio of investment-grade fixed-maturity securities totaling $100 million at amortized cost and fair value, which is not included in the table above.

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

We own subordinated perpetual debenture securities. These securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at issuance subsequently change to a floating short-term interest rate of 125 to 300 basis points above market rates, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual debentures at December 31, 2005, were as follows:

	Aflac Japan		Aflac U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 1	$ 1	$ –	$ –
Due after one year through five years	406	445	72	77
Due after five years through 10 years	255	354	95	93
Due after 10 years through 15 years	296	278	–	–
Due after 15 years	2,829	2,810	301	312
Total perpetual debentures available for sale	$ 3,787	$ 3,888	$ 468	$ 482
Held to maturity:				
Due after one year through five years	$ 450	$ 474	$ –	$ –
Due after five years through 10 years	1,416	1,502	–	–
Due after 10 years through 15 years	596	639	–	–
Due after 15 years	1,710	1,637	–	–
Total perpetual debentures held to maturity	$ 4,172	$ 4,252	$ –	$ –

As part of our investment activities, we own investments in qualified special purpose entities (QSPEs). At December 31, 2005, available-for-sale QSPEs totaled $2.2 billion at fair value ($2.3 billion at amortized cost, or 5.0% of total debt securities), compared with $1.4 billion at fair value ($1.4 billion at amortized cost, or 3.0% of total debt securities) at December 31, 2004. We have no equity interests in any of the QSPEs, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

We also own yen-denominated investments in variable interest entities (VIEs) totaling $1.8 billion at fair value, ($1.9 billion at amortized cost, or 4.2% of total debt securities) at December 31, 2005. We have concluded that we are the primary beneficiary of VIEs totaling $1.6 billion at fair value ($1.7 billion at amortized cost) and we have consolidated our interests in these VIEs in accordance with FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. The activities of these VIEs are limited to holding debt securities and utilizing the proceeds from the debt securities to service our investments therein. The terms of the debt securities mirror the terms of the notes held by Aflac. The consolidation of these investments does not impact our financial position or results of operations. We also have interests in VIEs that we are not required to consolidate totaling $226 million at fair value ($220 million at amortized cost) as of December 31, 2005. The notes representing our interests in these VIEs are reported as fixed-maturity securities on the balance sheet. The loss on any of our VIE investments would be limited to its cost.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These short-term security lending arrangements increase investment income with minimal risk. Our security lending policy requires that the fair value of the securities received as collateral and cash received as collateral be 102% or more of the fair value of the loaned securities. At December 31, 2005 and 2004, we had security loans outstanding with a fair value of $605 million and $2.9 billion, respectively, and we held cash in the amount of $622 million and $2.9 billion, respectively, as collateral for these loaned securities.

During 2005, we reclassified an investment from held to maturity to available for sale as a result of the issuer's credit rating downgrade. This debt security had an amortized cost of $254 million at the date of transfer.

During 2004, we reclassified two debt securities from held to maturity to available for sale. The first transfer resulted from the issuer's credit rating downgrade. At the time of transfer, the debt security had an amortized cost of $118 million. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized gain of $24 million related to this security. This gain represented the remaining unamortized portion of a $32 million gain established in 2001, when we reclassified this investment from available for sale to held to maturity. The second transfer resulted from the significant deterioration in the issuer's credit worthiness. At the time of transfer, this debt security had an amortized cost of $291 million.

During 2003, we also reclassified our investments in two issuers from held to maturity to available for sale as a result of the issuers' credit rating downgrades. These debt securities had an amortized cost of $366 million as of March 31, 2003, the date of transfer. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized gain of $4 million related to one of these securities. This gain represented the remaining unamortized portion of a $5 million gain established in 1998, when we reclassified this investment from available for sale to held to maturity.

4. FINANCIAL INSTRUMENTS

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

	2005		2004	
(In millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Assets:				
Fixed-maturity securities	**$ 39,009**	**$ 38,981**	$ 39,246	$ 39,688
Perpetual debentures	**8,542**	**8,622**	8,778	8,943
Equity securities	**84**	**84**	77	77
Liabilities:				
Notes payable (excl. capitalized leases)	**1,382**	**1,395**	1,409	1,461
Cross-currency swaps	**12**	**12**	66	66
Obligation to Japanese policyholder protection fund	**203**	**203**	254	254

The methods of determining the fair values of our investments in debt and equity securities are described in Note 3. The fair values of notes payable with fixed interest rates were obtained from an independent financial information service. The fair values of our cross-currency swaps are the expected amounts that we would receive or pay to terminate the swaps, taking into account current interest rates, foreign currency rates and the current creditworthiness of the swap counterparties. The fair value of the Japanese policyholder protection fund is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years.

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the above table. The preceding table also excludes liabilities for future policy benefits and unpaid policy claims as these liabilities are not financial instruments as defined by GAAP.

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

We entered into cross-currency swaps to minimize the impact of foreign currency translation on shareholders' equity and to reduce interest expense by converting the dollar-denominated principal and interest on the senior notes we issued into yen-denominated obligations. By entering into these cross-currency swaps, we have been able to reduce our interest expense from 6.5% in dollars to 1.67% in yen. See Note 1 for information on the accounting policy for cross-currency swaps.

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

(In millions)	**2005**	2004
Interest rate component	**$ 6**	$ 21
Foreign currency component	**(22)**	(91)
Accrued interest component	**4**	4
Total fair value of cross-currency swaps	**$ (12)**	$ (66)

The following is a reconciliation of the foreign currency component of the cross-currency swaps as included in accumulated other comprehensive income for the years ended December 31.

(In millions)	**2005**	2004	2003
Balance, beginning of year	**$ (91)**	$ (69)	$ (18)
Increase (decrease) in fair value of cross-currency swaps	**54**	(37)	(54)
Interest rate component not qualifying for hedge accounting reclassified to net earnings	**15**	15	3
Balance, end of year	**$ (22)**	$ (91)	$ (69)

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

(In millions)	**2005**		2004	
Counterparty Credit Rating	**Fair Value of Swaps**	**Notional Amount of Swaps**	Fair Value of Swaps	Notional Amount of Swaps
AA	**$ (11)**	**$ 375**	$ (56)	$ 375
A	**(1)**	**75**	(10)	75
Total	**$ (12)**	**$ 450**	$ (66)	$ 450

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

5. POLICY LIABILITIES

Our policy liabilities primarily include future policy benefits and unpaid policy claims, which accounted for 89% and 6% of total policy liabilities at December 31, 2005, respectively. We regularly review the adequacy of our policy liabilities in total and by component. The liability for future policy benefits as of December 31 consisted of the following:

		Liability Amounts		Interest Rates	
(In millions)	Policy Issue Year	**2005**	2004	Year of Issue	In 20 Years
Health insurance:					
Japan:	2005	**$ 31**	$ –	1.85% - 2.5%	1.85% - 2.5%
	1999 - 2005	**3,850**	3,154	3.0	3.0
	1997 - 1999	**2,314**	2,475	3.5	3.5
	1995 - 1996	**248**	264	4.0	4.0
	1994 - 1996	**3,353**	3,613	4.5	4.5
	1987 - 1994	**15,526**	17,065	5.25 - 5.5	5.25 - 5.5
	1978 - 1986	**4,003**	4,515	6.5 - 6.75	5.5
	1974 - 1979	**867**	993	7.0	5.0
U.S.:	2005	**178**	–	5.5	5.5
	1998 - 2004	**884**	773	7.0	7.0
	1988 - 2004	**994**	957	8.0	6.0
	1986 - 2004	**1,352**	1,257	6.0	6.0
	1985 - 1986	**26**	26	6.5	6.5
	1981 - 1986	**223**	229	7.0	5.5
	Other	**36**	36		
Life insurance:					
Japan:	2001 - 2005	**62**	40	1.85	1.85
	1999 - 2005	**875**	740	3.0	3.0
	1997 - 1999	**542**	572	3.5	3.5
	1994 - 1996	**851**	916	4.0	4.0
	1985 - 1993	**1,548**	1,659	5.25 - 5.65	5.25 - 5.65
U.S.:	1956 - 2005	**90**	76	4.0 - 6.0	4.0 - 6.0
Total		**$ 37,853**	$ 39,360		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 4.8% in 2005, and 4.9% in both 2004 and 2003; and for U.S. policies, 6.4% in 2005, 2004 and 2003.

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

(In millions)	**2005**	2004	2003
Unpaid supplemental health claims, beginning of year	**$ 2,230**	$ 2,008	$ 1,678
Add claims incurred during the year related to:			
Current year	**5,203**	4,886	4,237
Prior years	**(401)**	(375)	(275)
Total incurred	**4,802**	4,511	3,962
Less claims paid during the year on claims incurred during:			
Current year	**3,352**	3,270	2,799
Prior years	**1,106**	1,067	982
Total paid	**4,458**	4,337	3,781
Effect of foreign exchange rate changes on unpaid claims	**(199)**	48	149
Unpaid supplemental health claims, end of year	**2,375**	2,230	2,008
Unpaid life claims, end of year	**129**	125	107
Total liability for unpaid policy claims	**$ 2,504**	$ 2,355	$ 2,115

6. NOTES PAYABLE

A summary of notes payable as of December 31 follows:

(In millions)	**2005**	2004
6.50% senior notes due April 2009 (principal amount $450)	**$ 450**	$ 449
Yen-denominated Samurai notes:		
1.55% notes paid October 2005 (principal amount ¥30 billion)	**–**	288
.87% notes due June 2006 (principal amount ¥40 billion)	**339**	384
.96% notes due June 2007 (principal amount ¥30 billion)	**254**	288
.71% notes due July 2010 (principal amount ¥40 billion)	**339**	–
Capitalized lease obligations payable through 2010	**13**	20
Total notes payable	**$ 1,395**	$ 1,429

In 2000, 2001 and 2002, the Parent Company issued yen-denominated Samurai notes, each of which had five-year maturities. In July 2005, the Parent Company issued an additional series of yen-denominated Samurai notes totaling ¥40 billion. 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. Each series of Samurai notes may only be redeemed prior to maturity upon the occurrence of a tax event as specified in the respective bond agreement and are not available to U.S. residents or entities.

For our yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period due to changes in the yen/dollar exchange rate. We have designated ¥110 billion of our yen-denominated notes payable as a hedge of the foreign currency exposure of our investment in Aflac Japan.

The Shelf Registration Statement we filed with Japanese regulatory authorities in 2003 expired in December 2005. As a result, the Parent Company filed a new Shelf Registration Statement with Japanese regulatory authorities in February 2006 to issue up to ¥100 billion of yen-denominated Samurai notes in Japan. If issued, these securities will not be available to U.S. persons or entities.

In 1999, we issued $450 million of senior notes. 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 make-whole premium. We have entered into cross-currency swaps related to these notes (see Note 4).

The aggregate contractual maturities of notes payable during each of the years after December 31, 2005, are as follows:

(In millions)	Long-term Debt	Capitalized Lease Obligations	Total Notes Payable
2006	$ 339	$ 6	$ 345
2007	254	4	258
2008	–	2	2
2009	450	1	451
2010	339	–	339
Total	$ 1,382	$ 13	$ 1,395

We were in compliance with all of the covenants of our notes payable at December 31, 2005. No events of default or defaults occurred during 2005 and 2004.

7. INCOME TAXES

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

(In millions)	Japan	U.S.	Total
2005:			
Current	**$ 485**	**$ 14**	**$ 499**
Deferred	**159**	**119**	**278**
Release of valuation allowance on deferred tax assets	**–**	**(34)**	**(34)**
Total income tax expense	**$ 644**	**$ 99**	**$ 743**
2004:			
Current	$ 357	$ 34	$ 391
Deferred	148	96	244
Release of valuation allowance on deferred tax assets	–	(128)	(128)
Total income tax expense	$ 505	$ 2	$ 507
2003:			
Current	$ 184	$ 28	$ 212
Deferred	118	100	218
Total income tax expense	$ 302	$ 128	$ 430

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

(In millions)	**2005**	2004	2003
Income taxes based on U.S. statutory rates	**$ 779**	$ 632	$ 429
Utilization of foreign tax credit carryforwards	**(20)**	(18)	(18)
Release of valuation allowance on deferred tax assets	**(34)**	(128)	–
Nondeductible expenses	**10**	6	5
Other, net	**8**	15	14
Income tax expense	**$ 743**	$ 507	$ 430

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

(In millions)	**2005**	2004	2003
Statements of earnings	**$ 743**	$ 507	$ 430
Other comprehensive income:			
Changes in unrealized foreign currency translation gains/losses	**188**	(32)	(112)
Minimum pension liability adjustment	**(2)**	5	(12)
Unrealized gains on investment securities:			
Unrealized holding gains (losses) arising during the year	**(206)**	61	(313)
Reclassification adjustment for realized (gains) losses included in net earnings	**(95)**	(6)	110
Total income tax expense (benefit) allocated to other comprehensive income	**(115)**	28	(327)
Additional paid-in capital (exercise of stock options)	**(37)**	(1)	(1)
Total income taxes	**$ 591**	$ 534	$ 102

Changes in unrealized foreign currency translation gains/losses included deferred income tax expense of $122 million in 2005, compared with deferred income tax benefits of $31 million in 2004 and $111 million in 2003.

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

(In millions)	**2005**	2004
Deferred income tax liabilities:		
Deferred policy acquisition costs	**$ 1,576**	$ 1,654
Unrealized gains on investment securities	**876**	1,284
Difference in tax basis of investment in Aflac Japan	**311**	–
Other basis differences in investment securities	**132**	87
Premiums receivable	**128**	111
Policy benefit reserves	**248**	11
Other	**1**	3
Total deferred income tax liabilities	**3,272**	3,150
Deferred income tax assets:		
Depreciation	**99**	18
Policyholder protection fund obligation	**66**	73
Unfunded retirement benefits	**45**	42
Other accrued expenses	**52**	61
Tax credit carryforwards	**235**	183
Policy and contract claims	**93**	81
Difference in tax basis of investment in Aflac Japan	**–**	33
Unrealized exchange loss on yen-denominated notes payable	**33**	91
Capital loss carryforwards	**21**	114
Deferred compensation	**51**	50
Other	**349**	251
Total gross deferred income tax assets	**1,044**	997
Less valuation allowance	**–**	34
Total deferred income tax assets	**1,044**	963
Net deferred income tax liability	**2,228**	2,187
Current income tax liability	**349**	258
Total income tax liability	**$ 2,577**	$ 2,445

A valuation allowance is provided when it is more likely than not that deferred tax assets will not be realized. In prior years, we established valuation allowances primarily for alternative minimum tax credit and noninsurance loss carryforwards that exceeded projected future offsets. Under U.S. income tax rules, only 35% of noninsurance losses can be offset against life insurance taxable income each year.

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) for the release of the valuation allowance associated with certain deferred tax assets.

During 2005, the valuation allowance for deferred tax assets decreased by $34 million primarily due to utilization of non-life losses. During 2004, the valuation allowance for deferred tax assets decreased by $113 million primarily due to changes in carryforwards of alternative minimum tax credits as noted above. For current U.S. income tax purposes, alternative minimum tax credit carryforwards of $204 million and foreign tax credit carryforwards of $31 million were available at December 31, 2005.

8. SHAREHOLDERS' EQUITY

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

(In thousands of shares)	2005	2004	2003
Common stock - issued:			
Balance, beginning of year	**652,628**	651,554	648,618
Exercise of stock options	**1,894**	1,074	2,936
Balance, end of year	**654,522**	652,628	651,554
Treasury stock:			
Balance, beginning of year	**149,020**	141,662	134,179
Purchases of treasury stock:			
Open market	**10,000**	10,061	10,188
Other	**245**	44	215
Dispositions of treasury stock:			
Shares issued to AFL Stock Plan	**(1,476)**	(1,585)	(1,766)
Exercise of stock options	**(2,127)**	(1,160)	(1,153)
Other	**(34)**	(2)	(1)
Balance, end of year	**155,628**	149,020	141,662
Shares outstanding, end of year	**498,894**	503,608	509,892

We exclude outstanding share-based awards from the calculation of weighted-average shares used in the computation of basic earnings per share. Stock options to purchase approximately 2.5 million shares as of December 31, 2005, were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share, compared with 1.1 million in 2004 and .3 million in 2003. The weighted-average shares used in calculating earnings per share for the years ended December 31 were as follows:

(In thousands of shares)	2005	2004	2003
Average outstanding shares used for calculating basic EPS	**500,939**	507,333	513,220
Dilutive effect of share-based awards	**6,765**	9,088	8,918
Average outstanding shares used for calculating diluted EPS	**507,704**	516,421	522,138

Share Repurchase Program: 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.

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

9. SHARE-BASED TRANSACTIONS

Long-Term Incentive Plans: The Company has two long-term incentive compensation plans. The first is a stock option plan, which allows grants for both incentive stock options (ISOs) and non-qualifying stock options (NQSOs) to employees and NQSOs to non-employee directors. The options have a term of 10 years and generally vest after three years. The strike price of options granted under this plan is equal to the fair market value at the date of grant. At December 31, 2005, 2.3 million shares were available for future grants under this plan.

The second long-term incentive compensation plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, stock appreciation rights, and restricted stock. Generally, the awards vest based upon time-based conditions or time-and-performance-based conditions. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. As of December 31, 2005, the only performance-based awards issued and outstanding were restricted stock awards. Awards granted under this plan during 2004 were not material. At December 31, 2005, approximately 24.6 million shares were available for future grants under this plan.

Share-based awards granted to U.S.-based grantees are settled upon exercise with authorized but unissued Company stock, while those issued to Japan-based grantees are settled upon exercise with treasury shares.

We adopted SFAS 123R to account for share-based awards effective January 1, 2005. In accordance with the modified-retrospective application method, we have adjusted previously reported results to reflect the effect of expensing share-based awards. The cumulative adjustment associated with adoption decreased our tax liability $2 million, increased additional paid-in capital $148 million and decreased retained earnings $146 million as of December 31, 2002.

The table at the top of the following page presents the expense recognized in the following items as a result of applying the provisions of SFAS 123R for the periods ended December 31.

(In millions, except for per-share amounts)	2005	2004	2003
Earnings from continuing operations	**$ 32**	$ 34	$ 27
Earnings before income taxes	**32**	34	27
Net earnings	**23**	33	27
Net earnings per share:			
Basic	**$ .05**	$ .07	$ .05
Diluted	**.05**	.07	.05

We estimate the fair value of each stock option granted using the Black-Scholes-Merton multiple option approach. Expected volatility is based on historical periods generally commensurate with the estimated term of options. We use historical data to estimate option exercise and termination patterns within the model. Separate groups of employees that have similar historical exercise patterns are stratified and considered separately for valuation purposes. The expected term of options granted is derived from the output of our option model and represents the weighted-average period of time that options granted are expected to be outstanding. We base the risk-free interest rate on the Treasury note rate with a term comparable to that of the estimated term of options. The weighted-average fair value of options at their grant date was $13.40 for 2005, compared with $10.66 in 2004 and $10.27 in 2003. The following table presents the assumptions used in valuing options granted during the years ended December 31.

	2005	2004	2003
Expected volatility	**28%**	27%	26%
Annual forfeiture rate	**.8%**	N/A*	N/A*
Expected term (years)	**6.6**	4.9	6.2
Risk-free interest rate	**4.0%**	4.0%	4.5%
Dividend yield	**1.1%**	.9%	.8%

*Not applicable

The following table summarizes stock option activity.

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2002	23,760	$ 17.64
Granted in 2003	2,324	31.70
Canceled in 2003	(74)	29.14
Exercised in 2003	(4,374)	8.96
Outstanding at December 31, 2003	21,636	20.87
Granted in 2004	2,793	39.80
Canceled in 2004	(58)	31.25
Exercised in 2004	(2,284)	14.84
Outstanding at December 31, 2004	**22,087**	**23.86**
Granted in 2005	**2,107**	**41.01**
Canceled in 2005	**(230)**	**35.36**
Exercised in 2005	**(3,983)**	**14.50**
Outstanding at December 31, 2005	**19,981**	**$ 27.40**

(In thousands of shares)	2005	2004	2003
Shares exercisable, end of year	**14,603**	15,833	15,325

The following table summarizes information about stock options outstanding at December 31, 2005.

(In thousands of shares)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 7.92 – $ 13.31	1,316	1.2	$ 11.81	1,316	$ 11.81
13.66 – 15.05	2,205	2.4	14.84	2,205	14.84
15.22 – 22.73	1,792	3.9	21.86	1,792	21.86
22.84 – 23.23	3,143	4.5	23.22	3,143	23.22
23.41 – 29.34	3,492	5.2	26.45	3,492	26.45
29.45 – 31.71	3,075	7.1	31.20	1,111	30.56
31.73 – 40.41	2,290	8.8	38.27	345	37.86
40.42 – 49.15	2,668	8.6	41.63	1,199	40.43
$ 7.92 – $ 49.15	19,981	5.5	$ 27.40	14,603	$ 23.85

As of December 31, 2005, the aggregate intrinsic value of stock options outstanding was $383 million, with a weighted-average remaining term of 5.5 years. The aggregate intrinsic value of stock options exercisable at that same date was $332 million, with a weighted-average remaining term of 4.6 years. The total intrinsic value of stock options exercised during the year ended December 31, 2005, was $114 million, compared with $57 million in 2004 and $102 million in 2003. We received cash from the exercise of stock options in the amount of $49 million in 2005, compared with $32 million in 2004 and $30 million in 2003. The tax benefit realized as a result of stock option exercises was $37 million in 2005. Due to the effect of the valuation allowances in 2004 and 2003, the tax benefit realized from stock option exercises was immaterial (see Note 7).

The following table summarizes restricted stock activity during the years ended December 31.

(In thousands of shares)	Shares	Weighted-Average Grant-Date Fair Value
Restricted stock at December 31, 2003	–	$ –
Granted in 2004	2	39.98
Canceled in 2004	–	–
Vested in 2004	–	–
Restricted stock at December 31, 2004	**2**	**39.98**
Granted in 2005	**274**	**39.55**
Canceled in 2005	**(6)**	**38.75**
Vested in 2005	**–**	**–**
Restricted stock at December 31, 2005	**270**	**$ 39.58**

As of December 31, 2005, total compensation cost not yet recognized in our financial statements related to restricted stock awards was $8 million, of which $4 million (151,000 shares) was related to share-based awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately two years. There are no other contractual terms covering restricted stock awards once vested. Awards of two thousand shares of restricted stock were granted in 2004. No restricted stock was granted in 2003.

10. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Our insurance subsidiary is required to report its results of operations and financial position to state insurance regulatory authorities on the basis of statutory accounting practices prescribed or permitted by such authorities. Our branch in Japan, Aflac Japan, must report its results of operations and financial position to the Japanese Financial Services Agency (FSA) on a Japanese statutory accounting basis as prescribed by the FSA.

As determined on a U.S. statutory accounting basis, Aflac's net income was $1.3 billion in 2005, $1.2 billion in 2004, and $742 million in 2003. Capital and surplus was $3.7 billion and $2.8 billion at December 31, 2005 and 2004, respectively.

Net assets of the insurance subsidiaries aggregated $8.9 billion at December 31, 2005, on a GAAP basis, compared with $8.8 billion a year ago. Aflac Japan accounted for $5.5 billion, or 61.4%, of these net assets, compared with $5.4 billion, or 61.0% at December 31, 2004.

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

(In millions)	**2005**	2004
Net assets on GAAP basis	**$ 8,916**	$ 8,776
Adjustment of carrying values of investments	**(2,825)**	(3,634)
Elimination of deferred policy acquisition costs	**(5,499)**	(5,517)
Adjustment to policy liabilities	**1,194**	1,172
Adjustment to deferred income taxes	**2,546**	2,512
Other, net	**(627)**	(514)
Capital and surplus on U.S. statutory accounting basis	**$ 3,705**	$ 2,795

Capital and surplus (unaudited) of Aflac Japan, based on Japanese statutory accounting practices, aggregated $2.8 billion at December 31, 2005 and $2.9 billion at December 31, 2004. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, premium income is recognized on a cash basis, policy acquisition costs are charged off immediately, policy benefit and claim reserving methods and assumptions are different, policyholder protection fund obligations are not accrued, and deferred income tax liabilities are recognized on a different basis.

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent the undistributed earnings of our insurance subsidiary. Amounts available for dividends, management fees and other payments to the Parent Company by its insurance subsidiary may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. Our insurance subsidiary must maintain adequate risk-based capital for U.S. regulatory authorities and our Japan branch must maintain adequate solvency margins for Japanese regulatory authorities. Additionally, the maximum amount of dividends that can be paid to the Parent Company by Aflac without prior approval of Nebraska's director of insurance is the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2006 in excess of $1.2 billion would require such approval. Dividends declared by Aflac during 2005 were $526 million.

A portion of Aflac Japan earnings, as determined on a Japanese statutory accounting basis, can be remitted each year to Aflac U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit remittances to the United States can fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory earnings include Japanese regulatory accounting practices and fluctuations in currency translation of Aflac Japan's dollar-denominated investments into yen. Profits remitted by Aflac Japan to Aflac U.S. were as follows for the years ended December 31:

	In Dollars			In Yen		
(In millions of dollars and billions of yen)	**2005**	2004	2003	**2005**	2004	2003
Profit repatriation	**$ 374**	$ 220	$ 385	**¥ 41.2**	¥ 23.9	¥ 45.6

The 2004 profit repatriation was lower due to the impact on Japanese regulatory earnings from the Parmalat loss that was realized in the fourth quarter of 2003 and our decision to leave capital in Japan in order to maintain a strong solvency margin.

11. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees in the United States and Japan. At December 31, 2005, other liabilities included a liability for both plans in the amount of $65 million, compared with $60 million a year ago. The under-funded status of the plans was primarily attributable to steadily increasing pension benefit obligations. We plan to make contributions of $20 million to both the Japanese and U.S. plans in 2006 to continue to improve their funded status.

The valuation date for our U.S. plan is September 30 and December 31 for our Japanese plan. Reconciliations of the funded status of the basic employee defined-benefit pension plans with amounts recognized in the consolidated balance sheets as of December 31 were as follows:

	2005		2004	
(In millions)	**Japan**	**U.S.**	Japan	U.S.
Projected benefit obligation:				
Benefit obligation, beginning of year	**$ 112**	**$ 131**	$ 97	$ 111
Service cost	**9**	**7**	5	5
Interest cost	**3**	**8**	2	7
Plan amendment	**(5)**	**–**	–	–
Actuarial loss (gain)	**1**	**18**	5	10
Benefits paid	**(2)**	**(2)**	(2)	(2)
Effect of foreign exchange rate changes	**(14)**	**–**	5	–
Benefit obligation, end of year	**104**	**162**	112	131
Plan assets:				
Fair value of plan assets, beginning of year	**39**	**70**	31	52
Actual return on plan assets	**5**	**7**	2	3
Employer contribution	**10**	**20**	6	17
Benefits paid	**(2)**	**(2)**	(2)	(2)
Effect of foreign exchange rate changes	**(5)**	**–**	2	–
Fair value of plan assets, end of year	**47**	**95**	39	70
Funded status	**(57)**	**(67)**	(73)	(61)
Unrecognized net actuarial loss (gain)	**40**	**68**	50	54
Unrecognized transition obligation (asset)	**2**	**–**	3	–
Unrecognized prior service cost	**(4)**	**2**	1	1
Adjustment for minimum pension liability	**(21)**	**(28)**	(12)	(23)
Liability for accrued benefit cost	**$ (40)**	**$ (25)**	$ (31)	$ (29)
Accumulated benefit obligation	**$ 87**	**$ 120**	$ 73	$ 99

The composition of plan assets as of December 31 was as follows:

	2005		2004	
	Japan	**U.S.**	Japan	U.S.
Equity securities	**39%**	**56%**	38%	47%
Fixed-income securities	**61**	**18**	62	24
Cash and cash equivalents	**–**	**26**	–	29
Total	**100%**	**100%**	100%	100%

Equity securities held by our U.S. plan included $3 million (3% of plan assets) of Aflac Incorporated common stock at December 31, 2005, compared with $2 million (3% of plan assets) at December 31, 2004. Target asset allocations for U.S. plan assets are 55% to 60% equity securities, 35% to 40% fixed-income securities and 5% to 10% cash and cash equivalents. Target asset allocations for Japanese plan assets are 34% equity securities and 66% fixed-income securities. As discussed below, the investment strategy of our pension plans are long-term in nature. Cash and cash equivalents exceeded the target allocations for the U.S. plan in 2005 and 2004 primarily as a result of third quarter employer contributions of $20 million in 2005 and $15 million in 2004.

The investment objective of our U.S. and Japanese plans is to preserve the purchasing power of the plan's assets and earn a reasonable inflation adjusted rate of return over the long term. Furthermore, we seek to accomplish these objectives in a manner that allows for the adequate funding of plan benefits and expenses. In order to achieve these objectives, our goal is to maintain a conservative, well-diversified and balanced portfolio of high quality equity, fixed-income and money market securities. As a part of our strategy, we have established strict policies covering investment security quality, type and concentration. For our U.S. plan, these policies prohibit investments in derivatives, precious metals, limited partnerships, real estate, venture capital, futures contracts, and foreign securities. We are also prohibited from trading on margin. For our Japanese plan, these policies include limitations on investments in derivatives including futures, options and swaps, and low-liquidity investments such as real estate, venture capital investments, and privately issued securities.

We monitor the U.S. plan's performance over a three- to five-year period utilizing shorter time frame performance measures to identify trends. We review investment performance and compliance with stated investment policies and practices on a quarterly basis. The specific three- to five-year investment objectives for the U.S. pension plan are to earn a total rate of return on equity securities that exceeds the rate of return for the Standard & Poor's 500 stock index and to earn a total rate of return on fixed-income securities that exceeds the Merrill Lynch one- to 10-year investment grade government/corporate bond index. We monitor the Japanese plan's performance and compliance with stated investment policies and practices on a quarterly basis.

Expected future benefit payments for the U.S. and Japanese plans are presented in the table at the top of the following page.

(In millions)	Japan	U.S.
2006	$ 3	$ 3
2007	3	3
2008	3	4
2009	3	4
2010	3	4
2011 - 2015	21	29

Prior to 2004, our Japanese pension plan had two distinct components: the corporate portion and the substitutional portion. The corporate portion, which the Company still maintains, is based on a plan established by Aflac Japan. The substitutional portion, which was transferred to the Japanese government in 2004, is based on the pay-related part of old-age pension benefits prescribed by the Japan Welfare Pension Insurance Law. In connection with the transfer, we recognized a pretax gain of $6 million (after-tax, $3 million, or $.01 per diluted share) in the first quarter of 2004. This gain was composed of a settlement loss and related increase in the accrued pension liability in the amount of $17 million for the release of unrecognized losses related to the substitutional plan; a reduction in pension expense and related adjustment to the accrued pension liability in the amount of $15 million for the release of the accrued pension cost related to the substitutional plan; and a subsidy from the Japanese government in the amount of $9 million (other income) in connection with the completion of the transfer process.

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

	2005		2004		2003	
(In millions)	**Japan**	**U.S.**	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	**$ 9**	**$ 7**	$ 5	$ 5	$ 9	$ 5
Interest cost	**3**	**8**	2	7	3	6
Expected return on plan assets	**(1)**	**(6)**	(1)	(5)	(1)	(5)
Amortization of net actuarial loss	**2**	**2**	4	2	3	1
Net periodic benefit cost	**$ 13**	**$ 11**	$ 10	$ 9	$ 14	$ 7
Weighted-average actuarial assumptions used in the calculations:						
Discount rate – net periodic benefit cost	**2.5%**	**6.0%**	2.5%	6.5%	2.5%	6.5%
Discount rate – benefit obligations	**2.5**	**5.5**	2.5	6.0	2.5	6.5
Expected long-term return on plan assets	**2.5**	**8.0**	2.5	9.0	2.5	9.0
Rate of compensation increase	**N/A***	**4.0**	3.5	4.0	3.5	4.0

*Not applicable

During 2005, the Japanese plan was amended. Subsequent to amendment, participant salary and future salary increases will no longer be a factor in determining pension benefit cost or the related pension benefit obligation and accumulated benefit obligation.

We base the long-term rate of return on U.S. plan assets on the historical rates of return over the last 15 years and the expectation of similar returns over the long-term investment goals and objectives of U.S. plan assets. We base the long-term rate of return on the Japanese plan assets on the historical rates of return over the last 10 years.

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. Retirement expense for these unfunded supplemental plans was $23 million in 2005, $35 million in 2004, and $21 million in 2003. The accrued retirement liability for the unfunded supplemental retirement plans was $224 million at December 31, 2005, compared with $223 million a year ago. The assumptions used in the valuation of these plans were the same as for the funded plans.

Stock Bonus Plan: Aflac U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of Aflac Incorporated common stock based on their new annualized premium sales and their first-year persistency of substantially all new insurance policies. The cost of this plan, which is included in deferred policy acquisition costs, amounted to $37 million in 2005, $35 million in 2004, and $32 million in 2003.

12. COMMITMENTS AND CONTINGENT LIABILITIES

We lease office space and equipment under various agreements that expire in various years through 2019. Future minimum lease payments due under non-cancelable operating leases at December 31, 2005, were as follows:

(In millions)	
2006	$ 35
2007	17
2008	13
2009	11
2010	10
Thereafter	54
Total future minimum lease payments	$140

In 2005, we announced a multi-year building project for additional office space in Columbus, Georgia. The initial phase is to be completed in 2007 and is expected to cost between $23 million and $25 million.

We have entered into an outsourcing agreement with IBM to provide mainframe computer operations and support for our Japanese operations. The agreement has a term of 10 years with an aggregate cost of ¥28.2 billion ($239 million using the December 31, 2005, exchange rate).

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

13. SUPPLEMENTARY INFORMATION

	2005	2004	2003
Supplemental disclosures of cash flow information (In millions):			
Income taxes paid	**$ 360**	$ 160	$ 333
Interest paid	**21**	22	18
Impairment losses included in realized investment losses	**–**	1	1
Noncash financing activities:			
Capitalized lease obligations	**4**	6	14
Treasury shares issued to AFL Stock Plan for:			
Associate stock bonus	**33**	32	31
Shareholder dividend reinvestment	**11**	10	8
Policy acquisition costs deferred during the year (In millions)	**$ 1,002**	$ 962	$ 874
Commissions deferred as a percentage of total acquisition costs deferred	**76%**	78%	76%
Personnel, compensation and benefits as a percentage of insurance expenses	**41**	43	46

Auditors' Report

Report of Independent Registered Public Accounting Firm

The shareholders and board of directors of Aflac Incorporated:

We have audited the accompanying consolidated balance sheets of Aflac Incorporated and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aflac Incorporated and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Aflac Incorporated's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2006, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

As discussed in notes 1 and 9 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, to account for stock options and other share-based transactions, effective January 1, 2005.

KPMG LLP

Atlanta, Georgia
February 28, 2006

Unaudited Consolidated Quarterly Financial Data

(In millions, except for per-share amounts)

Three months ended,	**March 31, 2005**	**June 30, 2005**	**September 30, 2005**	**December 31, 2005**
Premium Income	**$3,041**	**$3,020**	**$2,997**	**$2,931**
Net Investment Income	**514**	**518**	**522**	**517**
Realized investment gains (losses)	**3**	**11**	**140**	**108**
Other income (loss)	**1**	**18**	**10**	**11**
Total revenues	**3,559**	**3,567**	**3,669**	**3,567**
Total benefits and expenses	**3,053**	**3,051**	**3,024**	**3,008**
Earnings before income taxes	**506**	**516**	**645**	**559**
Total income tax	**178**	**180**	**190**	**195**
Net earnings	**$ 328**	**$ 336**	**$ 455**	**$ 364**
Net earnings per basic share	**$ .65**	**$ .67**	**$ .91**	**$ .73**
Net earnings per diluted share	**.64**	**.66**	**.90**	**.72**

Three months ended,	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Premium Income	$ 2,773	$ 2,768	$ 2,822	$ 2,939
Net Investment Income	474	484	491	509
Realized investment gains (losses)	6	(5)	(8)	(4)
Other income (loss)	27	(14)	16	4
Total revenues	3,280	3,233	3,321	3,448
Total benefits and expenses	2,814	2,820	2,870	3,006
Earnings before income taxes	466	413	451	442
Total income tax	162	155	158	32
Net earnings	$ 304	$ 258	$ 293	$ 410
Net earnings per basic share	$ .60	$ .51	$ .58	$ .81
Net earnings per diluted share	.59	.50	.57	.80

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.

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

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2005.

KPMG LLP, an independent registered public accounting firm, has issued an audit report on management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, as stated in their report, which is included herein.

Auditors' Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

The shareholders and board of directors of Aflac Incorporated:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Aflac Incorporated and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Aflac Incorporated maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Aflac Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aflac Incorporated and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2005, and our report dated February 28, 2006, expressed an unqualified opinion on those consolidated financial statements, with an explanatory paragraph as the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, to account for stock options and other share-based transactions, effective January 1, 2005.

KPMG LLP

Atlanta, Georgia
February 28, 2006