AFLAC INC
Form 10-K
February 29, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: 706.323.3431

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

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

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

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

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

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

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

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2007, was $24,641,178,453.

The number of shares of the registrant s Common Stock outstanding at February 22, 2008, with $.10 par value, was 474,754,948.

Documents Incorporated By Reference

Certain information contained in the Notice and Proxy Statement for the Company s Annual Meeting of Shareholders to be held on May 5, 2008, is incorporated by reference into Part III hereof.

Aflac Incorporated
Annual Report on Form 10-K
For the Year Ended December 31, 2007

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PART I

ITEM 1. BUSINESS.

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

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

General Description

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

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

We are authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. Aflac Japan accounted for 71% of the Company s total revenues in 2007, 72% in 2006 and 74% in 2005. The percentage of total assets attributable to Aflac Japan was 82% at both December 31, 2007 and 2006. For additional information, see Note 2 of the Notes to the Consolidated Financial Statements in this report.

Results of Operations

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

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Foreign Currency Translation

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

Insurance Premiums

The growth of earned premiums is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates. Consolidated earned premiums were $13.0 billion in 2007, $12.3 billion in 2006, and $12.0 billion in 2005. For additional information on the composition of earned premiums by segment, see Note 2 of the Notes to the Consolidated Financial Statements in this report. The following table presents the changes in annualized premiums in force for Aflac s insurance business for the years ended December 31.

(In millions)	**2007**	2006	2005
Annualized premiums in force, beginning of year	**$ 13,195**	$ 12,415	$ 12,604
New sales, including conversions	**2,532**	2,433	2,426
Change in unprocessed new sales	**(78)**	(56)	(67)
Premiums lapsed and surrendered	**(1,715)**	(1,589)	(1,483)
Other	**30**	79	58
Foreign currency translation adjustment	**406**	(87)	(1,123)
Annualized premiums in force, end of year	**$ 14,370**	$ 13,195	$ 12,415

Insurance - Japan

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

	In Dollars			In Yen		
(In millions of dollars and billions of yen)	**2007**	2006	2005	**2007**	2006	2005
Annualized premiums in force, beginning of year	**$ 9,094**	$ 8,705	$ 9,230	**1,083**	1,028	962
New sales, including conversions	**974**	1,010	1,167	**115**	117	129
Change in unprocessed new sales	**(78)**	(56)	(67)	**(9)**	(6)	(8)

Premiums lapsed and surrendered	**(472)**	(463)	(470)	**(56)**	(54)	(52)
Other	**(64)**	(15)	(32)	**(7)**	(2)	(3)
Foreign currency translation adjustment	**406**	(87)	(1,123)	-	-	-
Annualized premiums in force, end of year	**$ 9,860**	$ 9,094	$ 8,705	**1,126**	1,083	1,028

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

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Insurance - U.S.

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

(In millions)	**2007**	2006	2005
Annualized premiums in force, beginning of year	**$ 4,101**	$ 3,711	$ 3,374
New sales, including conversions	**1,558**	1,423	1,259
Premiums lapsed	**(1,243)**	(1,127)	(1,012)
Other	**94**	94	90
Annualized premiums in force, end of year	**$ 4,510**	$ 4,101	$ 3,711

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

Insurance Products - Japan

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

Aflac Japan s stand-alone medical product, EVER, offers a basic level of hospitalization coverage with an affordable premium. Since its initial introduction in 2002, we have expanded our suite of EVER product offerings. We added to our medical product portfolio in February 2007 with EVER Paid Up, a product that allows policyholders to choose to pay higher premium payments on the front end so they will be payment-free at either age 60 or 65. In August 2007, we introduced Gentle EVER, which helps consumers who may have a health condition that would exclude them from purchasing the other EVER products. We believe that there is an attractive market for this type of medical product in Japan. We also believe Gentle EVER will be an effective means for us to extend our reach to new consumers and further segment the medical market. We continue to believe that the entire medical category will remain an important part of our product portfolio in Japan.

The cancer life insurance plans we offer in Japan provide a lump-sum benefit upon initial diagnosis of internal cancer and a fixed daily benefit for hospitalization and outpatient services related to cancer as well as surgical, convalescent and terminal care benefits. These plans differ from Aflac U.S. cancer plans in that the Japanese policies may also provide death benefits and cash surrender values. In September 2007, we introduced a new product called Cancer Forte. This is the first major revision we have made to our cancer product since we introduced 21st Century Cancer in

2001. Responding to requests for enhanced outpatient coverage for cancer treatment, Cancer Forte pays outpatient benefits for 60 days, compared with 30 days for our previous plans. It also incorporates two new features. First, if a policyholder is diagnosed with cancer for the first time, we pay that policyholder an annuity from the second year through the fifth year after diagnosis. This is in addition to the traditional upfront first-occurrence benefit. The second new benefit is called Premier Support, where Aflac arranges for a third party to provide policyholders with counseling and doctor referral services upon their cancer diagnosis. In 2006, we designed a new cancer product for distribution by

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Dai-ichi Life that is customized for their market. In addition, our Rider MAX product provides accident and medical/sickness benefits as a rider to our cancer life policy.

The life products that we offer in Japan provide death benefits and cash surrender values. These products are available as stand-alone policies and riders. Some plans have features that allow policyholders to convert a portion of their life insurance to medical, nursing care, or fixed annuity benefits at a predetermined age.

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

Insurance Products - U.S.

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

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

Our U.S. cancer plans are designed to provide insurance benefits for medical and nonmedical costs that are not covered by major medical insurance. Benefits include a first-occurrence benefit that pays an initial amount when internal cancer is first diagnosed; a fixed amount for each day an insured is hospitalized for cancer treatment; fixed amounts for radiation, chemotherapy and surgery; and a wellness benefit applicable toward certain diagnostic tests. In August 2007, we introduced our newest cancer product, Maximum Difference^{SM}. This new cancer indemnity plan incorporates coverage for medical advances in cancer prevention, diagnosis, treatment and the many new ways cancer patients may now receive their care. Maximum Difference allows customization of coverage to fit varying needs and budgets.

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

Aflac U.S. offers a specified health event policy that gives consumers three benefit and premium levels from which they may select. One of the levels combines the specified health event policy with

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our intensive care plan. By leveraging administrative efficiencies, consumers can purchase the combined coverage for less than purchasing the policies separately.

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

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

Aflac U.S. offers Vision Now^{SM}, which provides benefits for serious eye health conditions and loss of sight. Vision Now includes coverage for corrective eye materials and exam benefits.

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

Distribution - Japan

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

The independent corporate agencies and individual agencies that sell our products give us better access to workers at the vast number of small businesses in Japan. Agents activities are primarily focused on insurance sales, with customer service support provided by the Aflac Contact Center. Independent corporate agencies and individual agencies contributed 56% of total new annualized premium sales in 2007, 58% in 2006 and 57% in 2005. Affiliated corporate agencies are formed when companies establish subsidiary businesses to sell our insurance products to their employees, suppliers and customers. These agencies help us reach employees at large worksites, including 89% of the companies listed on the Tokyo Stock Exchange. Affiliated corporate agencies contributed 36% of total new annualized premium sales in 2007, compared with 33% in 2006 and 35% in 2005. During 2007, we recruited approximately 3,200 new sales agencies. As of December 31, 2007, Aflac Japan was represented by more than 18,400 sales agencies with more than 100,800 licensed sales associates. We believe that new agencies will continue to be attracted to Aflac Japan s high commissions, superior products, customer service and strong brand image.

To improve the overall effectiveness of our sales force, we continued to employ New Associates Basic Training, which we launched in November 2006. This six-month training curriculum combines classroom and field training to improve agents face-to-face consultation skills, with particular emphasis on the direct market and small- to medium-sized companies. Our training is also continuing to steer affiliated agencies to replace passive, or pull sales tactics, like direct mailings and newspaper ads, with active, or push techniques that involve more follow-up calls and face-to-face sales consultations. By the end of 2007, we had trained approximately 3,300 newly recruited sales associates through this new training program.

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Aflac Service Shops encourage face-to-face sales techniques through convenient locations and knowledgeable sales associates. By the end of 2007, we had 604 Aflac Service Shops throughout Japan. To continue to enhance the level of service we offer, we began an e-learning system that is combined with a series of internal seminars aimed at providing a one-year training program to service shops. In addition to individual agencies and independent corporate agencies, affiliated corporate agencies have also seen the benefits and opened service shops.

We continued to reach consumers through our strategic marketing alliance with Dai-ichi Mutual Life Insurance Company (Dai-ichi Life). We believe our alliance has been one of the most successful partnerships in the insurance industry. In 2007, Dai-ichi Life sold approximately 244,000 of our market-leading cancer life policies, compared with 269,700 policies in 2006 and 277,700 policies in 2005, enabling Dai-ichi Life to retain its distinction as the number two seller of cancer insurance behind only Aflac.

We also spent 2007 preparing for new distribution opportunities, including sales through banks. Although we have sold our products to employees of banks since our entry into Japan in 1974, December 2007 marked the first time it was permissible for banks to sell third sector insurance products to their customers. We have been preparing for this new sales channel since 2004 and we believe we are well-positioned in the banking sector. By the end of January 2008, we had agreements with 41 banks to market Aflac s products through more than 3,300 branches nationwide.

Another distribution opportunity for Aflac was announced in November 2007 when Japan Post Network Co. selected Aflac Japan as the provider of cancer insurance to be sold through Japan s vast post office network. Japan Post Network Co. operates the 24,000 post offices located throughout Japan, providing a significant opportunity for us to reach new consumers.

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

Distribution - U.S.

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

We concentrate on marketing our products at the worksite. This method offers policies to individuals through employment, trade and other associations. This manner of marketing is distinct from the group insurance sales approach in that our policies are individually underwritten and premiums are generally paid by the employee. Additionally, Aflac policies are portable, meaning that individuals may retain their full insurance coverage upon separation from employment or such affiliation, generally at the same premium. We collect a major portion of premiums on such sales through payroll deduction or other forms of centralized billing. Worksite marketing enables a sales

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associate to reach a greater number of prospective policyholders and lowers distribution costs, compared with individually marketed business.

During the past several years, we have enhanced and increased the size of our distribution system. We recruited more than 24,200 new sales associates in 2007, which resulted in a 4.2% increase in licensed agents at the end of the year, compared with 2006. However, increasing our sales force means more than just recruiting people. Over the last two years, we have shifted our focus to growing the number of average weekly producers, which measures high-quality, consistent, capable producers who make solid, consistent contributions to sales. On a weekly basis, the average number of U.S. associates actively producing business rose 6.0% to more than 10,900 in 2007.

For new sales associates, we continued to implement the New Associate Training Cycle, which combines classroom instruction and online learning through *Aflac University*® with field training. The New Associate Training Cycle also includes LEASE training (Larger Earnings by Acquiring Smaller Employers), which helps new sales associates jumpstart their sales careers with an easily transferable guide for approaching smaller businesses.

In addition to training sales associates, we extended our training of both new and veteran sales force management. Sales associates who exhibit leadership potential are invited to participate in our national Coordinator in Training (CIT) program. The CIT program concentrates on developing potential leaders skills so they have a better chance to succeed as a district sales coordinator, the first level of Aflac s sales force management. For district and regional sales coordinators, we refined and expanded the use of coordinator accreditation programs. We also began developing an accreditation curriculum that will be rolled out in 2008 for state sales coordinators, our highest level of sales management. Like the accreditation for regional sales coordinators, this new program will emphasize the management of managers. We believe our efforts to increase the size and capability of our field force will translate into a higher proportion of successful producing sales associates in the future.

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

Competition - Japan

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

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Aflac has had substantial success selling cancer life policies in Japan, with 14 million cancer life policies in force as of December 31, 2007. We believe we will remain a leading provider of cancer life insurance coverage in Japan, principally due to our experience in the market, low-cost operations, unique marketing system (see Distribution - Japan above) and product expertise.

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

Competition - U.S.

Approximately 1,000 life insurance companies are licensed in the United States. We compete against several insurers on a national basis plus other insurers regionally. We believe our policies and premium rates, as well as the commissions paid to our sales associates, are competitive with those offered by other companies providing similar types of insurance. However, we believe our U.S. business is distinct from our competitors because of our product focus, distribution system, and brand awareness. For many of the other companies that sell supplemental insurance, it represents a secondary business. For us, it is our primary business. We also believe that our growing distribution system of independent sales associates expands our business opportunities, while our advertising campaigns have increased our name awareness and consumer understanding of our brand message.

Private insurers and voluntary and cooperative plans, such as Blue Cross and Blue Shield, provide insurance for hospitalization and medical expenses. Much of this insurance is sold on a group basis. The federal and state governments also pay substantial costs of medical treatment through various programs. Such major medical insurance generally covers a substantial amount of the medical expenses incurred by an insured as a result of accident and disability, cancer or other major illnesses. Aflac s policies are designed to provide coverage that supplements major medical insurance and may also be used to defray nonmedical expenses. Thus, we do not compete directly with major medical insurers. However, the scope of major medical coverage offered by other insurers does represent a potential limitation on the market for our products. Accordingly, expansion of coverage by other insurers or governmental programs could adversely affect our business opportunities. Conversely, any reduction of coverage, or increased deductibles and copayments, by other insurers or governmental programs could favorably affect our business opportunities.

Investments and Investment Results

Net investment income was $2.3 billion in 2007, $2.2 billion in 2006 and $2.1 billion in 2005. Growth of net investment income during the last three years has been impacted by the low level of investment yields for new money in both Japan and the United States. In particular, Japan s life insurance industry has contended with low investment yields for a number of years. Although the Bank of Japan ended its zero-interest-rate policy in 2006, market yields on long-duration fixed maturity securities which we primarily purchase in Japan did not increase measurably during the year.

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Investments - Japan

The following table presents the composition of total investments, at amortized cost, and cash for Aflac Japan ($47.8 billion in 2007 and $42.5 billion in 2006) as of December 31.

Composition of Securities by Sector

	2007	2006
Debt securities, at amortized cost:		
Banks/financial institutions	**44.7%**	44.6%
Government and guaranteed	**18.3**	19.8
Municipalities	**.1**	.1
Public utilities	**8.4**	8.0
Collateralized debt obligations	**.9**	.3
Sovereign and supranational	**8.3**	8.8
Mortgage- and asset-backed securities	**1.1**	.8
Other corporate	**17.4**	16.7
Total debt securities	**99.2**	99.1
Equity securities and other	**.1**	.1
Cash and cash equivalents	**.7**	.8
Total investments and cash	**100.0%**	100.0%

Yen-denominated debt securities accounted for 93% of Aflac Japan s total debt securities at both December 31, 2007 and 2006.

Funds available for investment include cash flows from operations, which include investment income, and funds generated from bond swaps, maturities and redemptions. Aflac Japan purchased debt security investments totaling approximately 699.1 billion yen in 2007 (approximately $6.0 billion), 687.9 billion yen in 2006 (approximately $5.9 billion), and 873.4 billion yen in 2005 (approximately $7.8 billion). Equity security purchases were immaterial during the three-year period ended December 31, 2007. The following table presents the composition of debt security purchases for the years ended December 31.

Composition of Purchases by Sector

	2007	2006	2005

Debt security purchases, at cost:			
Banks/financial institutions	**35.3%**	36.3%	46.8%
Government and guaranteed	**24.4**	23.6	43.9
Municipalities	**-**	.1	-
Public utilities	**8.6**	9.2	2.3
Collateralized debt obligations	**4.6**	2.5	-
Sovereign and supranational	**3.0**	8.9	.2
Mortgage- and asset-backed securities	**2.2**	3.5	.4
Other corporate	**21.9**	15.9	6.4
Total	**100.0%**	100.0%	100.0%

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

Composition of Purchases by Credit Rating

	2007	2006	2005
AAA	**18.0%**	9.7%	1.7%
AA	**48.5**	53.7	50.1
A	**29.6**	33.4	43.6
BBB	**3.9**	3.2	4.6
Total	**100.0%**	100.0%	100.0%

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

Composition by Credit Rating

	December 31, 2007		December 31, 2006	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**5.3%**	5.3%	4.8%	4.8%
AA	**48.2**	49.5	37.9	39.0
A	**28.7**	28.2	38.0	37.6
BBB	**15.9**	15.5	16.6	16.4
BB or lower	**1.9**	1.5	2.7	2.2
Total	**100.0%**	100.0%	100.0%	100.0%

The increase in Aflac Japan s holding of AAA and AA rated holdings compared with December 31, 2006, resulted from purchases and credit rating upgrades by rating agencies; the offset was a corresponding decrease in the A rated holdings. The decline in BB or lower rated securities resulted from credit rating upgrades.

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Investments - U.S.

The following table presents the composition of total investments, at amortized cost, and cash for Aflac U.S. ($7.2 billion in 2007 and $7.1 billion in 2006) as of December 31.

Composition of Securities by Sector

	2007	2006
Debt securities, at amortized cost:		
Banks/financial institutions	**39.6%**	44.0%
Government and guaranteed	**3.9**	4.8
Municipalities	**1.1**	.8
Public utilities	**9.2**	9.4
Collateralized debt obligations	**.9**	.2
Sovereign and supranational	**3.7**	3.3
Mortgage- and asset-backed securities	**3.9**	3.2
Other corporate	**35.4**	29.6
Total debt securities	**97.7**	95.3
Cash and cash equivalents	**2.3**	4.7
Total investments and cash	**100.0%**	100.0%

Funds available for investment include cash flows from operations, which include investment income, and funds generated from bond swaps, maturities and redemptions. Aflac U.S. purchased debt security investments totaling approximately $1.0 billion in 2007, and $1.2 billion in both 2006 and 2005. The following table presents the composition of debt security purchases for the years ended December 31.

Composition of Purchases by Sector

	2007	2006	2005
Debt security purchases, at cost:			
Banks/financial institutions	**18.8%**	54.9%	36.0%
Government and guaranteed	**1.0**	6.5	14.1
Municipalities	**2.5**	2.5	.1
Public utilities	**3.1**	4.6	3.9
Collateralized debt obligations	**5.0**	.8	-

Sovereign and supranational	**2.9**	-	2.4
Mortgage- and asset-backed securities	**12.8**	5.4	9.9
Other corporate	**53.9**	25.3	33.6
Total	**100.0%**	100.0%	100.0%

The change in the allocation of purchases by sector from year to year is based on diversification objectives, relative value and availability of investment opportunities.

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

Composition of Purchases by Credit Rating

	2007	2006	2005
AAA	**20.5%**	15.1%	33.8%
AA	**18.7**	26.1	17.4
A	**33.2**	42.9	37.4
BBB	**27.6**	15.9	11.4
Total	**100.0%**	100.0%	100.0%

The increase in purchases of BBB rated securities in 2007 was due to widening credit spreads during the year. As a result, in 2007 we purchased selected BBB rated securities that offered greater relative investment value.

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

Composition by Credit Rating

	December 31, 2007		December 31, 2006	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**13.0%**	**12.4%**	11.8%	10.9%
AA	**17.6**	**17.7**	17.0	17.0
A	**44.3**	**44.6**	47.5	48.2
BBB	**23.5**	**23.9**	21.6	22.0
BB or lower	**1.6**	**1.4**	2.1	1.9
Total	**100.0%**	**100.0%**	100.0%	100.0%

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

Regulation - Japan

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

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

(In millions)	**2007**	2006
Aflac Japan net assets on GAAP basis	**$ 6,044**	$ 5,740
Elimination of deferred policy acquisition costs	**(4,269)**	(3,857)
Adjustment to income tax liabilities	**1,993**	1,746
Adjustment to policy liabilities	**(839)**	(239)
Adjustment of unrealized gains and other adjustments to carrying value of debt securities	**(184)**	(532)
Elimination of policyholder protection corporation liability	**151**	175
Reduction in premiums receivable	**(93)**	(91)
Other, net	**(349)**	(331)
Aflac Japan net assets on Japanese regulatory accounting basis	**$ 2,454**	$ 2,611

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

At the end of 2006, Aflac Japan, along with the entire life insurance industry, began a review of the last five years of paid claims to determine if those claims were paid fully and accurately. In April 2007, Aflac Japan reported the findings of its review to the FSA. In October 2007, the insurance industry updated its data for underpaid claims. The updated data for the industry included an increase in the number of cases and yen amount of underpayment compared to the data that was first reported in April, primarily a result of a type of underpayment where companies did not notify policyholders of their potential eligibility for additional benefit payments which the policyholders did not claim in their original filings. Our initial estimate for that type of underpayment was fairly accurate and the number of cases was very small. In the fourth quarter we reported 26,700 cases of delayed interest payments on cash surrender values, which on average was 75 yen per case (approximately $.66 per case using the December 31, 2007, period-end exchange rate). In total for the five-year period, we reported 1.9 billion yen (approximately $16.8 million using the

December 31, 2007, exchange rate) of underpaid claims in April, and we revised the amount to 2.1 billion yen (approximately $18.4 million using the December 31, 2007 exchange rate) in October. We are using this review to identify process changes that will help ensure that payment errors such as these are not repeated. The financial impact of paying the claims that were in error was immaterial to our operations and has been provided for in our 2007 and 2006 financial statements as applicable.

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

In October 2005, legislation aimed at privatizing Japan s postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four entities that began operating in October 2007. The four entities are Japan Post Service Co., Ltd.; Japan Post Network Co., Ltd.; Japan Post Bank Co., Ltd.; and Japan Post Insurance Co., Ltd. The entire privatization process is scheduled to be completed by October 2017. In addition to the normal FSA approval process, the law requires that new product offerings by the Japan Post financial entities must undergo a special review by Japan s Postal Privatization Committee and approval by Japan s Prime Minister and the Minister for Internal Affairs and Communications. In November 2007, Japan Post Network Co. selected Aflac Japan as its provider of cancer insurance and coordinator of administrative support for third sector products. Japan Post Network Co. operates the 24,000 post offices located throughout Japan. Japan Post has not yet established a specific time frame for sales to commence. Being selected as the administrative support coordinator for third sector products means that Aflac will work with Japan Post Network Co. on creating new infrastructure for not only Aflac s product(s), but all third sector products, including such functions as administrative workflow, IT systems, and logistics for delivering sales materials. The infrastructure will deal with a wide range of issues such as acceptance of policy application and maintenance forms, payment of premiums, and providing Japan Post Network Co. with data on performance of every post office and employee, including new policies sold and policies in force.

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

Regulation - U.S.

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

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

- granting and revoking licenses to transact business
- regulating trade practices
- licensing of agents
- approval of policy forms and premium rates
- standards of solvency and maintenance of specified policy benefit reserves and minimum loss ratio requirements
- capital requirements

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- limitations on dividends to shareholders
- the nature of and limitations on investments
- deposits of securities for the benefit of policyholders
- filing of financial statements prepared in accordance with statutory insurance accounting practices prescribed or permitted by regulatory authorities
- periodic examinations of the market conduct, financial, and other affairs of insurance companies

Additionally, the National Association of Insurance Commissioners (NAIC) continually reviews regulatory matters and recommends changes and revisions for adoption by state legislators and insurance departments.

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

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

Employees

As of December 31, 2007, Aflac Japan had 3,704 employees and Aflac U.S. had 4,344 employees. We consider our employee relations to be excellent.

Other Operations

Our other operations include the Parent Company and a printing subsidiary. These operations had 310 employees as of December 31, 2007. We consider our relations with these employees to be excellent. For additional information on our other operations, see the Other Operations section of MD&A.

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ITEM 1A. RISK FACTORS.

Risk Factors

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

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

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

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

Our operations in Japan accounted for 71%, 72%, and 74% of our total revenues for 2007, 2006, and 2005, respectively, and 82% of our total assets at both December 31, 2007 and 2006. As a result, weakness in Japan s economy could adversely affect our business. The weak economy in Japan that emerged in the early 1990s resulted in a challenging marketing environment for Aflac Japan, with declining available investment yields for new investments and decreased consumer confidence. Although the Japanese economy has been growing in recent years, the ability to sustain such expansion remains uncertain.

Japanese currency translation risk could materially impact reported operating results.

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

Aflac Japan s premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not

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actually convert yen into dollars. As a result, we view foreign currency translation as a financial reporting issue for Aflac and not an economic event to our Company or shareholders.

General market conditions affect investments and investment income.

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

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

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

We attempt to match the duration of our assets with the duration of our liabilities. At December 31, 2007, the average duration of Aflac Japan s policy liabilities was approximately 14 years and the average duration of its yen-denominated debt securities was approximately 13 years. When our debt securities mature, there is a risk that the proceeds will be reinvested at a yield below that of the interest required for the accretion of policy liabilities. If this occurs, Aflac Japan s business would be adversely affected.

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

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

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

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

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Our operating subsidiaries provide cash flow to the Parent Company.

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

Extensive regulation can impact profitability and growth.

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

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

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

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- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies
- administrative practices requirements
- imposition of fines and other sanctions

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

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

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

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

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

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

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

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

We face risks related to litigation.

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

Managing key executive succession is critical to our success.

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

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as our worldwide headquarters and house administrative support functions for our U.S. operations. Aflac also leases administrative office space in Georgia, New York, and Nebraska. In 2005, we announced a multiyear building project for additional office space in Columbus, Georgia. The initial phase was completed in 2007 and provides additional space for administrative support functions. The next phase of the expansion, to be completed in 2009, will house our Information Technology group.

In Tokyo, Japan, Aflac has two primary campuses. The first campus includes a building, owned by Aflac, for the customer call center, Information Technology departments, and training facility. It also includes a leased property, which houses our policy administration and customer service departments. The second campus comprises leased space, which serves as our Japan branch headquarters and houses administrative support functions for the Japan branch. Aflac also leases additional office space in Tokyo, along with regional offices located throughout the country.

ITEM 3. LEGAL PROCEEDINGS.

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

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

There were no matters submitted to the security holders for a vote during the quarter ended December 31, 2007.

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Executive Officers of the Registrant

NAME	PRINCIPAL OCCUPATION*	AGE
Daniel P. Amos	Chairman, Aflac Incorporated and Aflac; Chief Executive Officer, Aflac Incorporated and Aflac; President, Aflac until January 2007	56
Paul S. Amos II	President, Aflac, since January 2007; Chief Operating Officer, U.S. Operations, Aflac, since February 2006; Executive Vice President, U.S. Operations, Aflac, from January 2005 until January 2007; State Sales Coordinator- Georgia North until December 2004	32
Yuji Arai	Senior Vice President and Principal Financial Officer, Aflac Japan, since January 2005; Vice President, Financial Division, Aflac Japan, from January 2002 until January 2005; Vice President, Investments and Investment Analysis, Aflac Japan, until January 2005	45
Susan R. Blanck	Senior Vice President, Corporate Actuary, Aflac, since January 2006; Senior Vice President, Deputy Corporate Actuary, Aflac, from March 2004 until January 2006; Vice President, Associate Actuary, Aflac, until March 2004	41
Kriss Cloninger III	President, Aflac Incorporated; Chief Financial Officer, Aflac Incorporated and Aflac; Treasurer, Aflac Incorporated; Executive Vice President, Aflac	60
Rebecca C. Davis	Executive Vice President, Chief Administrative Officer, Aflac, since October 2004; Senior Vice President, Chief Administrative Officer, Aflac, until October 2004	57
Martin A. Durant III	Senior Vice President, Corporate Finance, Aflac Incorporated, since July 2006; Senior Vice President, Treasurer and Chief Financial Officer, Carmike Cinemas, Inc., until March 2006	59
Jun Isonaka	Senior Vice President, Sales, Aflac Japan, since December 2006; Vice President, Contact Center, Aflac Japan, from January 2006 to January 2007; Vice President, Territory Director, Northeast Territory, Aflac Japan, from January 2005 to January 2006; Vice President, Customer Service Division, Information Division and Operation Division, Aflac Japan, until January 2005	50
Kenneth S. Janke Jr.	Senior Vice President, Investor Relations, Aflac Incorporated	49
W. Jeremy Jeffery	Senior Vice President, Chief Investment Officer, Aflac, since January 2007; Senior Vice President, Deputy Chief Investment Officer, Aflac, from October 2005 until January 2007; Executive Director, Morgan Stanley, until October 2005	57

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NAME	PRINCIPAL OCCUPATION*	AGE
Akitoshi Kan	Chairman, Aflac Japan, since July 2007; President, Aflac Japan, from April 2005 until July 2007; Chairman, Aflac International, Inc., since January 2005; Chief Operating Officer, Aflac Japan, from January 2005 until July 2007; Executive Vice President, U.S. Internal Operations, Aflac, until January 2005	59
Ronald E. Kirkland	Senior Vice President, Director of Sales, Aflac, since January 2005; Vice President, West Territory Director, Aflac, from October 2004 until January 2005; State Sales Coordinator- Missouri, Aflac, until October 2004	63
Charles D. Lake II	Vice Chairman, Aflac Japan, since April 2005; President, Aflac Japan, from January 2003 until April 2005	46
Joey M. Loudermilk	Executive Vice President, General Counsel and Corporate Secretary, Aflac Incorporated and Aflac; Director, Legal and Governmental Relations, Aflac	54
Hidefumi Matsui	Chairman, Aflac Japan, until July 2007	63
Takaaki Matsumoto	First Senior Vice President, Director of Marketing and Sales, Aflac Japan, since January 2007; Senior Vice President, Director of Marketing, Aflac Japan, from February 2006 to January 2007; Vice President, Aflac Japan, from January 2005 to February 2006; General Manager, East Japan Claims Department, Aflac Japan, until January 2005	59
Ralph A. Rogers Jr.	Senior Vice President, Financial Services, Aflac Incorporated and Aflac; Chief Accounting Officer, Aflac Incorporated and Aflac; Treasurer, Aflac	59
Audrey Tillman	Executive Vice President, Director of Corporate Services, Aflac Incorporated, since January 2008; Senior Vice President, Director of Corporate Services, Aflac Incorporated, from October 2006 until January 2008; Senior Vice President, Director of Human Resources, Aflac Incorporated, until October 2006	43
Tohru Tonoike	President and Chief Operating Officer, Aflac Japan, since July 2007; Deputy President, Aflac Japan, from February 2007 until July 2007; President and Representative Director, The Dai-ichi Kangyo Asset Management Co., Ltd., from April 2005 until February 2007; Advisor, Dai- ichi Kangyo Asset Management Co., Ltd., from April 2005 until May 2005; Managing Executive Officer, Mizuho Corporate Bank Ltd., from April 2004 until April 2005; Executive Officer, Mizuho Corporate Bank Ltd., from April 2002 until April 2004	57

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NAME	PRINCIPAL OCCUPATION*	AGE
Teresa White	Senior Vice President and Deputy Chief Administrative Officer, Aflac Incorporated, since March 2007; Senior Vice President, Sales Support and Administration, Aflac, from October 2004 until March 2007; Vice President, Client Services, Aflac, until October 2004	41
Hiroshi Yamauchi	First Senior Vice President and Chief Administrative Officer, Aflac Japan, since January 2005; First Senior Vice President, Director of Operations, Aflac Japan, from January 2004 until January 2005; First Senior Vice President, Director of Operations and Customer Service Division, Aflac Japan, from January 2003 until January 2004	56

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

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PART II

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

Market Information

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

Quarterly Common Stock Prices

2007	**High**	**Low**
4th Quarter	**$ 63.91**	**$ 55.77**
3rd Quarter	**57.44**	**50.19**
2nd Quarter	**54.00**	**47.00**
1st Quarter	**49.37**	**45.18**

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

Holders

As of February 22, 2008, there were approximately 80,697 holders of record of the Company s common stock.

Dividends Paid

	2007	2006

4th Quarter	**$ .205**	$ .16
3rd Quarter	**.205**	.13
2nd Quarter	**.205**	.13
1st Quarter	**.185**	.13

In January 2008, the board of directors declared the first quarter 2008 cash dividend of $.24 per share. The dividend is payable on March 3, 2008, to shareholders of record at the close of business on February 20, 2008. We expect comparable dividends to continue to be paid in future periods. For information concerning dividend restrictions, see the Capital Resources and Liquidity section of the MD&A and Note 11 of the Notes to the Consolidated Financial Statements presented in this report.

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Stock Performance Graph

The following graph compares the five-year performance of the Company s common stock to the Standard & Poor s 500 Index (S&P 500) and the Standard & Poor s Life and Health Insurance Index (S&P Life and Health). The Standard & Poor s Life and Health Insurance Index includes: Aflac Incorporated, Lincoln National Corporation, MetLife Inc., Principal Financial Group Inc., Prudential Financial Inc., Torchmark Corporation and Unum Group.

Performance Graph Index
December 31,

	2002	2003	2004	2005	2006	2007
Aflac Incorporated	100.00	121.22	134.79	158.69	159.16	220.02
S&P 500	100.00	128.68	142.69	149.70	173.34	182.87
S&P Life & Health Insurance	100.00	127.09	155.24	190.18	221.59	245.97

www.researchdatagroup.com/S&P.htm

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Issuer Purchases of Equity Securities

During the fourth quarter of 2007, we repurchased shares of Aflac stock as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31	308,033	$ 62.07	308,033	27,274,430
November 1 - November 30	1,703,510	60.57	1,703,510	25,570,920
December 1 - December 31	-	-	-	25,570,920
Total	2,011,543	$ 60.80	2,011,543	25,570,920

The 25,570,920 shares available for purchase relate to a 30,000,000 share repurchase authorization by the Board of Directors and announced in February 2006. In January 2008, the Board authorized the purchase of an additional 30,000,000 shares of our common stock.

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ITEM 6. SELECTED FINANCIAL DATA.

Aflac Incorporated and Subsidiaries
Years Ended December 31,

(In millions, except for share and per-share amounts)	**2007**	2006	2005	2004	2003
Revenues:					
Premiums, principally supplemental health insurance	**$ 12,973**	$ 12,314	$ 11,990	$ 11,302	$ 9,921
Net investment income	**2,333**	2,171	2,071	1,957	1,787
Realized investment gains (losses)	**28**	79	262	(12)	(301)
Other income	**59**	52	40	34	40
Total revenues	**15,393**	14,616	14,363	13,281	11,447
Benefits and expenses:					
Benefits and claims	**9,285**	9,016	8,890	8,482	7,529
Expenses	**3,609**	3,336	3,247	3,026	2,720
Total benefits and expenses	**12,894**	12,352	12,137	11,508	10,249
Pretax earnings	**2,499**	2,264	2,226	1,773	1,198
Income taxes	**865**	781	743	507	430
Net earnings	**$ 1,634**	$ 1,483	$ 1,483(1)	$ 1,266(2)	$ 768

Share and Per-Share Amounts

Net earnings (basic)	**$ 3.35**	$ 2.99	$ 2.96(1)	$ 2.49(2)	$ 1.50
Net earnings (diluted)	**3.31**	2.95	2.92(1)	2.45(2)	1.47
Cash dividends paid	**.80**	.55	.44	.38	.30
Cash dividends declared	**.615**	.735	.44	.38	.30
Weighted-average common shares used for basic EPS (In thousands)	**487,869**	495,614	500,939	507,333	513,220
Weighted-average common shares used for diluted EPS (In thousands)	**493,971**	501,827	507,704	516,421	522,138

Supplemental Data

Yen/dollar exchange rate at year-end (yen)	**114.15**	119.11	118.07	104.21	107.13
Weighted-average yen/dollar exchange rate (yen)	**117.93**	116.31	109.88	108.26	115.95

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

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

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Aflac Incorporated and Subsidiaries
December 31,

(In millions)	**2007**	2006	2005	2004	2003
Assets:					
Investments and cash	**$ 57,056**	$ 51,972	$ 48,989	$ 51,955	$ 44,050
Other	**8,749**	7,833	7,372	7,371	6,914
Total assets	**$ 65,805**	$ 59,805	$ 56,361	$ 59,326	$ 50,964
Liabilities and shareholders equity:					
Policy liabilities	**$ 50,676**	$ 45,440	$ 42,329	$ 43,556	$ 39,240
Notes payable	**1,465**	1,426	1,395	1,429	1,409
Income taxes	**2,531**	2,462	2,577	2,445	2,187
Other liabilities	**2,338**	2,136	2,133	4,320	1,480
Shareholders equity	**8,795**	8,341	7,927	7,576	6,648
Total liabilities and shareholders equity	**$ 65,805**	$ 59,805	$ 56,361	$ 59,326	$ 50,964

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

FORWARD-LOOKING INFORMATION

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

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

- legislative and regulatory developments, including changes to health care and health insurance delivery
- assessments for insurance company insolvencies
- competitive conditions in the United States and Japan
- new product development and customer response to new products and new marketing initiatives
- ability to attract and retain qualified sales associates and employees
- ability to repatriate profits from Japan
- changes in U.S. and/or Japanese tax laws or accounting requirements
- credit and other risks associated with Aflac s investment activities
- significant changes in investment yield rates
- fluctuations in foreign currency exchange rates
- deviations in actual experience from pricing and reserving assumptions including, but not limited to, morbidity, mortality, persistency, expenses and investment yields
- level and outcome of litigation
- downgrades in the Company s credit rating
- changes in rating agency policies or practices
- subsidiary s ability to pay dividends to the Parent Company
- ineffectiveness of hedging strategies
- catastrophic events
- general economic conditions in the United States and Japan, including increased uncertainty in the U.S. and international financial markets

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COMPANY OVERVIEW

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-year period ended December 31, 2007. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes.

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

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac s results of operations and financial condition are those related to investments, deferred policy acquisition costs and policy liabilities. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management s analyses and judgments. The application of these critical accounting estimates determines the values at which 94% of our assets and 84% of our liabilities are reported and thus have a direct effect on net earnings and shareholders equity. Subsequent experience or use of other assumptions could produce significantly different results.

Investments

Aflac s investments in debt and equity securities include both publicly issued and privately issued securities. For privately issued securities, we receive pricing data from external sources that take into account each security s credit quality and liquidity characteristics. We also routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with SEC Staff Accounting Bulletin No. 59, Accounting for Non-Current Marketable Equity Securities; Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities; Financial Accounting Standards Board (FASB) Staff Position 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and related guidance. The identification of distressed investments,

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the determination of fair value if not publicly traded, and the assessment of whether a decline is other than temporary involve significant management judgment and require evaluation of factors, including but not limited to:

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

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

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Deferred Policy Acquisition Cost Ratios

	Aflac Japan			Aflac U.S.		
(In millions)	**2007**	2006	2005	**2007**	2006	2005
Deferred policy acquisition costs	**$ 4,269**	$ 3,857	$ 3,624	**$ 2,385**	$ 2,168	$ 1,966
Annualized premiums in force	**9,860**	9,094	8,705	**4,510**	4,101	3,711
Deferred policy acquisition costs as a percentage of annualized premiums in force	**43.3%**	42.4%	41.6%	**52.9%**	52.9%	53.0%

Policy Liabilities

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

Policy Liabilities

(In millions)	**2007**	2006
U.S. segment:		
Future policy benefits	**$ 4,958**	$ 4,391
Unpaid policy claims	**856**	816
Other policy liabilities	**165**	158
Total U.S. policy liabilities	**$ 5,979**	$ 5,365
Japan segment:		
Future policy benefits	**$ 40,715**	$ 36,447
Unpaid policy claims	**1,599**	1,574
Other policy liabilities	**2,380**	2,051
Total Japan policy liabilities	**$ 44,694**	$ 40,072

Consolidated:		
Future policy benefits	**$ 45,675**	$ 40,841
Unpaid policy claims	**2,455**	2,390
Other policy liabilities	**2,546**	2,209
Total consolidated policy liabilities	**$ 50,676**	$ 45,440

Our policy liabilities, which are determined in accordance with SFAS No. 60 and Actuarial Standards of Practice, include two primary components: future policy benefits and unpaid policy claims, which accounted for 90% and 5% of total policy liabilities as of December 31, 2007, respectively.

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

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the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

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

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

As a part of our established financial reporting and accounting practices and controls, we perform actuarial reviews of our policyholder liabilities on an ongoing basis and reflect the results of those reviews in our results of operations and financial condition as required by GAAP.

Our fourth quarter 2007 review indicated that we needed to strengthen the liability for two closed blocks of business, primarily due to better-than-expected persistency. In Japan, we strengthened our future policy benefits liability by $18 million for a closed block of dementia policies. In the United States, we strengthened our future policy benefits liability by $8 million for a closed block of small-face-amount life insurance coverage.

Our 2006 analysis of recent cancer claims experience indicated that the overall duration of cancer outpatient treatments had lengthened. Because our reserving methods are designed to fully accrue each cancer outpatient treatment as of the date of initial treatment, we increased our estimate of the Aflac U.S. unpaid policy claims liability by $28 million in December 2006. This change in estimate was reflected in 2006 earnings. If we had been using the new claims factors to produce our claim liability estimates at the end of 2005, the increase for 2006 would have been $9 million.

In 2006, our review also indicated that our policyholder liabilities were fairly stated in the aggregate; however, the components of policyholder liabilities (the unpaid policy claims liability and the future policy benefits liability) needed to be refined. As a result of our review, we took the actions described below.

During the fourth quarter of 2006, we transferred $170 million of the Aflac U.S. unpaid policy claims liability to the future policy benefits liability for our accident/disability, short-term disability, dental and specified health event lines of business.

For the accident/disability line of business, a very small portion of the benefits in one of our policy forms required a future policy benefits liability to be accumulated. This amount was insignificant to our financial position in any year. However, to provide for this obligation, we approximated this liability

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amount as part of the unpaid policy claims liability. We determined that it was appropriate to modify our calculation method to determine the future policy benefits liability for that benefit separately from our unpaid policy claims liability and to move this liability of $25 million into the future policy benefits liability.

For one of our short-term disability policy forms, we determined that a selection factor assumption that should have applied to the future claim costs was not reflected in the calculation of the future policy benefits liability. We began using the calculation including the selection factor in the fourth quarter of 2006. We use a total liability approach to determine the unpaid policy claims liability for that line of business. For this reason, the underestimated amount of the future policy benefits liability, approximately $50 million, was accounted for in prior periods in the unpaid policy claims liability. As a result, we transferred $50 million from the unpaid policy claims liability into the future policy benefits liability for that line of business.

For our dental and specified health event product lines, both of which are recently introduced product lines with limited actual claims experience, we refined the reserving methodology. For this reason, we had determined our policy liabilities for these two product lines using a total liability approach. This approach utilized expectations of claims costs and impact of underwriting based largely on the product pricing assumptions. As we developed experience on the dental and specified health event product lines, we modified our assumptions as to the impact of underwriting selection. Our experience has shown that the underwriting selection impact is greater than we had anticipated in our original pricing. In addition, for our dental plan, we also modified our assumption of the impact of various benefit waiting periods for that plan to reflect the larger-than-anticipated impact of the waiting periods. Both of these changes in assumptions resulted in 2006 claims being lower than anticipated in the original pricing assumptions for these two products. Thus, our unpaid claims liability was lower than we originally estimated. However, our analysis also showed that the future claim cost curve would be steeper than we originally anticipated. Thus, we expected more future claims than we previously estimated and increased our liability for future policy benefits accordingly. For this reason, in the fourth quarter of 2006, we modified our methodology to use a combination of claim cost expectations and claim completion factors to calculate the unpaid policy claims liability for these two product lines. As a result, the modification in methodology resulted in a transfer from the unpaid policy claims liability of approximately $95 million to the future policy benefits liability.

Also during the fourth quarter of 2006, we transferred $85 million from Aflac Japan s unpaid policy claims liability to its future policy benefits liability. This transfer primarily related to a continued decline in current period claims caused by changes to health care delivery in Japan and had no effect on net earnings. Our 2006 claims review indicated that we have experienced a continued decline in the average number of in-hospital days associated with cancer treatment periods in Japan. We believe the average number of days per hospital visit declined primarily due to changes in financial incentives provided to hospitals by the government-sponsored health care system in Japan to shorten the average hospital stay. However, our claims statistics also indicated that the declines in the average number of days per hospitalization have generally been offset by an increase in the frequency of future hospitalizations associated with the treatment of cancer. As a result, we reflected the increased number of future hospitalizations per claimant in our future policy benefit liability. More hospitalizations per claimant will result in a larger amount of expected future claims and an increase in our liability for future policy benefits. Meanwhile, we are paying less for current period claims, and therefore have a smaller unpaid claims liability.

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In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2007, to changes in severity and frequency of claims. For the years 2005 through 2007, and before the effect of the fourth quarter 2006 adjustments noted above, our assumptions changed on average by approximately 1% in total, and we believe that a variation in assumptions in a range of plus or minus 1% in total is reasonably likely to occur.

Sensitivity of Unpaid Policy Claims Liability

(In millions)			**Total Severity**		
Total Frequency	Decrease by 2%	Decrease by 1%	Unchanged	Increase by 1%	Increase by 2%
Increase by 2%	$ -	$ 16	$ 32	$ 49	$ 66
Increase by 1%	(16)	-	16	33	49
Unchanged	(32)	(16)	-	16	32
Decrease by 1%	(48)	(32)	(16)	-	16
Decrease by 2%	(63)	(48)	(32)	(16)	-

The growth of the future policy benefits liability is the result of the aging of our in-force block of business and the addition of new business. In addition, the growth in 2006 was moderately impacted by the previously discussed transfer of $170 million at Aflac U.S. and $85 million at Aflac Japan from the unpaid policy claims liability to the future policy benefits liability. These two transfers accounted for less than 1% of the increase in the aggregate. The table below reflects the growth of future policy benefits liability for the years ended December 31.

Future Policy Benefits

(In millions of dollars and billions of yen)	**2007**	2006	2005
Aflac U.S.	**$ 4,958**	$ 4,391	$ 3,780
Growth rate	**12.9%**	16.2%	12.7%
Aflac Japan	**$ 40,715**	$ 36,447	$ 34,071
Growth rate	**11.7%**	7.0%	(5.4)%

Consolidated	**$ 45,675**	$ 40,841	$ 37,853
Growth rate	**11.8%**	7.9%	(3.8)%
Yen/dollar exchange rate (end of period)	**114.15**	119.11	118.07
Aflac Japan (in yen)	**4,648**	4,341	4,023
Growth rate	**7.1%**	7.9%	7.2%

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New Accounting Pronouncements

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

RESULTS OF OPERATIONS

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

Items Impacting Net Earnings

	In Millions			Per Diluted Share		
	2007	2006	2005	**2007**	2006	2005
Net earnings	**$ 1,634**	$ 1,483	$ 1,483	**$ 3.31**	$ 2.95	$ 2.92
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	**19**	51	167	**.04**	.10	.33
Impact from SFAS 133	**2**	-	(10)	-	-	(.02)
Release of valuation allowance on deferred tax assets	-	-	34	-	-	.07

Realized Investment Gains and Losses

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

In 2007, we realized pretax gains of $28 million (after-tax, $19 million, or $.04 per diluted share) primarily as a result of securities sold or redeemed in the normal course of business. In 2006, we realized pretax gains of $79 million (after-tax, $51 million, or $.10 per diluted share) primarily as a result of bond swaps and the liquidation of equity securities held by Aflac U.S. In 2005, we realized pretax gains of $262 million (after-tax, $167 million, or $.33 per diluted share) primarily as a result of bond swaps. We began our bond-swap program in the second half of 2005 and concluded it in the first half of 2006. These bond swaps took advantage of tax loss carryforwards and also resulted in an improvement in overall portfolio credit quality and investment income.

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior notes, which mature in 2009, into a yen-denominated obligation (see Notes 4 and 7 of the

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

We have also issued yen-denominated Samurai and Uridashi notes. We have designated these notes as a hedge of our investment in Aflac Japan. If the value of these yen-denominated notes and the notional amounts of the cross-currency swaps exceed our investment in Aflac Japan, we would be required to recognize the foreign currency effect on the excess, or ineffective portion, in net earnings. The ineffective portion would be included in the impact from SFAS 133. These hedges were effective during the three-year period ended December 31, 2007; therefore, there was no impact on net earnings.

We have entered into interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes and have designated the swap agreements as a hedge of the variability of the debt cash flows. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes, and the swaps had no value at inception. SFAS 133 requires that the change in the fair value of the swap contracts be recorded in other comprehensive income so long as the hedge is deemed effective. Any ineffectiveness would be recognized in net earnings (other income) and would be included in the impact from SFAS 133. These hedges were effective during the years ended December 31, 2007 and 2006; therefore, there was no impact on net earnings. See Notes 1, 4 and 7 of the Notes to the Consolidated Financial Statements for additional information.

Nonrecurring Items

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

Foreign Currency Translation

Aflac Japan s premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate Aflac Japan s yen-denominated

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income statement into dollars using an average exchange rate for the reporting period, and we translate its yen-denominated balance sheet using the exchange rate at the end of the period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

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

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 34.6% in 2007, 34.5% in 2006, and 33.4% in 2005. Total income taxes were $865 million in 2007, compared with $781 million in 2006 and $743 million in 2005. Japanese income taxes on Aflac Japan s results account for most of our consolidated income tax expense. Our 2005 income tax rate was lower than normal primarily as a result of the release of the valuation allowance for non-life losses discussed previously. See Note 8 of the Notes to the Consolidated Financial Statements for additional information.

Earnings Guidance

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

Subject to the preceding assumptions, our objective for 2007 was to increase net earnings per diluted share by 15% to 16% over 2006. We reported 2007 net earnings per diluted share of $3.31. Adjusting that number for realized investment gains ($.04 per diluted share), the impact from SFAS 133 (nil per diluted share) and foreign currency translation (a loss of $.02 per diluted share), we met our objective for the year.

Our objective for 2008 is to increase net earnings per diluted share by 13% to 15% over 2007, on the basis described above. If we achieve this objective, the following table shows the likely results for 2008 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

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2008 Net Earnings Per Share (EPS) Scenarios*

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share	% Growth Over 2007	Yen Impact on EPS
105.00	$ 3.92 - 3.98	19.9 - 21.7%	$ .22
110.00	3.83 - 3.89	17.1 - 19.0	.13
115.00	3.75 - 3.81	14.7 - 16.5	.05
117.93 **	3.70 - 3.76	13.1 - 15.0	-
120.00	3.67 - 3.73	12.2 - 14.1	(.03)
125.00	3.60 - 3.66	10.1 - 11.9	(.10)

* *Excludes realized investment gains/losses, impact from SFAS 133 and nonrecurring items in 2008 and 2007*
** *Actual 2007 weighted-average exchange rate*

INSURANCE OPERATIONS

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

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

We evaluate our sales efforts using new annualized premium sales. Total new annualized premium sales, which include new sales and the incremental increase in premiums due to conversions, represent the premiums that we would collect over a 12-month period, assuming the policies remain in force. For Aflac Japan, total new annualized premium sales are determined by applications written during the reporting period. For Aflac U.S., total new annualized premium sales are determined by applications that are accepted during the reporting period. Premium income, or earned premiums, is a financial performance measure that reflects collected or due premiums that have been earned ratably on policies in force during the reporting period.

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AFLAC JAPAN SEGMENT

Aflac Japan Pretax Operating Earnings

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

Aflac Japan Summary of Operating Results

(In millions)	**2007**	2006	2005
Premium income	**$ 9,037**	$ 8,762	$ 8,745
Net investment income:			
Yen-denominated investment income	**1,102**	1,064	1,111
Dollar-denominated investment income	**699**	624	524
Net investment income	**1,801**	1,688	1,635
Other income	**27**	25	31
Total operating revenues	**10,865**	10,475	10,411
Benefits and claims	**6,935**	6,847	6,898
Operating expenses:			
Amortization of deferred policy acquisition costs	**318**	285	284
Insurance commissions	**850**	859	892
Insurance and other expenses	**941**	832	822
Total operating expenses	**2,109**	1,976	1,998
Total benefits and expenses	**9,044**	8,823	8,896
Pretax operating earnings*	**$ 1,821**	$ 1,652	$ 1,515
Weighted-average yen/dollar exchange rate	**117.93**	116.31	109.88