

# CERTIFICATION

May 31, 2013

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

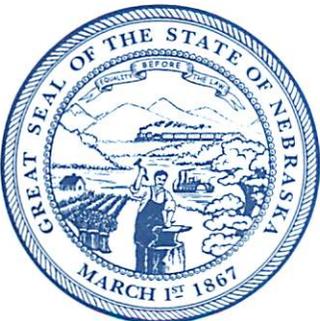
Financial Examination Report of  
**American Family Life Assurance Company of Columbus**

as of

December 31, 2011

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



*Bruce R. Range*  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

**STATE OF NEBRASKA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF  
COLUMBUS**

**NAIC Co. CODE 60380**  
**NAIC GROUP CODE 370**

As of  
December 31, 2011

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

MAY 31 2013

**FILED**



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April 2, 2013

Honorable Bruce R. Ramage, Director  
Nebraska Department of Insurance  
941 O Street, Suite 400  
Lincoln, Nebraska 68508

Director Ramage:

Pursuant to your instructions and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**American Family Life Assurance Company of Columbus  
1932 Wynnton Road  
Columbus, Georgia 31999**

hereinafter referred to as the "Company" or "Aflac", a Nebraska domestic life and accident and health insurance company. The examination was conducted at the offices of the Company in Columbus, Georgia.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

## **SCOPE OF EXAMINATION**

The Company was last examined by representatives of the Nebraska Department of Insurance (NEDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2008, through December 31, 2011.

The examination was completed under the coordination of the holding company group approach with the NEDOI as the coordinating state and the New York Department of Financial Services. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

James R. Haire, FSA, MAAA, of Actuarial Resources Corporation, was appointed by the NEDOI and conducted a review of the Company's statutory reserves as of December 31, 2011. There were no actuarial adjustments or recommendations resulting from the review performed by Actuarial Resources Corporation.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with Statutory Accounting Principles, and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **HISTORY**

The Company was incorporated on November 17, 1955, and commenced operations on April 1, 1956. The Company is a wholly owned subsidiary of Aflac Incorporated (Aflac Inc.), a Georgia stock corporation. Aflac Inc.'s shares are traded on the New York and Tokyo stock exchanges. The Company operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). These operations service the two (2) principal markets for the Company's insurance business. The Company owns American Family Life Assurance Company of New York (Aflac New York), a New York domestic insurance company. In October 2009, Aflac Inc. purchased Continental American Insurance Company (CAIC), a South Carolina domestic insurer. As a result, CAIC became an affiliate to the Company and has been branded as Aflac Group Insurance.

## **CAPITAL AND SURPLUS**

As of December 31, 2011, the Company had eight (8) million shares of \$1.00 par value common stock authorized, of which 3,714,435 voting shares and 165,170 non-voting shares were issued and outstanding. All issued and outstanding shares have been owned by Aflac Inc. throughout the examination period. The Company reported capital stock totaling \$3,879,605 and gross paid-in and contributed surplus totaling \$569,929,529 as of December 31, 2011. The Company had no preferred stock outstanding.

As of December 31, 2011, the Company's risk-based capital ratio was 493%, which reflects a very strong capital and surplus position.

In addition to limitations and restrictions imposed by the NEDOI, the Japanese Financial Services Agency (FSA) may not allow profit repatriations from Aflac Japan if the transfers would cause Aflac Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standard. As of December 31, 2011, Aflac Japan's solvency margin ratio was 985.8% using the current calculation method, which significantly exceeded regulatory minimum.

### **DIVIDENDS TO STOCKHOLDERS**

During the examination period, the Company paid the following ordinary dividends to Aflac Inc.:

<u>Year</u>	
2011	\$ 282,297,060
2010	369,994,870
2009	464,044,365
2008	1,062,402,699
Total	<u>\$ 2,178,738,994</u>

For life insurance companies domiciled in the state of Nebraska, the maximum amount of dividends that can be paid to shareholders without prior approval of the Commissioner of Insurance is the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus of the previous year-end. The maximum dividend the Company could have paid without prior approval in 2011 was \$1.4 billion.

### **TERRITORY AND PLAN OF OPERATION**

The Company primarily sells supplement health and life insurance, and is licensed in forty-nine (49) states, the District of Columbia, several U.S. territories, and Japan. There were no new states licensed since the prior examination.

#### **Aflac U.S.:**

Aflac U.S. insurance products are designed to provide supplemental coverage for people who have major medical or primary insurance coverage. A majority of the Aflac U.S. products are individually underwritten and marketed through independent agents. In 2009, Aflac U.S. began to market and administer group insurance products through CAIC.

Aflac U.S. sells the following products on both an individual and group basis: short-term disability benefits, term and whole-life coverage sold through payroll deduction at the worksite, accident coverage, and critical illness. Aflac U.S. individually issued policies are portable and pay regardless of other insurance, while group coverage is generally not portable.

Aflac's U.S. sales force is comprised of sales associates and brokers who are independent contractors licensed to sell accident and health insurance. Many of these independent contractors are also licensed to sell life insurance. During the examination period, Aflac U.S. has enhanced and increased the size of its traditional distribution system. As of December 31, 2011, Aflac U.S. had approximately 74,800 licensed sales associates.

The purchase of CAIC, branded as Aflac Group Insurance, has equipped Aflac U.S. with a platform for offering voluntary group insurance products for distribution by insurance brokers at the worksite. Aflac U.S. has more than 100 broker development coordinators who are single points of contact for brokers across the country.

**Aflac Japan:**

Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans, and annuities. 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.

Aflac Japan's product portfolio has expanded beyond traditional health-related products to include more life products. Aflac Japan's life insurance products, including child endowment and WAYS, provide further opportunities for sales of its third sector cancer and medical products. The WAYS product was a primary driver of Aflac Japan's growth in 2011. This product is a unique hybrid whole-life product that can be converted to a fixed annuity, medical coverage or nursing care benefits policy when the policyholder reaches a predetermined age. In March 2011, Aflac Japan introduced a new base cancer policy, DAYS, and a bridge policy, DAYS PLUS, which upgrades older cancer policies. The enhancements in this new base policy are a response to the changes in cancer treatment.

Traditional channels through which Aflac Japan has sold its products are independent corporate agencies, individual agencies, and affiliated corporate agencies. As of December 31, 2011, Aflac Japan was represented by more than 19,700 sales agencies, with more than 120,700 licensed sales associates employed by those agencies. In December 2007, it became permissible for banks to sell third sector (health insurance) insurance products to their customers. As of December 31, 2011, Aflac Japan had agreements with 370 banks, approximately 90% of the total number of banks in Japan, to sell its products. Aflac Japan has continued to reach consumers through its strategic marketing alliance with Dai-ichi Life Insurance Company.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period. Amounts are shown in 000's.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premium Income</u>	<u>Net Income</u>
2011	\$103,581,666	\$ 97,210,548	\$ 6,371,118	\$ 20,945,015	\$ 443,591
2010	89,723,267	82,983,482	6,739,786	18,324,800	1,468,125
2009	75,798,442	70,030,503	5,767,939	16,829,938	1,414,136
2008	71,782,958	67,181,644	4,601,314	15,136,569	1,208,648

The increases in admitted assets between 2009 and 2011 have been primarily driven by foreign currency gains on invested assets and profitable operations. Policy liabilities and claims reserves have also been affected by foreign currency translation but also reflect an increase in premium growth and the aging of the in-force business.

The decrease in net income from 2010 to 2011 was a direct result of net realized capital losses experienced on the de-risking of the Company's investment portfolio. Macro-economic forces, and in particular the debt crisis in Europe in 2011, caused Aflac to restructure its investment portfolio in 2011 and into 2012. As a result of these economic changes, the Company has reinvented its investment department with the intention of building a "world class" investment organization.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws state that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than five (5) or more than twenty-five (25) persons, at least one (1) of which must be a resident of the state of Nebraska. The shareholder, at its annual meeting, elects the members of the Board of Directors for a one (1) year term. The following is a listing of persons serving as directors for the Company and their principal occupations as of December 31, 2011:

<u>Name and Address</u>	<u>Principal Occupation</u>
Daniel P. Amos Columbus, Georgia	Chairman and Chief Executive Officer American Family Life Assurance Company of Columbus
Paul S. Amos, II Columbus, Georgia	President and Chief Operating Officer American Family Life Assurance Company of Columbus
Michael H. Armacost Stanford, California	Shorenstein Distinguished Fellow Stanford University Asia-Pacific Research Center
Frank J. Barrett Omaha, Nebraska	Attorney at Law of Counsel Lamson, Dugan and Murray, LLP
Kriss Cloninger, III Columbus, Georgia	Executive Vice President and Chief Financial Officer American Family Life Assurance Company of Columbus
June P. Howard Cataula, Georgia	Senior Vice President, Financial Services and Chief Accounting Officer American Family Life Assurance Company of Columbus

Charles B. Knapp Athens, Georgia	President Emeritus University of Georgia
Joey M. Loudermilk Ellerslie, Georgia	Executive Vice President, General Counsel, and Corporate Secretary American Family Life Assurance Company of Columbus
E. Stephen Purdom Midland, Georgia	Retired Executive Vice President American Family Life Assurance Company of Columbus
Ralph A. Rodgers, Jr. Columbus, Georgia	Senior Advisor, Financial American Family Life Assurance Company of Columbus
David G. Thompson Atlanta, Georgia	Retired Chief Executive Officer Wachovia Bank

### Officers

The Company's Bylaws state that the officers are elected by the Board of Directors and are to include a Chief Executive Officer, Chairman of the Board of Directors', President, one (1) or more Vice Presidents, Secretary, and Treasurer. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary. The following is a list of the officers and their respective titles as of December 31, 2011:

#### *U.S. Management*

<u>Name</u>	<u>Office</u>
Daniel P. Amos	Chairman of the Board and Chief Executive Officer
Paul S. Amos, II	President
Kriss Cloninger, III	Executive Vice President, Chief Financial Officer
June P. Howard	Senior Vice President, Chief Accounting Officer, and Treasurer
Teresa L. White	Executive Vice President

#### *Japan Branch Management*

<u>Name</u>	<u>Office</u>
Charles D. Lake II	Chairman
Tohru Tonoike	President
Hiroshi Yamauchi	First Senior Vice President
Hisayuki Shinkai	First Senior Vice President
Koji Ariyoshi	First Senior Vice President

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and U.S. officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2011.

## CORPORATE RECORDS

### Articles of Incorporation

The Articles of Incorporation were amended May 3, 2010, to broaden the purpose under which the Company was incorporated. The amendment to the Articles of Incorporation was filed with the state of Nebraska and approved effective May 6, 2010.

### Bylaws

There were no amendments made to the Bylaws during the examination period.

### Minutes

The Board of Directors, Shareholder, Audit Committee, and Global Investment Committee meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The annual meetings and other regular Board of Directors meetings appeared to be held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

The following is an organizational chart as of December 31, 2011:

	<u>NAIC Co. Code</u>
Aflac Incorporated	
Aflac International, Incorporated	
Aflac Insurance Services Company, Ltd. [Japan]	
Aflac Payment Service, Ltd. [Japan]	
Aflac Technology Services Company, Ltd. [Japan]	
Aflac Heartful Services Company, Ltd. [Japan]	
Aflac Information Technology, Incorporated	
<b>American Family Life Assurance Company of Columbus</b>	<b>60380</b>
American Family Life Assurance Company of New York	60526
Communicorp, Incorporated	
Continental American Insurance Company	71730
Continental American Group, LLC	

## Affiliated Agreements

Affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement. A majority of the affiliated agreements and transactions in place are primarily for operations in Japan. The following are significant affiliated agreements and transactions as of December 31, 2011:

### *Management Services*

The Company pays management fees to Aflac Inc. and Aflac International for personnel services and managerial expertise. The management fee is an expense-based allocation that includes a small intercompany profit charge. During 2011, the Company paid \$236.2 million for management services.

### *Business Consignment Services*

The Company purchases printing and sales promotion materials and services from Communicorp, Incorporated. During 2011, the Company paid \$16.5 million for materials and services.

Aflac Insurance Services Company, Ltd. receives commissions on policies they sell on behalf of Aflac Japan. During 2011, the commissions paid to Aflac Insurance Services Company, Ltd were \$81.7 million.

Aflac Heartful Services Company, Ltd. provides various administrative services for Aflac Japan. During 2011, fees paid to Aflac Heartful Services Company, Ltd. for services rendered were \$1.8 million.

Aflac Payment Services Company, Ltd. (APS), as an agent for Aflac Japan, collects monthly premiums from Japan policyholders and remits the payments to Aflac Japan. During 2011, Aflac Japan paid APS collection agent fees for the collection of Aflac Japan's monthly premiums of \$83 million. APS also provides temporary staffing services to Aflac Japan. Fees for this service were \$10.1 million during 2011.

Aflac Technology Services Company, Ltd. provides systems development services for Aflac Japan. Fees paid to Aflac Technology Services Company, Ltd. were \$5.3 million during 2011.

### *Income Tax Allocation*

The Company is party to Aflac Inc.'s income tax allocation agreement on the same basis as Aflac Inc.'s other subsidiaries. The agreement permits Aflac Inc. to file consolidated tax returns with the Company and other Aflac Inc. subsidiaries. Allocation is based upon separate return calculations, and the settlement of current income taxes, payable or refundable, is completed when Aflac Inc. makes payment to, or receives refunds from, the Internal Revenue Service.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from fraudulent or dishonest acts by its employees through a financial institution bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$20,000,000, with a deductible of \$500,000. The bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011 including, but not limited to, automobile property and liability, aviation, directors and officers liability, earthquake, flood, international, network security and cyber liability, property and general liability, umbrella liability, and workers' compensation.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company participates in both a qualified non-contributory defined-benefit pension plan, as well as a qualified defined contribution plan (401(k) Plan) sponsored by Aflac Inc., which covers substantially all of the Company's U.S. employees. The Company has no legal obligation for benefits under these plans.

Pension benefits are based on years of service and the highest average compensation for any consecutive five (5) year period during the last ten (10) years immediately preceding retirement. Generally, the trust is funded annually, with no less than the minimum contributions required by applicable regulations. Aflac Inc. allocates expense amounts to its affiliates based on the benefit obligation determined on each employee/retiree within an affiliate. The Company's share of the expense amounted to \$17.3 million and \$13.5 million in 2011 and 2010, respectively.

All eligible employees of the Company may participate in the 401(k) plan sponsored by Aflac Inc. The expenses for the Company's portion of the 401(k) plan were \$3.8 million in both 2011 and 2010.

Aflac Japan also sponsors a non-contributory defined benefit pension plan, which covers substantially all of Aflac Japan's non-officer employees. Benefits are based on a formula using job level and years of service at retirement. Generally, the trust is funded annually with no less than the minimum contributions required by applicable regulations. The expense for the plan was \$21.8 million and \$19.1 million in 2011 and 2010, respectively.

Additionally, the Company participates in non-qualified, unfunded supplemental retirement plans sponsored by Aflac Inc. that provide defined pension benefits in excess of limits imposed by federal tax law for certain Japanese, U.S. and former employees. The expense to the Company for these programs amounted to \$8.3 million and \$9.4 million in 2011 and 2010, respectively.

In addition to pension benefits, U.S. employees of the Company participate in other health care benefit plans sponsored by Aflac Inc. Employees become eligible for these benefits if they terminate employment after age 55 with fifteen (15) years of service, or their age plus years of service equals or exceeds 80. An employee can elect continuation of coverage until they are Medicare eligible or are covered by another plan. The related expense was \$(4.4) million and \$2.6 million at December 31, 2011 and 2010, respectively.

## STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Nebraska	\$ 1,775,827	\$ 2,115,993
All Other Special Deposits:		
Arkansas	1,195,724	1,424,769
Georgia	37,669	44,885
Maryland	161,439	192,363
Massachusetts	39,822	47,450
New Mexico	123,770	147,478
North Carolina	430,504	512,968
Ohio	43,050	51,297
South Carolina	175,430	209,034
South Dakota	37,669	44,885
Tennessee	43,050	51,297
Virginia	82,872	98,746
American Samoa	50,000	50,000
Guam	64,576	76,945
Puerto Rico	1,444,985	1,517,012
US Virgin Islands	538,129	641,210
Japan	2,546,899	2,918,189
Hong Kong	2,583,021	3,077,808
Total Deposits	<u>\$ 11,374,436</u>	<u>\$ 13,222,329</u>

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010, and 2011, were reconciled to the respective Annual Statements with no material exceptions noted. The Annual Statements for the years ended December 31, 2008, through 2011, were reconciled to each year's independent audit report with no material exceptions noted.

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS**

**FINANCIAL STATEMENTS**

**Assets**

	As of December 31, 2011 (in 000's)			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Assets:</b>				
Bonds	\$ 99,161,526	\$ -	\$ 99,161,526	\$ 86,020,710
Stocks:				
Preferred stocks	4,891	-	4,891	4,884
Common stocks	138,295	-	138,295	110,391
Mortgage loans on real estate:				
First liens	4,790	-	4,790	5,275
Real estate:				
Properties occupied by the company	344,357	-	344,357	339,603
Properties held for sale	-	-	-	247
Cash, cash equivalents and short-term investments	1,550,190	-	1,550,190	1,110,720
Contract loans	147,015	-	147,015	123,465
Other invested assets	456,816	-	456,816	333,467
Securities lending reinvested collateral assets	183,937	-	183,937	190,918
<b>Subtotals, cash and invested assets</b>	<b>101,991,818</b>	<b>-</b>	<b>101,991,818</b>	<b>88,239,682</b>
Investment income due and accrued	787,002	-	787,002	710,062
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	370,851	-	370,851	374,259
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,066	-	5,066	4,139
Reinsurance:				
Amounts recoverable from reinsurers	3,928	-	3,928	1,709
Other amounts receivable under reinsurance contracts	7,360	-	7,360	6,699
Guaranty funds receivable or on deposit	1,210	-	1,210	683
Electronic data processing equipment and software	10,347	-	10,347	10,699
Receivables from parent, subsidiaries and affiliates	96,956	-	96,956	87,837
Aggregate write-ins for other than invested assets	103,523	-	103,523	87,299
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	103,378,062	-	103,378,062	89,523,067
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	203,604	-	203,604	200,200
<b>Total assets</b>	<b>\$ 103,581,666</b>	<b>\$ -</b>	<b>\$ 103,581,666</b>	<b>\$ 89,723,267</b>

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	As of December 31, 2011 (in 000's)			December 31,
	Per Annual Statement	Examination Adjustments	Per Examination	Prior Year
<b>Liabilities:</b>				
Aggregate reserve for life contracts	\$ 16,473,029	\$ -	\$ 16,473,029	\$ 13,288,177
Aggregate reserve for accident and health contracts	65,484,643	-	65,484,643	60,379,601
Liability for deposit-type contracts	107,014	-	107,014	90,100
Contract claims:				
Life	184,083	-	184,083	164,452
Accident and health	3,604,286	-	3,604,286	3,434,505
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:				
Dividends not yet apportioned	3	-	3	3
Premiums and annuity considerations for life and accident and health contracts received in advance	5,833,396	-	5,833,396	2,297,428
Contract liabilities not included elsewhere:				
Surrender values on canceled contracts	45,134	-	45,134	44,095
Interest maintenance reserve	1,041,360	-	1,041,360	381,357
Commissions to agents due or accrued	211,848	-	211,848	194,746
General expenses due or accrued	694,875	-	694,875	657,210
Taxes, licenses and fees due or accrued	78,883	-	78,883	60,423
Current federal and foreign income taxes	232,122	-	232,122	180,950
Net deferred tax liability	1,879,133	-	1,879,133	1,201,764
Amounts withheld or retained by company as agent or trustee	13,765	-	13,765	12,132
Amounts held for agents' account	8,253	-	8,253	8,305
Remittances and items not allocated	112,646	-	112,646	59,668
Miscellaneous liabilities:				
Asset valuation reserve	15,440	-	15,440	7,849
Payable to parent, subsidiaries and affiliates	41,986	-	41,986	37,294
Payable for securities	1,336	-	1,336	1,221
Payable for securities lending	837,905	-	837,905	190,918
Aggregate write-ins for liabilities	105,805	-	105,805	91,084
Total liabilities excluding Separate Accounts business	97,006,944	-	97,006,944	82,783,281
From Separate Accounts Statement	203,604	-	203,604	200,200
<b>Total liabilities</b>	<b>97,210,548</b>	<b>-</b>	<b>97,210,548</b>	<b>82,983,482</b>
Common capital stock	3,880	-	3,880	3,880
Gross paid in and contributed surplus	569,930	-	569,930	569,930
Unassigned funds (surplus)	5,797,309	-	5,797,309	6,165,977
Surplus	6,367,238	-	6,367,238	6,735,906
<b>Total surplus and other funds</b>	<b>6,371,118</b>	<b>-</b>	<b>6,371,118</b>	<b>6,739,786</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 103,581,666</b>	<b>\$ -</b>	<b>\$ 103,581,666</b>	<b>\$ 89,723,267</b>

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS**

**FINANCIAL STATEMENTS**

**Summary of Operations**

	As of December 31, 2011 (in 000's)			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Premiums and annuity considerations for life and accident and health contracts	\$ 20,945,015	\$ -	\$ 20,945,015	\$ 18,324,800
Net investment income	3,228,472	-	3,228,472	2,968,581
Amortization of interest maintenance reserve	76,184	-	76,184	38,328
Commissions and expense allowances on reinsurance ceded	221	-	221	253
Reserve adjustments on reinsurance ceded	53	-	53	(64)
Miscellaneous income:				
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	10,312	-	10,312	2,433
Aggregate write-ins for miscellaneous income	16,611	-	16,611	1,880
<b>Totals</b>	<b>24,276,868</b>	<b>-</b>	<b>24,276,868</b>	<b>21,336,211</b>
Death benefits	338,352	-	338,352	273,947
Matured endowments	16,648	-	16,648	5,771
Annuity benefits	4,984	-	4,984	3,408
Disability benefits and benefits under accident and health contracts	8,688,449	-	8,688,449	8,011,989
Surrender benefits and withdrawals for life contracts	579,100	-	579,100	518,241
Interest and adjustments on contract or deposit-type contract funds	1,221	-	1,221	1,042
Increase in aggregate reserves for life and accident and health contracts	4,954,493	-	4,954,493	3,880,724
<b>Totals</b>	<b>14,583,247</b>	<b>-</b>	<b>14,583,247</b>	<b>12,695,123</b>
Commissions on premiums, annuity considerations and deposit-type contract funds	2,985,343	-	2,985,343	2,747,597
General insurance expenses	2,606,281	-	2,606,281	2,376,019
Insurance taxes, licenses and fees, excluding federal income taxes	211,016	-	211,016	183,545
Increase in loading on deferred and uncollected premiums	549	-	549	438
Net transfers to or (from) Separate Accounts net of reinsurance	137,041	-	137,041	-
<b>Totals</b>	<b>20,523,477</b>	<b>-</b>	<b>20,523,477</b>	<b>18,002,722</b>
Net gain from operations before dividends to policyholders and federal income taxes	3,753,391	-	3,753,391	3,333,489
Dividends to policyholders	6	-	6	5
Net gain from operations after dividends to policyholders and before federal income taxes	3,753,386	-	3,753,386	3,333,484
Federal and foreign income taxes incurred	855,886	-	855,886	810,695
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	2,897,499	-	2,897,499	2,522,789
Net realized capital gains (losses)	(2,453,908)	-	(2,453,908)	(1,054,664)
<b>Net income</b>	<b>\$ 443,591</b>	<b>\$ -</b>	<b>\$ 443,591</b>	<b>\$ 1,468,125</b>

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS**

**FINANCIAL STATEMENTS**

**Reconciliation of Capital and Surplus**  
**(in 000's)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Capital and Surplus Account:</b>				
Capital and surplus, December 31, prior year	\$ 6,739,786	\$ 5,767,939	\$ 4,601,314	\$ 4,208,297
Net income	443,591	1,468,125	1,414,136	1,208,648
Change in net unrealized capital gains (losses) less capital gains tax	41,827	3,711	25,305	(12,477)
Change in net unrealized foreign exchange capital gain (loss)	93,817	256,204	22,910	115,313
Change in net deferred income tax	(41,520)	(302,494)	(332,386)	35,843
Change in nonadmitted assets	(587,155)	(84,273)	(13,929)	(102,401)
Change in asset valuation reserve	(7,591)	9,447	4,506	233,466
Surplus adjustment:				
Paid in	-	-	500,000	-
Dividends to stockholders	(282,297)	(369,995)	(464,044)	(1,062,403)
Aggregate write-ins for gains and losses in surplus	(29,340)	(8,879)	10,128	(22,973)
<b>Net change in capital and surplus for the year</b>	<b><u>(368,668)</u></b>	<b><u>971,847</u></b>	<b><u>1,166,625</u></b>	<b><u>393,017</u></b>
<b>Capital and surplus, December 31, current year</b>	<b><u>\$ 6,371,118</u></b>	<b><u>\$ 6,739,786</u></b>	<b><u>\$ 5,767,939</u></b>	<b><u>\$ 4,601,314</u></b>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

### **SUBSEQUENT EVENTS**

On September 1, 2012, the Company purchased a \$50 million surplus note (the Note) of CAIC. The terms of the Note call for annual simple interest payments at a per annum of 3.25% subject to the approval of the insurance commissioner of the state of South Carolina. The Note is five years in duration and is scheduled to mature on September 1, 2017.

On September 24, 2012, the Company executed a modified coinsurance quota share treaty (the Treaty) with CAIC. The Treaty was retrospective to January 1, 2012. The terms of the Treaty called for the Company to assume 50% of new and existing sales as they relate to its accident and critical illness products only. For the period ending December 31, 2012, the Company assumed approximately \$99.5 million in earned premiums while paying approximately \$51.6 million in incurred claims, \$45.9 million in incurred commissions and \$33.9 million in operating expenses. Under the provisions of modified coinsurance reinsurance agreement, CAIC maintains a segregated portfolio of securities that support the ceded policy liabilities.

In January 2013, the Company sold its investment in UniCredit Bank AG (HVB Funding Trust I, III, & VI) which had an amortized cost of \$257 million at December 31, 2012. The Company did not realize a gain or loss from the sale due to previous impairment of the investment.

In February, March and April of 2013, the Company entered into zero-cost collar transactions with notional amounts of 20, 5, and 5 billion yen (or \$216.5 million, \$54.1 million and \$54.1 million at an average exchange rate of 92.4) respectively, to economically hedge anticipated cash flows related to the repatriation of earnings from the Japan branch. The expiry date of the contracts is July 2013.

In March 2013, the Company sold a portion of its investment in Banque Central De Tunisie which had an amortized cost of \$103 million at disposal. The Company recognized a realized loss of approximately \$4.4 million on the sale.

## ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Annie Elliott, CFE, Examinations Supervisor with the Nebraska Department of Insurance; Randy Lamberjack, CFE, Principal, Mike Dinius, CFE, Co-EIC, Carol Riley, AES, CISA, Senior IT Examiner, Kara Thome, CFE, Supervising Senior Examiner, Lee Hoepfner, Financial Examiner, Reika Wilson, Financial Examiner, and Pete Landoll, Financial Examiner, all of Noble Consulting Services, Inc.; Jim Haire, FSA, MAAA, Principal, and Chris Churchill, FSA, MAAA, Consulting Actuary, both of Actuarial Resources Corporation; and Financial Examiners contracted by the New York Department of Financial Services; participated in this examination and assisted in preparation of this report.

Respectfully submitted,



James M. Kattman  
Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the Nebraska Department of Insurance

State of Indiana,  
County of Marion,

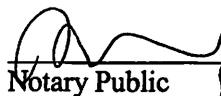
James M. Kattman, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Family Life Assurance Company of Columbus.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of American Family Life Assurance Company of Columbus was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Samantha Dougherty on this 10 day of April, 2013.

  
Notary Public

My commission expires

