AFLAC INC
Form 10-Q
November 06, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

o **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)

706.323.3431

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

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.

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 Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	November 3, 2009
Common Stock, $.10 Par Value	467,899,237 shares

Aflac Incorporated and Subsidiaries
Table of Contents

Items other than those listed above are omitted because they are not required or are not applicable.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The September 30, 2009, and 2008, financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

The report of KPMG LLP commenting upon its review is included on the following page.

Table of Contents

Report of Independent Registered Public Accounting Firm

The shareholders and board of directors of Aflac Incorporated:

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries as of September 30, 2009, and the related consolidated statements of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2009, and 2008, and the consolidated statements of shareholders equity and cash flows for the nine-month periods ended September 30, 2009, and 2008. These consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2008, and the related consolidated statements of earnings, shareholders equity, cash flows and comprehensive income for the year then ended (not presented herein); and in our report dated February 19, 2009, we expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia
November 6, 2009

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues:				
Premiums, principally supplemental health insurance	**$ 4,165**	$ 3,647	**$ 12,274**	$ 10,966
Net investment income	**692**	637	**2,048**	1,901
Realized investment gains (losses):				
Other-than-temporary impairment losses:				
Total other-than-temporary impairment losses	**(376)**	(380)	**(1,002)**	(380)
Other-than-temporary impairment losses recognized in other comprehensive income	**8**		**15**	
Other-than-temporary impairment losses realized	**(368)**	(380)	**(987)**	(380)
Sales and redemptions	**21**	(217)	**248**	(225)
Total realized investment gains (losses)	**(347)**	(597)	**(739)**	(605)
Other income	**16**	4	**74**	32
Total revenues	**4,526**	3,691	**13,657**	12,294
Benefits and expenses:				
Benefits and claims	**2,817**	2,551	**8,351**	7,664
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**216**	181	**692**	557
Insurance commissions	**388**	355	**1,158**	1,075
Insurance expenses	**487**	419	**1,405**	1,264
Interest expense	**25**	7	**46**	21
Other operating expenses	**44**	30	**112**	99
Total acquisition and operating expenses	**1,160**	992	**3,413**	3,016
Total benefits and expenses	**3,977**	3,543	**11,764**	10,680
Earnings before income taxes	**549**	148	**1,893**	1,614
Income taxes	**186**	48	**648**	557
Net earnings	**$ 363**	$ 100	**$ 1,245**	$ 1,057
Net earnings per share:				
Basic	**$ .78**	$ .21	**$ 2.67**	$ 2.22
Diluted	**.77**	.21	**2.66**	2.19

Weighted-average outstanding common shares used in computing earnings per share (In thousands):

Basic	**466,586**	475,357	**466,362**	476,076
Diluted	**469,714**	480,745	**468,378**	482,113
Cash dividends per share	**$ .28**	$ .24	**$ .84**	$ .72

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions)	September 30, 2009 (Unaudited)	December 31, 2008
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $36,754 in 2009 and $36,034 in 2008)	**$ 35,531**	$ 35,012
Perpetual securities (amortized cost $8,486 in 2009 and $9,074 in 2008)	**7,836**	8,047
Equity securities (cost $22 in 2009 and $24 in 2008)	**26**	27
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $25,150 in 2009 and $23,084 in 2008)	**26,328**	24,436
Other investments	**100**	87
Cash and cash equivalents	**1,804**	941
Total investments and cash	**71,625**	68,550
Receivables	**849**	920
Accrued investment income	**633**	650
Deferred policy acquisition costs	**8,552**	8,237
Property and equipment, at cost less accumulated depreciation	**599**	597
Other	**358**	377
Total assets	**$82,616**	$79,331

See the accompanying Notes to the Consolidated Financial Statements.
(continued)

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	**September 30, 2009** (Unaudited)	December 31, 2008
Liabilities and shareholders equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$ 61,887**	$ 59,310
Unpaid policy claims	**3,315**	3,118
Unearned premiums	**929**	874
Other policyholders funds	**3,412**	2,917
Total policy liabilities	**69,543**	66,219
Notes payable	**2,231**	1,721
Income taxes	**1,361**	1,201
Payables for return of cash collateral on loaned securities	**106**	1,733
Other	**1,493**	1,818
Commitments and contingent liabilities (Note 9)		
Total liabilities	**74,734**	72,692
Shareholders equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2009 and 2008; issued 660,728 shares in 2009 and 660,035 shares in 2008	**66**	66
Additional paid-in capital	**1,216**	1,184
Retained earnings	**12,290**	11,306
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	**862**	750
Unrealized gains (losses) on investment securities:		
Unrealized gains (losses) on securities not other-than- temporarily impaired	**(1,103)**	(1,211)
Unrealized gains (losses) on other-than-temporarily impaired securities	**(9)**	
Total unrealized gains (losses) on investment securities	**(1,112)**	(1,211)
Pension liability adjustment	**(118)**	(121)
Treasury stock, at average cost	**(5,322)**	(5,335)
Total shareholders equity	**7,882**	6,639
Total liabilities and shareholders equity	**$ 82,616**	$ 79,331

See the accompanying Notes to the Consolidated Financial Statements.

Aflac Incorporated and Subsidiaries
Consolidated Statements of Shareholders Equity

(In millions, except for per-share amounts - Unaudited)	Nine months ended September 30, 2009	2008
Common stock:		
Balance, beginning of period	**$ 66**	$ 66
Exercise of stock options		
Balance, end of period	**66**	66
Additional paid-in capital:		
Balance, beginning of period	**1,184**	1,054
Exercise of stock options	**6**	39
Share-based compensation	**26**	29
Gain on treasury stock reissued		38
Forward treasury stock purchase		(825)
Balance, end of period	**1,216**	335
Retained earnings:		
Balance, beginning of period	**11,306**	10,637
Net earnings	**1,245**	1,057
Dividends to shareholders	**(261)**	(342)
Balance, end of period	**12,290**	11,352
Accumulated other comprehensive income:		
Balance, beginning of period	**(582)**	934
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	**112**	233
Change in unrealized gains (losses) on investment securities during period, net of income taxes:		
Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes	**108**	(1,756)
Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes	**(9)**	
Total change in unrealized gains (losses) on investment securities during period, net of income taxes	**99**	(1,756)
Pension liability adjustment during period, net of income taxes	**3**	
Balance, end of period	**(368)**	(589)
Treasury stock:		
Balance, beginning of period	**(5,335)**	(3,896)
Purchases of treasury stock	**(4)**	(805)

Cost of shares issued	**17**	37
Balance, end of period	**(5,322)**	(4,664)
Total shareholders equity	**$ 7,882**	$ 6,500

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions - Unaudited)	Nine months ended September 30, **2009**	2008
Cash flows from operating activities:		
Net earnings	**$ 1,245**	$ 1,057
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**228**	2
Increase in deferred policy acquisition costs	**(254)**	(350)
Increase in policy liabilities	**2,219**	2,427
Change in income tax liabilities	**106**	(160)
Realized investment (gains) losses	**739**	605
Other, net	**120**	67
Net cash provided by operating activities	**4,403**	3,648
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**4,061**	601
Fixed maturities matured or called	**1,905**	1,117
Perpetual securities sold	**102**	221
Securities held to maturity:		
Fixed maturities matured or called	**210**	1
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities	**(5,434)**	(3,053)
Securities held to maturity:		
Fixed maturities	**(3,127)**	(2,527)
Cash received as collateral on loaned securities, net	**(1,563)**	451
Other, net	**(41)**	(46)
Net cash used by investing activities	**(3,887)**	(3,235)

See the accompanying Notes to the Consolidated Financial Statements.
(continued)

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Cash Flows (continued)

	Nine months ended September 30,	
(In millions - Unaudited)	**2009**	2008
Cash flows from financing activities:		
Purchases of treasury stock	**$ (4)**	$ (805)
Forward treasury stock purchase		(825)
Proceeds from borrowings	**1,004**	
Principal payments under debt obligations	**(544)**	(3)
Dividends paid to shareholders	**(393)**	(327)
Change in investment-type contracts, net	**274**	406
Treasury stock reissued	**6**	26
Other, net	**3**	36
Net cash provided (used) by financing activities	**346**	(1,492)
Effect of exchange rate changes on cash and cash equivalents	**1**	30
Net change in cash and cash equivalents	**863**	(1,049)
Cash and cash equivalents, beginning of period	**941**	1,563
Cash and cash equivalents, end of period	**$ 1,804**	$ 514
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 550**	$ 659
Interest paid	**22**	19
Impairment losses included in realized investment losses	**987**	380
Noncash financing activities:		
Capitalized lease obligations	**1**	2
Treasury stock issued for:		
Associate stock bonus	**7**	32
Shareholder dividend reinvestment		15
Share-based compensation grants	**4**	2

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions - Unaudited)	**2009**	2008	**2009**	2008
Net earnings	**$ 363**	$ 100	**$1,245**	$ 1,057
Other comprehensive income (loss) before income taxes:				
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) during period	**162**	23	**111**	57
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	**1,228**	(1,611)	**(590)**	(3,278)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	**349**	590	**745**	598
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) on derivatives during period		(1)		1
Pension liability adjustment during period	**(1)**		**5**	(1)
Total other comprehensive income (loss) before income taxes	**1,738**	(999)	**271**	(2,623)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**454**	(401)	**57**	(1,100)
Other comprehensive income (loss), net of income taxes	**1,284**	(598)	**214**	(1,523)
Total comprehensive income (loss)	**$1,647**	$ (498)	**$ 1,459**	$ (466)

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Aflac Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
(Interim period data Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company s insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac s policies are individually underwritten and marketed through independent agents. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan accounted for 78% and 76% of the Company s total revenues in the nine-month periods ended September 30, 2009, and 2008, respectively, and comprised 86% and 87% of total assets at September 30, 2009 and December 31, 2008, respectively.

Basis of Presentation

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of September 30, 2009 and December 31, 2008, and the consolidated statements of earnings and comprehensive income for the three- and nine-month periods ended September 30, 2009, and 2008, and consolidated statements of shareholders equity and cash flows for the nine-month periods ended September 30, 2009, and 2008. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report to shareholders for the year ended December 31, 2008.

Significant Accounting Policies

As a result of accounting guidance adopted subsequent to December 31, 2008, we have updated our accounting policy for investments. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2008.

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

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

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

Our investments in qualifying special purpose entities (QSPEs) are accounted for as fixed-maturity or perpetual securities. All of our investments in QSPEs are held in our available-for-sale portfolio.

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

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

Our credit analysts/research personnel routinely monitor and evaluate the difference between the amortized cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in fair value is other than temporary. For investments with a fair value below amortized cost, the process includes evaluating, among other factors, the length of time and the extent to which amortized cost exceeds fair value, the financial condition, operations, credit and liquidity posture, and future prospects of the issuer as well as our intent or need to dispose of the security prior to a recovery of its fair value to amortized cost. This process is not exact and requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment s amortized cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate.

If, after monitoring and analyses, management believes that fair value will not recover to amortized cost prior to the disposal of the security, we recognize an other-than-temporary impairment of the security. Once a security is considered to be other-than-temporarily impaired, the impairment loss is separated into two separate components, the portion of the impairment related to credit and the portion of the impairment related to factors other than credit. We automatically recognize a charge to earnings for the credit-related portion of other-than-temporary impairments. Impairments related to factors other than credit are charged to earnings in the event we intend to sell the security prior to the recovery of its amortized cost or if it is more likely than not that we would be required to dispose of the security prior to recovery of its amortized cost; otherwise, non-credit-related other-than-temporary impairments are charged to other comprehensive income.

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

For further information regarding our investments, see Note 3.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2009, the FASB issued guidance that eliminates the hierarchy of authoritative accounting and reporting guidance on nongovernmental GAAP and replaces it with a single authoritative source, the FASB Accounting Standards Codification™ (ASC). Securities and Exchange Commission (SEC) rules and interpretive releases, which may not be included in their entirety within the ASC, will remain as authoritative GAAP for SEC registrants. The ASC affects the way in which users refer to GAAP and perform accounting research, but does not change GAAP. This guidance is effective for interim and annual reporting periods ending after September 15, 2009. We adopted the provisions of this guidance as of September 30, 2009. The adoption did not have an impact on our financial position or results of operations.

In May 2009, the FASB issued accounting guidance on subsequent events which establishes standards for the recognition and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This update requires companies to recognize in their financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date. This update prohibits companies from recognizing in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance sheet date, but requires information about those events to be disclosed if the financial statements would otherwise be misleading. We adopted this new guidance as of June 30, 2009. The adoption did not have an impact on our financial position or results of operations.

In April 2009, the FASB issued accounting guidance on fair value measurements and disclosures which provides information on how to determine the fair value of assets and liabilities in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. This guidance provides factors to consider when determining whether there has been a significant decrease in the volume and level of activity in the market for an asset or liability as well as provides factors for companies to consider in identifying transactions that are not orderly. This guidance also discusses the necessity of adjustments to transaction or quoted prices to estimate fair value in accordance with GAAP when it is determined that there has been a significant decrease in the volume and level of activity or that the transaction is not orderly. This new guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this guidance as of March 31, 2009. The adoption did not have a material impact on our financial position or results of operations.

In April 2009, the FASB issued accounting guidance which modifies the requirements for recognizing other-than-temporarily impaired debt securities and significantly changes the existing impairment model for such securities. In accordance with this new guidance, the intention to sell a security and the expectation regarding the recovery of the entire amortized cost basis of a security governs the recognition of other-than-temporary impairment losses. This guidance also modifies the presentation of other-than-temporary impairment losses in financial statements and increases the frequency of and expands already required disclosures about other-than-temporary impairment for debt and equity securities. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this guidance as of March 31, 2009. The adoption did not have a material impact on our financial position or results of operations.

Table of Contents

In April 2009, the FASB issued updated accounting guidance on disclosures of financial instruments. This update requires publicly-traded companies to disclose the fair value of specific financial instruments in interim financial statements. This guidance also requires companies to disclose the method or methods and significant assumptions used to estimate the fair value of specific financial instruments and to discuss changes, if any, to those methods or assumptions during the period. This new guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the provisions of this guidance as of March 31, 2009. The adoption did not have an impact on our financial position or results of operations.

In March 2008, the FASB issued an update to its guidance on derivatives and hedging. This guidance establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This update expands disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for in accordance with GAAP, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. To meet those objectives, this new guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This update is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted this new guidance as of January 1, 2009. The adoption did not have an effect on our financial position or results of operations.

In December 2007, the FASB issued updated accounting guidance on noncontrolling interests in consolidated financial statements. Among other things, this new guidance requires entities to account for noncontrolling (minority) interests in subsidiaries as a component of equity separate from the parent s equity in the consolidated financial statements and is effective for fiscal years beginning on or after December 15, 2008, with earlier adoption prohibited. We adopted this new guidance as of January 1, 2009. The adoption did not have an effect on our financial position or results of operations.

Accounting Pronouncements Pending Adoption

In June 2009, the FASB issued amended guidance on accounting for variable interest entities (VIEs). This guidance defines new criteria for determining the primary beneficiary of a VIE; increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE; eliminates the exemption for the consolidation of qualifying special purpose entities (QSPEs); and requires additional disclosures regarding VIEs. This accounting guidance is effective for fiscal years beginning after November 15, 2009, and early application is prohibited. For information concerning our investments in VIEs, see Note 3. We are currently evaluating the potential impact of the adoption of this guidance on our financial position and results of operations.

In June 2009, the FASB issued amended guidance on accounting for transfers of financial assets. This guidance eliminates the concept of a QSPE and its exemption from consolidation in the transferor s financial statements, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, modifies the financial asset derecognition criteria, revises how interests retained by the transferor in a sale of financial assets are initially measured, removes guaranteed mortgage securitization recharacterization provisions, and requires additional disclosures. In accordance with this new guidance, former QSPEs will need to be evaluated for consolidation by transferors, servicers, and guarantors. This guidance is effective for fiscal years beginning after November 15, 2009, and early application is prohibited. For information on our investments in QSPEs, see Note 3. We are currently evaluating the potential impact of the adoption of this guidance on our financial position and results of operations.

In December 2008, the FASB issued accounting guidance on employers disclosures about postretirement benefit plan assets. This guidance requires more detailed disclosures about plan assets of a defined benefit pension or other postretirement plan, including investment strategies; major categories of plan assets; concentrations of risk within plan assets; inputs and valuation techniques used to measure the fair value of plan assets; and the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period. This new guidance is effective for fiscal years ending after December 15, 2009, with earlier application permitted. We do not expect the adoption of this guidance to have an effect on our financial position or results of operations.

SEC Guidance

On October 14, 2008, the SEC issued a letter to the FASB addressing questions raised by various interested parties regarding declines in the fair value of perpetual preferred securities, or so-called hybrid securities, which have both debt and equity characteristics, and the assessment of those declines under existing accounting guidelines for other-than-temporary impairments. In its letter, the SEC recognized that hybrid securities are often structured in equity form but generally possess significant debt-like characteristics. The SEC also recognized that existing accounting guidance does not specifically address the impact, if any, of the debt-like characteristics of these hybrid securities on the assessment of other-than-temporary impairments.

After consultation with and concurrence of the FASB staff, the SEC concluded that it will not object to the use of an other-than-temporary impairment model that considers the debt-like characteristics of hybrid securities (including the anticipated recovery period), provided there has been no evidence of a deterioration in credit of the issuer (for example, a decline in the cash flows from holding the investment or a downgrade of the rating of the security below investment grade), in filings after the date of its letter until the matter can be addressed further by the FASB.

We maintain investments in subordinated financial instruments, or so-called hybrid securities. Within this class of investments, we own perpetual securities. These perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuers equity securities. Perpetual securities have characteristics of both debt and equity investments, along with unique features that create economic maturity dates for the securities. Although perpetual securities have no contractual maturity date, they have stated interest coupons that were fixed at their issuance and subsequently change to a floating short-term rate of interest of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance. We believe this interest step-up penalty has the effect of creating an economic maturity date for our perpetual securities. We accounted for and reported perpetual securities as debt securities and classified them as both available-for-sale and held-to-maturity securities until the third quarter of 2008.

We concluded in the third quarter of 2008 that all of our investments in perpetual securities should be classified as available-for-sale securities. We also concluded that our perpetual securities should be evaluated for other-than-temporary impairments using an equity security impairment model for periods prior to June 30, 2008, as opposed to our previous policy of using a debt security impairment model. We recognized realized investment losses of $294 million ($191 million after-tax) in the third quarter of 2008 as a result of applying our equity impairment model to this class of securities through June 30, 2008. Included in the $191 million other-than-temporary impairment charge is $40 million, $53 million, $50 million, and $38 million, net of tax, that relate to the years ended December 31, 2007, 2006, 2005 and 2004, respectively; and, $10 million, net of tax, that relates to the quarter ended June 30, 2008. There were no impairment charges related to the perpetual securities in the first quarter of 2008. The impact of classifying all of our perpetual securities as available-for-sale securities and assessing them for other-than-temporary impairments under our equity impairment model was determined to be immaterial to our results of operations and financial position for any previously reported period. In response to the SEC letter mentioned above regarding the appropriate impairment model for hybrid securities, we have applied our debt security impairment model to our perpetual securities in periods subsequent to June 30, 2008, with the exception of certain securities that are rated below investment grade and are therefore being evaluated under our equity impairment model. We will continue with this approach pending further guidance from the SEC or the FASB.

Table of Contents

Recent accounting guidance not discussed above is not applicable to our business.

For additional information on new accounting pronouncements and recent accounting guidance and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2008.

2. BUSINESS SEGMENT INFORMATION

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

Operating business segments that are not individually reportable are included in the Other business segments category. We do not allocate corporate overhead expenses to business segments. We evaluate and manage our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings excludes the following items from net earnings on an after-tax basis: realized investment gains/losses, the impact from ASC 815 (formerly referred to as SFAS 133), and nonrecurring items. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2009**	**2008**	**2009**	**2008**
Revenues:				
Aflac Japan:				
Earned premiums	**$3,054**	$2,569	**$ 8,967**	$ 7,774
Net investment income	**568**	504	**1,673**	1,508
Other income	**8**	4	**30**	17
Total Aflac Japan	**3,630**	3,077	**10,670**	9,299
Aflac U.S.:				
Earned premiums	**1,110**	1,078	**3,307**	3,192
Net investment income	**123**	129	**375**	376
Other income	**3**	2	**7**	8
Total Aflac U.S.	**1,236**	1,209	**3,689**	3,576
Other business segments	**13**	8	**38**	28
Total business segment revenues	**4,879**	4,294	**14,397**	12,903
Realized investment gains (losses)	**(347)**	(597)	**(739)**	(605)
Corporate	**40**	18	**108**	62
Intercompany eliminations	**(46)**	(24)	**(109)**	(66)
Total revenues	**$4,526**	$3,691	**$13,657**	$12,294

(In millions)	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Pretax earnings:				
Aflac Japan	**$ 725**	$ 563	**$2,086**	$1,690
Aflac U.S.	**216**	204	**617**	585
Other business segments	**1**	1	**1**	
Total business segments	**942**	768	**2,704**	2,275
Interest expense, noninsurance operations	**(24)**	(6)	**(48)**	(19)
Corporate and eliminations	**(22)**	(10)	**(36)**	(30)
Pretax operating earnings	**896**	752	**2,620**	2,226
Realized investment gains (losses)	**(347)**	(597)	**(739)**	(605)
Impact from ASC 815		(7)	**(5)**	(7)
Gain on extinguishment of debt			**17**	
Total earnings before income taxes	**$ 549**	$ 148	**$1,893**	$1,614
Income taxes applicable to pretax operating earnings	**$ 307**	$ 259	**$ 901**	$ 771
Effect of foreign currency translation on operating earnings	**42**	20	**107**	82

Assets were as follows:

(In millions)	September 30, 2009	December 31, 2008
Assets:		
Aflac Japan	**$ 70,857**	$69,141
Aflac U.S.	**10,924**	9,679
Other business segments	**147**	166
Total business segments	**81,928**	78,986
Corporate	**10,234**	8,716
Intercompany eliminations	**(9,546)**	(8,371)
Total assets	**$ 82,616**	$79,331

Table of Contents

3. INVESTMENTS

The amortized cost for our investments in debt and perpetual securities, the cost for equity securities and the fair values of these investments are shown in the following tables.

	September 30, 2009			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$10,700	$ 448	$ 150	$10,998
Mortgage- and asset-backed securities	519	9		528
Public utilities	2,332	147	77	2,402
Collateralized debt obligations	309	81		390
Sovereign and supranational	854	29	77	806
Banks/financial institutions	5,464	95	1,170	4,389
Other corporate	6,532	98	767	5,863
Total yen-denominated	26,710	907	2,241	25,376
Dollar-denominated:				
U.S. government and agencies	210	4	1	213
Municipalities	332	15	15	332
Mortgage- and asset-backed securities*	637	9	95	551
Collateralized debt obligations	24	2	2	24
Public utilities	1,472	144	63	1,553
Sovereign and supranational	347	41	10	378
Banks/financial institutions	2,650	80	301	2,429
Other corporate	4,372	402	99	4,675
Total dollar-denominated	10,044	697	586	10,155
Total fixed maturities	36,754	1,604	2,827	35,531
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	7,883	324	951	7,256
Other corporate	297	14		311
Dollar-denominated:				
Banks/financial institutions	306	27	64	269
Total perpetual securities	8,486	365	1,015	7,836
Equity securities	22	5	1	26
Total securities available for sale	$45,262	$1,974	$3,843	$43,393

* *Includes $13 million of other-than-temporary non-credit-related losses*

Table of Contents

(In millions)	September 30, 2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	**$ 221**	**$ 8**	**$**	**$ 229**
Municipalities	**143**	**1**	**4**	**140**
Mortgage- and asset-backed securities	**172**	**2**	**6**	**168**
Collateralized debt obligations	**222**		**50**	**172**
Public utilities	**5,124**	**157**	**135**	**5,146**
Sovereign and supranational	**4,340**	**151**	**158**	**4,333**
Banks/financial institutions	**11,911**	**123**	**1,144**	**10,890**
Other corporate	**3,995**	**121**	**92**	**4,024**
Total yen-denominated	**26,128**	**563**	**1,589**	**25,102**
Dollar-denominated:				
Collateralized debt obligations	**200**		**152**	**48**
Total dollar-denominated	**200**		**152**	**48**
Total securities held to maturity	**$26,328**	**$ 563**	**$1,741**	**$25,150**

Table of Contents

(In millions)	December 31, 2008 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$11,153	$ 988	$ 16	$12,125
Mortgage- and asset-backed securities	491	8		499
Public utilities	2,282	188	17	2,453
Collateralized debt obligations	253	6		259
Sovereign and supranational	943	37	126	854
Banks/financial institutions	4,667	81	686	4,062
Other corporate	6,183	155	576	5,762
Total yen-denominated	25,972	1,463	1,421	26,014
Dollar-denominated:				
U.S. government and agencies	266	6	1	271
Municipalities	119	1	14	106
Mortgage- and asset-backed securities	738	7	189	556
Collateralized debt obligations	53		37	16
Public utilities	1,337	34	165	1,206
Sovereign and supranational	366	44	9	401
Banks/financial institutions	2,910	107	529	2,488
Other corporate	4,273	182	501	3,954
Total dollar-denominated	10,062	381	1,445	8,998
Total fixed maturities	36,034	1,844	2,866	35,012
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	8,400	187	1,091	7,496
Other corporate	294	13		307
Dollar-denominated:				
Banks/financial institutions	380		136	244
Total perpetual securities	9,074	200	1,227	8,047
Equity securities	24	5	2	27
Total securities available for sale	$45,132	$2,049	$4,095	$43,086

	December 31, 2008			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity, carried at amortized cost:				
Fixed maturities:				
Yen-denominated:				
Japan government and agencies	$ 220	$ 17	$	$ 237
Mortgage- and asset-backed securities	75	1	1	75
Collateralized debt obligations	403		295	108
Public utilities	3,951	168	66	4,053
Sovereign and supranational	3,582	93	132	3,543
Banks/financial institutions	12,291	147	1,195	11,243
Other corporate	3,714	145	84	3,775
Total yen-denominated	24,236	571	1,773	23,034
Dollar-denominated:				
Collateralized debt obligations	200		150	50
Total dollar-denominated	200		150	50
Total securities held to maturity	$24,436	$571	$1,923	$23,084

The methods of determining the fair values of our investments in debt securities, perpetual securities and equity securities are described in Note 4.

During the first nine months of 2009, we reclassified 11 investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of a significant decline in the issuers credit worthiness. At the time of transfer, the securities had an aggregate amortized cost of $1.2 billion and an aggregate unrealized loss of $526 million.

During the third quarter of 2008, Lehman Brothers Special Financing Inc. (LBSF), the swap counterparty under four of our CDO debt securities, filed for bankruptcy protection along with certain of its affiliates (including Lehman Brothers Holdings Inc., the guarantor of LBSF s obligations relating to the CDOs). We transferred these CDOs from held to maturity to available for sale as a result of the default by LBSF under the swaps. In connection with the transfer, we took an impairment charge primarily related to the foreign currency component of three of these CDOs totaling $20 million ($13 million after-tax). This impairment charge was included in realized investment losses during that period. At the time of the transfer and after impairment charges, these CDO debt securities had a total amortized cost of $245 million and an unrealized gain of $3 million. The unrealized gain related to the only CDO of the four that was not impaired. During that same three-month period, we transferred two other debt securities from held to maturity to available for sale as a result of declines in the credit quality of the issuers. At the time of the transfer, the first security had an amortized cost of $94 million and an unrealized loss of $7 million. We sold this security at a realized loss of less than $1 million prior to the end of the third quarter of 2008. The second security had an amortized cost of $120 million and an unrealized loss of $74 million at the time of transfer.

Table of Contents

Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at September 30, 2009, were as follows:

(In millions)	Aflac Japan Amortized Cost	Aflac Japan Fair Value	Aflac U.S. Amortized Cost	Aflac U.S. Fair Value
Available for sale:				
Due in one year or less	$ 582	$ 589	$ 2	$ 2
Due after one year through five years	5,420	5,876	232	247
Due after five years through 10 years	2,796	2,787	796	876
Due after 10 years	20,557	18,903	5,102	5,060
Mortgage- and asset-backed securities	869	854	285	223
Total fixed maturities available for sale	$30,224	$29,009	$6,417	$6,408
Held to maturity:				
Due after one year through five years	$ 1,615	$ 1,652	$ 200	$ 48
Due after five years through 10 years	2,513	2,751		
Due after 10 years	21,828	20,531		
Mortgage- and asset-backed securities	172	168		
Total fixed maturities held to maturity	$26,128	$25,102	$ 200	$ 48

At September 30, 2009, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling $113 million at amortized cost and $114 million at fair value, which is not included in the table above.

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

As previously described in Note 1, our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at issuance subsequently change to a floating short-term interest rate of 125 to more than 300 basis points above an appropriate market index, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual securities, which were all reported as available for sale at September 30, 2009, were as follows:

(In millions)	Aflac Japan Amortized Cost	Aflac Japan Fair Value	Aflac U.S. Amortized Cost	Aflac U.S. Fair Value
Due in one year or less	$ 277	$ 280	$ 7	$ 10
Due after one year through five years	916	1,002		
Due after five years through 10 years	2,152	2,173	5	4
Due after 10 years through 15 years				
Due after 15 years	4,895	4,162	234	205
Total perpetual securities available for sale	$8,240	$7,617	$246	$219

Table of Contents

Investment Concentrations

Our investment discipline begins with a top-down approach for each investment opportunity we consider. Consistent with that approach, we first approve each country in which we invest. In our approach to sovereign analysis, we consider the political, legal and financial context of the sovereign entity in which an issuer is domiciled and operates. Next we approve the issuer s industry sector, including such factors as the stability of results and the importance of the sector to the overall economy. Specific credit names within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. Structures in which we invest are chosen for specific portfolio management purposes, including asset/liability management, portfolio diversification and net investment income.

Our largest investment industry sector concentration is banks and financial institutions. Within the countries we approve for investment opportunities, we primarily invest in financial institutions that are strategically crucial to each approved country s economy. The bank and financial institution sector is a highly regulated industry and plays a strategic role in the global economy. We achieve some degree of diversification in the bank and financial institution sector through a geographically diverse universe of credit exposures. Within this sector, the more significant concentration of our credit risk by geographic region or country of issuer at September 30, 2009, based on amortized cost, was: Europe, excluding the United Kingdom (44%); United States (19%); United Kingdom (8%); and Japan (10%).

Our total investments in the bank and financial institution sector, including those classified as perpetual securities, were as follows:

	September 30, 2009		December 31, 2008	
	Total Investments in Banks and Financial Institutions Sector (in millions)	**Percentage of Total Investment Portfolio**	Total Investments in Banks and Financial Institutions Sector (in millions)	Percentage of Total Investment Portfolio
Debt Securities:				
Amortized cost	**$20,025**	**28%**	$19,868	28%
Fair value	**17,708**	**26**	17,793	27
Perpetual Securities:				
Upper Tier II:				
Amortized cost	**$ 5,785**	**8%**	$ 6,238	9%
Fair value	**5,539**	**8**	5,960	9
Tier I:				
Amortized cost	**2,404**	**3**	2,542	4
Fair value	**1,986**	**3**	1,780	3
Total:				
Amortized cost	**$28,214**	**39%**	$28,648	41%
Fair value	**25,233**	**37**	25,533	39

Table of Contents

Realized Investment Gains and Losses

Information regarding pretax realized gains and losses from investments is as follows:

(In millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Realized investment gains (losses) on securities:				
Debt securities:				
Available for sale:				
Gross gains from sales	**$ 19**	$	**$ 244**	$
Gross losses from sales		(217)	**(2)**	(225)
Net gains (losses) from redemptions			**2**	
Impairment losses	**(40)**	(86)	**(450)**	(86)
Total debt securities	**(21)**	(303)	**(206)**	(311)
Perpetual securities:				
Available for sale:				
Impairment losses	**(326)**	(294)	**(535)**	(294)
Total perpetual securities	**(326)**	(294)	**(535)**	(294)
Equity securities:				
Impairment losses	**(2)**		**(2)**	
Total equity securities	**(2)**		**(2)**	
Other long-term assets	**2**		**4**	
Total realized investment gains (losses)	**$(347)**	$(597)	**$(739)**	$(605)

During the nine-month period ended September 30, 2009, sales and redemptions of securities resulted in net realized pretax investment gains of $248 million ($161 million after-tax) that were primarily the result of bond swaps. We realized pretax investment losses of $987 million ($642 million after-tax) as a result of the recognition of other-than-temporary impairment losses during the same nine-month period.

During the nine-month period ended September 30, 2008, we realized pretax investment losses of $225 million ($146 million after-tax) as a result of sales and redemptions. These losses were primarily driven by a decision to sell our investments in Lehman Brothers and Washington Mutual. We realized pretax investment losses of $380 million ($247 million after-tax) as a result of the recognition of other-than-temporary impairment losses for our investments in certain of our perpetual securities and Ford Motor Company.

The following table details our pretax impairment losses by investment category.

(In millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Perpetual securities	**$326**	$294	**$535**	$294
Corporate bonds		86	**288**	86

Collateralized debt obligations	**35**		**148**	
Collateralized mortgage obligations	**5**		**14**	
Equity securities	**2**		**2**	
Total other-than-temporary impairments	**$368**	$380	**$987**	$380

Other-than-temporary Impairment

The fair value of our debt and perpetual security investments fluctuates based on changes in credit spreads in the global financial markets. Credit spreads are most impacted by market rates of interest, the general and specific credit environment and global market liquidity. We believe that fluctuations in the fair value of our investment securities related to changes in credit spreads have little bearing on whether our investment is ultimately recoverable. Therefore, we consider such declines in fair value to be temporary even in situations where the specific decline of an investment s fair value below its cost exceeds a year or more.

However, in the course of our credit review process, we may determine that it is unlikely that we will recover our investment in an issuer due to factors specific to an individual issuer, as opposed to general changes in global credit spreads. In this event, we consider such a decline in the investment s fair value, to the extent below the investment s cost or amortized cost, to be an other-than-temporary impairment of the investment and write the investment down to its recoverable value. The determination of whether an impairment is other than temporary is subjective and involves the consideration of various factors and circumstances, which includes but is not limited to the following:

- issuer financial condition, including profitability and cash flows
- credit status of the issuer
- the issuer s specific and general competitive environment
- published reports
- general economic environment
- regulatory and legislative environment
- the severity of the decline in fair value
- the length of time the fair value is below cost
- other factors as may become available from time to time

In addition to the usual investment risk associated with a debt instrument, our perpetual security holdings are subject to the risk of nationalization of their issuers in connection with capital injections from an issuer s sovereign government. We cannot be assured that such capital support will extend to all levels of an issuer s capital. In addition, it is our understanding that certain governments or regulators may consider imposing interest and principal payment restrictions on issuers of hybrid securities to preserve cash and build capital. In addition to the cash flow impact that additional deferrals would have on our portfolio, such deferrals could result in ratings downgrades of the affected securities, which in turn could impair the fair value of the securities and increase our regulatory capital requirements. We take factors such as these into account in our credit review process.

Another factor we consider in determining whether an impairment is other than temporary is an evaluation of our intent, need, or both to sell the security prior to its anticipated recovery in value. We perform ongoing analyses of our liquidity needs, which includes cash flow testing of our policy liabilities, debt maturities, projected dividend payments and other cash flow and liquidity needs. Our cash flow testing includes extensive duration matching of our investment portfolio and policy liabilities. Based on our analyses, we have concluded that we have sufficient excess cash flows to meet our liquidity needs without liquidating any of our investments prior to their maturity. In addition, provided that our credit review process results in a conclusion that we will collect all of our cash flows and recover our investment in an issuer, we generally do not sell investments prior to their maturity.

The majority of our investments are evaluated for other-than-temporary impairment using our debt impairment model. Our debt impairment model focuses on the ultimate collection of the cash flows from our investments. Our investments in perpetual securities that are rated below investment grade are evaluated for other-than-temporary impairment under our equity impairment model. Our equity impairment model focuses on the severity of a security s decline in fair value coupled with the length of time the fair value of the security has been below amortized cost.

Table of Contents

As more fully discussed in the SEC Guidance section of Note 1, we apply the debt security impairment model to our perpetual securities provided there has been no evidence of deterioration in credit of the issuer, such as a downgrade of the rating of a perpetual security to below investment grade. During the nine months ended September 30, 2009, the perpetual securities of six issuers we own were downgraded to below investment grade. As a result of these downgrades, we were required to evaluate these securities for other-than-temporary impairment using the equity security impairment model rather than the debt security impairment model. Use of the equity security model limits the forecasted recovery period that can be used in the impairment evaluation and, accordingly, affects both the recognition and measurement of other-than-temporary impairment losses. As a result of market conditions and the extent of changes in ratings on our perpetual securities, we recognized other-than-temporary impairment losses for perpetual securities being evaluated under our equity impairment model of $326 million ($212 million after-tax) during the three-month period ended September 30, 2009, and $535 million ($348 million after-tax) during the nine-month period ended September 30, 2009.

During our review of certain CMOs, we determined that a portion of the other-than-temporary impairment of the securities was credit-related. However, we concluded a portion of the reduction in fair value below amortized cost was due to non-credit factors which we believe we will recover. As a result, we recognized an impairment charge in earnings for credit-related declines in value of $5 million ($3 million after-tax) during the three-month period and $14 million ($9 million after-tax) during the nine-month period ended September 30, 2009. We recorded an unrealized loss in accumulated other comprehensive income of $8 million ($5 million after-tax) during the three-month period and $15 million ($10 million after-tax) during the nine-month period ended September 30, 2009, for the portion of the other-than-temporary impairment of these securities resulting from non-credit factors. In the third quarter of 2009, we recorded an unrealized gain of $2 million in other comprehensive income for some of these CMOs to reflect the change in fair value subsequent to their other-than-temporary impairment recognized earlier in the year.

The other-than-temporary impairment losses recognized in the first nine months of 2009 of which a portion was transferred to other comprehensive income related only to the other-than-temporary impairment of certain of our investments in CMOs. The other-than-temporary impairment charges related to credit and all other factors other than credit were determined using statistical modeling techniques. The model projects expected cash flows from the underlying mortgage pools assuming various economic recession scenarios including, more significantly, geographical and regional home data, housing valuations, prepayment speeds, and economic recession statistics. The following table summarizes credit-related impairment losses on securities for which other-than-temporary losses were recognized during the reporting period and only the amount related to credit loss was recognized in earnings.

(In millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance of credit loss impairments, beginning of period	$ 9	$
Credit losses for which an other-than-temporary impairment was not previously recognized	5	13
Credit losses for which an other-than-temporary impairment was previously recognized		1
Balance of credit loss impairments, end of period	$ 14	$ 14

Unrealized Investment Gains and Losses

Gross Unrealized Loss Aging

The following tables show the fair value and gross unrealized losses, including the portion of other-than-temporary impairment recognized in accumulated other comprehensive income, of our available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Table of Contents

	September 30, 2009					
	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government and agencies:						
Dollar-denominated	$ 152	$ 1	$ 100	$	$ 52	$ 1
Japan government and agencies:						
Yen-denominated	4,842	150	4,534	125	308	25
Municipalities:						
Dollar-denominated	69	15	16		53	15
Yen-denominated	84	4	84	4		
Mortgage- and asset-backed securities:						
Dollar-denominated	375	95	21	3	354	92
Yen-denominated	57	6	36		21	6
Collateralized debt obligations:						
Dollar-denominated	63	154			63	154
Yen-denominated	172	50			172	50
Public utilities:						
Dollar-denominated	392	63	57	16	335	47
Yen-denominated	3,303	212	1,009	26	2,294	186
Sovereign and supranational:						
Dollar-denominated	85	10	49	5	36	5
Yen-denominated	2,176	235	1,163	28	1,013	207
Banks/financial institutions:						
Dollar-denominated	1,356	301	349	61	1,007	240
Yen-denominated	10,915	2,314	1,920	369	8,995	1,945
Other corporate:						
Dollar-denominated	1,159	99	300	16	859	83
Yen-denominated	5,980	859	2,256	129	3,724	730
Total fixed maturities	31,180	4,568	11,894	782	19,286	3,786
Perpetual securities:						
Dollar-denominated	209	64	34	1	175	63
Yen-denominated	3,506	951	535	97	2,971	854
Total perpetual securities	3,715	1,015	569	98	3,146	917
Equity securities	6	1	3		3	1

Total	**$34,901**	**$5,584**	**$12,466**	**$880**	**$22,435**	**$4,704**

Table of Contents

December 31, 2008						
	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government and agencies:						
Dollar-denominated	$ 77	$ 1	$ 76	$ 1	$ 1	$
Japan government and agencies:						
Yen-denominated	803	16	309	5	494	11
Municipalities:						
Dollar-denominated	69	14	28	1	41	13
Mortgage- and asset-backed securities:						
Dollar-denominated	406	189	284	138	122	51
Yen-denominated	26	1			26	1
Collateralized debt obligations:						
Dollar-denominated	60	188	56	162	4	26
Yen-denominated	101	295	75	145	26	150
Public utilities:						
Dollar-denominated	812	165	566	106	246	59
Yen-denominated	2,376	83	184	2	2,192	81
Sovereign and supranational:						
Dollar-denominated	106	9	101	9	5	
Yen-denominated	1,780	257	571	71	1,209	186
Banks/financial institutions:						
Dollar-denominated	1,528	529	830	212	698	317
Yen-denominated	10,458	1,881	2,128	152	8,330	1,729
Other corporate:						
Dollar-denominated	2,166	501	1,178	241	988	260
Yen-denominated	4,342	660	420	29	3,922	631
Total fixed maturities	25,110	4,789	6,806	1,274	18,304	3,515
Perpetual securities:						
Dollar-denominated	235	136	70	46	165	90
Yen-denominated	4,284	1,091	830	89	3,454	1,002
Total perpetual securities	4,519	1,227	900	135	3,619	1,092
Equity securities	8	2	5	1	3	1
Total	$29,637	$6,018	$7,711	$1,410	$21,926	$4,608

27

Table of Contents

The unrealized losses were primarily related to changes in interest rates, foreign exchange rates or the widening of credit spreads rather than specific issuer credit-related events. In addition, because we do not intend to sell and do not believe it is likely that we will be required to sell these investments before a recovery of fair value to amortized cost, we do not consider any of these investments to be other-than-temporarily impaired as of and for the period ended September 30, 2009, with the exception of certain CMOs discussed in the previous section. The following summarizes our evaluation of each significant investment category.

Government and Agencies Investments

All of the investments in the government and agencies sector in an unrealized loss position were investment grade at September 30, 2009 and December 31, 2008. The unrealized losses on our investments in this sector, which include U.S. Treasury obligations, direct obligations of U.S. government agencies, Japan government bonds, and direct obligations of Japan government agencies, were caused by changes in interest rates and/or foreign exchange rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Unrealized gains and losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. As the investments near maturity, the unrealized gains or losses can be expected to diminish.

Municipalities, Mortgage- and Asset-Backed Securities, Public Utilities, and Sovereign and Supranational Investments

As of September 30, 2009 and December 31, 2008, all of our fixed maturity investments in an unrealized loss position in the public utilities and sovereign and supranational sectors were investment grade. At September 30, 2009, 57% of securities in the municipalities sector and 38% of securities in the mortgage- and asset-backed securities sector in an unrealized loss position were investment grade, compared with 53% and 100%, respectively, at the end of 2008. We have determined that the majority of the unrealized losses on the investments in these sectors were caused by widening credit spreads. However, we have determined that the ability of the issuers to service our investments has not been compromised. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as investments near maturity the unrealized gains or losses can be expected to diminish.

Collateralized Debt Obligation (CDO) Investments

All of our securities in an unrealized loss position in the CDO sector were investment grade at September 30, 2009 and December 31, 2008. We have determined that the unrealized losses in our CDO portfolio were primarily the result of widening credit spreads. The widening credit spreads in the CDO sector has been fueled by continued deterioration of the credit worthiness of the credit default swap (CDS) reference credit entities underlying the CDO contracts and an overall contraction of market liquidity (demand) for CDO investments in all capital markets. As more fully described in our discussion regarding our investment in variable interest entities below, we only invested in the senior tranches of CDO structures. The subordinated tranches of our CDOs absorb the majority of the risk of loss, if any, arising from the CDS contracts underlying our CDOs. As a part of our credit analysis process, we obtain CDS default and default recovery probability statistics from published market sources. We use these default and default recovery statistics to project the number of defaults our CDOs can withstand before our CDO investment would be impaired. In addition to our review of default and default recovery statistics, we also assess the credit quality of the collateral underlying our CDOs.

Based on these reviews, we determined that the declines in value of certain of our CDO investments below their carrying value were considered to be other than temporary and wrote down our investment in these CDOs to their estimated fair value through a charge to earnings in the first and third quarters of 2009.

Table of Contents

Our credit analyses of the CDO issues we own indicate that the remaining number of defaults that can be sustained in our CDOs, other than those disclosed in the preceding paragraph, is sufficient to withstand any expected credit deterioration without impairing the value of our investments. In addition, the credit quality of the collateral underlying these CDOs remains investment grade.

The following summarizes our evaluation of a specific security in our CDO portfolio which is in an unrealized loss position as of September 30, 2009.

Morgan Stanley ACES SPC Series 2008-6 (ACES 2008-6)

We had an unrealized loss of $152 million on our investment of $200 million in ACES 2008-6. The ACES 2008-6 note is a floating rate debt instrument whose coupon is tied to the three-month U.S. dollar LIBOR plus a spread. We believe the decline in the value of ACES 2008-6 was principally due to widening credit spreads, which were notably impacted or worsened by the lack of market liquidity and demand in the market environment for CDO securities as a whole. We also believe that the biggest risk to our investment in ACES 2008-6 is the potential for additional defaults on the underlying CDS reference entity portfolio as a result of weakening global economic conditions. We analyzed the number of defaults and declines in recovery values ACES 2008-6 could withstand until its maturity without experiencing a loss of principal. We have also considered all other available evidence related to our investment in ACES 2008-6 including, but not limited to, the rating of our tranche, our review of the underlying collateral, the number of below-investment-grade reference entities in the portfolio, the current level of CDS spreads for entities in the reference portfolio and the probability of default implied by those market levels as well as various other qualitative analyses. Additionally, the collateral underlying ACES 2008-6 are Bank of America Credit Card Trust 2007-A5 credit card ABS, rated Aaa, AAA, and AAA by Moody s, S&P, and Fitch, respectively, as of September 30, 2009.

Based on the evaluation of these factors, the outlook for projected future defaults and recoveries on the underlying CDS reference entities coupled with our review of the underlying collateral of ACES 2008-6, we concluded that this CDO continues to demonstrate the capability to service its debt for the foreseeable future.

Bank and Financial Institution Investments

The following table shows the composition of our investments in an unrealized loss position in the bank and financial institution sector by fixed maturity securities and perpetual securities. The table reflects those securities in that sector that are in an unrealized loss position as a percentage of our total investment portfolio in an unrealized loss position and their respective unrealized losses as a percentage of total unrealized losses.

	September 30, 2009		December 31, 2008	
	Percentage of Total Investments in an Unrealized Loss Position	**Percentage of Total Unrealized Losses**	Percentage of Total Investments in an Unrealized Loss Position	Percentage of Total Unrealized Losses
Fixed maturities	**35%**	**47%**	41%	40%
Perpetual securities:				
Upper Tier II	**6**	**9**	9	8
Tier I	**5**	**9**	6	12
Total perpetual securities	**11**	**18**	15	20

Total	**46%**	**65%**	56%	60%

Table of Contents

The valuation and pricing pressures from certain structured investment securities throughout 2008 and in the first six months of 2009, more notably the bank and financial institution sector s exposure to the well-publicized structured investment vehicles (SIVs), coupled with their exposure to the continued weakness in the housing sector in the UK, Europe and the United States, led to significant write-downs of asset values and capital pressure. In the third quarter of 2009, the valuation of credit securities improved. To reduce capital pressure, banks and other financial institutions have sought to enhance their capital positions through exchange and tender offers issued at a discount. In addition, national governments in these regions have provided support in various forms, ranging from guarantees on new and existing debt to significant injections of capital. If the market continues to deteriorate, more of these banks and financial institutions may need various forms of government support before the current economic downturn begins to ease. While it does not appear to be a preferred solution, some troubled banks and financial institutions may be nationalized. Very few nationalizations have occurred to date, and in each instance, the governments are standing behind the classes of investments that we own.

As of September 30, 2009, 67% of our investments in the bank and financial institution sector in an unrealized loss position was investment grade, compared with 96% at December 31, 2008. We have determined that the majority of the unrealized losses on the investments in this sector were caused by widening credit spreads, the downturn in the global economic environment and, to a lesser extent, changes in foreign exchange rates. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. As a class of securities, hybrid securities, and particularly perpetual securities, suffered price declines over the last several months due to the financial crisis and perceived higher payment deferral and extension risk. Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligation to us.

The following summarizes our evaluation of specific securities in the bank and financial institution sector which are in an unrealized loss position as of September 30, 2009.

Takefuji Corporation (Takefuji)

We had an unrealized loss of $312 million on our investment of $592 million in Takefuji. Takefuji is one of four major consumer finance companies operating in Japan. In contrast to its peers, which have moved into other lending sectors, including real estate, Takefuji has focused on small unsecured consumer loans contributing to Takefuji s status as one of the consumer finance market leaders. Takefuji has a broad business network, including distribution alliances with regional banks throughout Japan. Takefuji maintained an adequate capital position throughout the fiscal year ended March 31, 2009.

Our reviews of Takefuji reflect adequate near-term liquidity and cash resources to meet its principal and interest obligations for the next 24 months. Takefuji redeemed debt issuances to us totaling $30 million in July 2009 and approximately $220 million in October 2009, both at 100% of original par value.

Investcorp (ISA)

We had an unrealized loss of $222 million on our investment of $460 million in ISA. ISA, a Luxembourg-based financial holding company, is a provider of and investor in alternative investments. While it has operations in London, Bahrain and New York, its clients are principally high net worth individuals and institutions based in the Persian Gulf region.

Table of Contents

We believe the unrealized loss on our investment in ISA was related to capital constraints primarily resulting from weakness in its fund of hedge fund (FoHF) proprietary investments and the challenging market environment for private equity and real estate.

In September 2009, Moody s concluded its review of ISA upon assessing the impact of both the successful $500 million capital raise and the $269 million loss that it reported in the second half of its fiscal year ending June 30, 2009. ISA reported a total net loss of $781 million for its fiscal year ending June 30, 2009. Currently, ISA exhibits a good liquidity profile, yet ISA is also approaching its bank lending relationships to refinance its debt facilities coming due in 2009 and 2010. Total liquidity at June 30, 2009, including proceeds from the $500 million preference share capital raise was $1.8 billion, of which $1.1 billion was held in cash or cash equivalents. As disclosed in ISA s annual report for the fiscal year ending June 30, 2009, ISA stated that total liquidity is sufficient to cover all debt maturities beyond the next four fiscal years until at least March 2014. We continue to monitor the operating environment for ISA, but believe the steps it has taken to improve its financial position are adequate at this time.

SLM Corporation (SLM)

We had an unrealized loss of $219 million on our investment of $363 million in SLM. Our investment in SLM is senior unsecured obligations. SLM, more commonly known as Sallie Mae, is the largest originator, servicer, and collector of student loans in the United States, a majority of which are guaranteed by the U.S. government.

We believe that the unrealized loss on our SLM investment was driven by the funding pressures related to the company s constrained ability to raise debt in both the secured and unsecured markets and Congress evaluation of proposals that threaten the role of private-sector student loan companies in originating government-guaranteed loans. The U.S. Department of Education has provided some funding relief to student lenders by agreeing to purchase existing and newly originated FFELP (Federal Family Education Loan Program) student loans, which has benefited SLM by allowing them to make profitable loans. While SLM has focused on building its private loan portfolio, the company has maintained a high quality book of loans, and a vast majority of SLM s loans carry an explicit government guarantee. Considering this environment and the government backing of a majority of its loans, SLM has demonstrated an adequate liquidity profile.

Banco Espirito Santo, S.A. (BES)

We had an unrealized loss of $133 million on our investment of $332 million in bonds issued by BES. BES is a leading commercial bank in Portugal providing commercial and investment banking services, trade finance and pension plan asset management. BES has expanded its operations abroad to Brazil, Angola and Spain.

We believe the unrealized loss on BES was principally related to the current economic pressures on Portuguese banks profitability, liquidity and capital amid the weakened credit environment and within the context of the global economic downturn. Although BES maintains capital levels in excess of regulatory minimums, BES is vulnerable within the competitive Portuguese market and against the backdrop of a weakened economy with challenging earnings prospects. Although earnings have been challenged most recently due to heavier trading and investing in the debt and equity markets, BES reported a 7.8% increase in net income for the nine months ending September 30, 2009. BES has successfully increased its capital position through a fully subscribed 1.2 billion euro stock offering.

Table of Contents

Bayerische Hypo-und Vereinsbank AG (HVB)

We had an unrealized loss totaling $109 million related to our $563 million investment in UniCredit S.p.A. The majority of these losses were related to our investment in UniCredit s German subsidiary HVB. Our HVB investments include both Tier I and Tier II instruments that are subordinated fixed maturity securities. UniCredit, the parent company of HVB, is a financial services holding company based in Italy where it maintains a strong franchise with a significant presence in Germany, Austria, Poland and Central Eastern Europe. HVB is a key part of UniCredit with well-positioned retail and corporate banking franchises in the south and north of Germany. HVB also houses the Markets and Investment Banking Division of UniCredit.

We believe the fair value of our investment in HVB was negatively impacted by the downturn in the European economic environment, but most recently, HVB reported a profit of 145 million euros for the first half of 2009. This improvement was most noticeable in the Markets and Investment Banking division, which reported a profit before tax of 200 million euros, its first since the start of 2008. While HVB has maintained strong Tier I ratios, the valuation of its securities may also have suffered due to a perception that its parent, UniCredit, has maintained relatively low Tier I capital ratios.

Perpetual securities have suffered price erosion due to the global financial crisis and the uncertainty regarding coupon payments. HVB specifically stated in its 2008 earnings release that HVB will make payments on its participating certificates and hybrid capital instruments.

Aiful Corporation

We had an unrealized loss of $130 million on our investment of $179 million in Aiful. Aiful is one of four major consumer finance companies operating in Japan. The company has diversified its business to related business lines through acquisitions such as Life Co. Ltd, a credit card and installment credit company in 2001, and City s Corp., a provider of high-risk loans to small businesses in 2002. Aiful also established Businext Corp. in 2001, a provider of medium-risk loans to small businesses, as a joint venture with Sumitomo Trust & Banking Co. Ltd., its main bank. In response to pressures caused by the deteriorating economic conditions in Japan, the dysfunctional capital markets, and the Money-Lending Business Control and Regulation Law (MBCRL), Aiful tightened credit and restrained lending, which included closing all branches of City s Corp. and consolidating its small business loans resources into the subsidiary Businext.

We believe that the pressures placed on the consumer lenders related to the MBCRL and reimbursement of overpaid interest along with Aiful s entry into alternative dispute resolution (ADR) are largely responsible for the unrealized losses on our Aiful investments. Since the revised MBCRL was passed and promulgated in December 2006, the profitability of the Japanese consumer lenders has been under heavy pressure as the maximum interest rate for loans was decreased to 18%. Moreover, a series of unfavorable court ruling regarding refunds of overpaid interest (payments exceeding the 18% threshold) have triggered a surge in overpaid interest claims for the lenders. As a result, the lenders have reserved enormous amounts for losses related to reimbursement of overpaid interest.

On September 24, 2009, Aiful s ADR application was accepted, and Aiful began the process of negotiating with 66 banks and financial institutions to modify its borrowings. Aiful should also emerge from this process with a strategic plan in place as a smaller and more viable operation within the difficult operating environment. Aiful has represented that this process does not aim to request debt forgiveness or debt for equity swaps. Thus, we do not anticipate that this process will have a negative impact on our Aiful investments. In addition, Aiful redeemed 8.4 billion yen of its outstanding debt and its Series 31 note, which was originally a 10 billion yen issuance, in October 2009.

32

Table of Contents

Other Corporate Investments

As of September 30, 2009, 56% of the securities in the other corporate sector in an unrealized loss position was investment grade, compared with 70% at the end of 2008. For any credit-related declines in market value, we perform a more focused review of the related issuer s credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuers continued ability to service our investments. We have determined that the majority of the unrealized losses on the investments in the other corporate sector were caused by widening credit spreads. Also impacting the unrealized losses in this sector is the decline in credit worthiness of certain issuers in the other corporate sector. However, consistent with our discussions below of specific issuers within this sector, we have determined that the ability of these issuers to service our investments has not been impaired by these factors.

The following summarizes our evaluation of specific securities in the other corporate sector which are in an unrealized loss position as of September 30, 2009.

UPM-Kymmene Corporation (UPM)

We had an unrealized loss of $130 million on our investment of $344 million in UPM, one of the world s largest forest product companies. UPM and its peers have been negatively impacted by both weakening demand due to poor economic conditions and the significant excess capacity present in the sector. While UPM has been a leader among its peers in capacity reductions, the sector needs significantly more reductions in capacity so as to improve producer pricing power.

During the first quarter of 2009, our investment in UPM was downgraded to below investment grade, reflecting its continued stressed operating environment. Despite the negative outlook for the forest product sector, we believe UPM possesses an above-average competitive profile, compared with its forest product peers. Through its successful efforts to control costs, reduce capacity, improve its position in energy self-sufficiency, and diversify its products, UPM has maintained acceptable earnings ratios and liquidity.

Compania Sudamericana de Vapores S.A. (CSAV)

We had an unrealized loss of $125 million on our investment of $266 million in Tollo Shipping Company S.A. Tollo Shipping Company S.A. is guaranteed by its parent, CSAV. CSAV is the largest shipping company in Latin America, and the 16^{th} largest shipping company in the world. CSAV provides liner and specialized cargo services to clients worldwide with an emphasis on container shipping to and from its key markets of Chile and Brazil. Strong ties with Chile s top exporters and a well-developed logistics service are CSAV s main competitive advantages compared with other shippers with greater capacity.

We believe the decline in fair value of the security was primarily caused by two factors: depressed revenue due to competitive pricing pressures and weaker operating margins due to higher legacy fixed costs, including costs associated with ship charters. However, CSAV management improved its financial flexibility following successful negotiations with shipyards and lessors, along with a $145 million equity infusion. CSAV benefits from a benign debt maturity profile, and a substantial undrawn credit facility. In addition, CSAV announced that it is now in the process of raising additional equity capital over the next 12 to 24 months, which will further strengthen its financial profile.

Table of Contents

Ford Motor Credit Company (FMCC) and Sultanate of Oman (Oman)

Subsequent to December 31, 2008, the unrealized losses in our investment in FMCC and our investment issued by Oman have decreased significantly. FMCC s improvement was due to higher profits in the second quarter of 2009 driven by lower depreciation expense for leased vehicles, net gains on currency exposure, and lower operating costs. Oman s improvement is related to improved visibility of Omani debt due to the recent issuance of debt by the Sultanate of Oman, and continued adherence to prudent fiscal policies.

Perpetual Securities Investments

At September 30, 2009, 79% of our total perpetual securities investments in an unrealized loss position was investment grade, compared with 96% at December 31, 2008. The decrease in investment-grade securities was related to downgrades of investments we own. The majority of our investments in Upper Tier II and Tier I perpetual securities were in highly-rated global financial institutions. Upper Tier II securities have more debt-like characteristics than Tier I securities and are senior to Tier I securities, preferred stock, and common equity of the issuer. Conversely, Tier I securities have more equity-like characteristics, but are senior to the common equity of the issuer. They may also be senior to certain preferred shares, depending on the individual security, the issuer s capital structure and the regulatory jurisdiction of the issuer.

Details of our holdings of perpetual securities as of September 30, 2009, were as follows:

Perpetual Securities

(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	**Unrealized Gain (Loss)**
Upper Tier II:				
	AA	$1,097	$1,107	$ 10
	A	3,065	2,970	(95)
	BBB	790	766	(24)
	BB	1,130	1,007	(123)
Total Upper Tier II		6,082	5,850	(232)
Tier I:				
	AA	336	252	(84)
	A	1,332	1,002	(330)
	BBB	279	207	(72)
	BB or lower	457	525	68
Total Tier I		2,404	1,986	(418)
Total		$8,486	$7,836	$ (650)

With the exception of the Icelandic bank securities that we completely impaired in the fourth quarter of 2008, all of the perpetual securities we own were current on interest and principal payments at September 30, 2009. Based on amortized cost as of September 30, 2009, the geographic breakdown by issuer was as follows: European countries, excluding the United Kingdom (66%); the United Kingdom (17%); Japan (13%); and other countries (4%). For any credit-related declines in market value, we perform a more focused review of the related issuer s credit ratings, financial statements and other available financial data, timeliness of payment, competitive environment and any other significant data related to the issuer. From those reviews, we evaluate the issuer s continued ability to service our investment.

We have determined that the majority of our unrealized losses in the perpetual security category was principally due to widening credit spreads, largely as the result of the contraction of liquidity in the capital markets. Credit spreads for this category were also impacted by the uncertain outlook for the accounting classification of

Table of Contents

subordinated securities in certain regulatory environments. Based on our reviews, we concluded that the ability of the issuers to service our investment has not been compromised by these factors. Unrealized gains or losses related to prevailing interest rate environments are impacted by the remaining time to maturity of an investment. Assuming no credit-related factors develop, as the investments near economic maturity, the unrealized gains or losses can be expected to diminish. Based on our credit analyses, we believe that our investments in this sector have the ability to service their obligation to us.

The following summarizes our evaluation of specific perpetual securities which are in an unrealized loss position as of September 30, 2009.

Nordea Bank AB (Nordea)

We had an unrealized loss of $99 million on our investment of $396 million in Nordea. Nordea is the largest financial services group in the Nordic region with leading market positions in retail banking, merchant banking and wealth management. Nordea is the parent of the Nordea Group. Nordea enjoys strong market positions not only in its native Sweden but also in its other key Nordic markets of Denmark, Finland and Norway.

We believe that concerns regarding the impact of the global economic downturn on the Nordic and Baltic markets have largely driven the unrealized losses on our Nordea investments. Despite the difficult operating environment, Nordea reported a net profit of 626 million euros for the third quarter of 2009, which was down 4% from the third quarter of 2008. Gross impaired loans increased 9% from the second quarter of 2009, which was significantly less than the prior two quarters, but remained relatively low at 1.28% of total loans and receivables. Nordea s Tier I capital ratio also improved from the prior quarter to 12%.

Effect on Shareholders Equity

The net effect on shareholders equity of unrealized gains and losses from investment securities were as follows:

(In millions)	**September 30, 2009**	December 31, 2008
Unrealized gains (losses) on securities available for sale	**$ (1,869)**	$ (2,046)
Unamortized unrealized gains on securities transferred to held to maturity	**156**	179
Deferred income taxes	**604**	659
Other	**(3)**	(3)
Shareholders equity, net unrealized gains (losses) on investment securities	**$ (1,112)**	$ (1,211)

35

Table of Contents

Qualified Special Purpose Entities (QSPEs) and Variable Interest Entities (VIEs)

As part of our investment activities, we own investments in QSPEs and VIEs. The following table details our investments in these vehicles.

Investments in Qualified Special Purpose Entities and Variable Interest Entities

(In millions)	**September 30, 2009 Amortized Cost**	**September 30, 2009 Fair Value**	December 31, 2008 Amortized Cost	December 31, 2008 Fair Value
QSPEs:				
Total QSPEs	**$4,498***	**$4,140**	$4,458*	$4,372
VIEs:				
Consolidated:				
Total VIEs consolidated	**$1,847**	**$1,503**	$1,842	$1,392
Not consolidated:				
CDOs	**755**	**634**	908	433
Other	**743**	**701**	517	499
Total VIEs not consolidated	**1,498**	**1,335**	1,425	932
Total VIEs	**$3,345****	**$2,838**	$3,267**	$2,324

* *Total QSPEs represent 6.3% of total debt and perpetual securities in 2009 and 6.4% in 2008.*

** *Total VIEs represent 4.7% of total debt and perpetual securities in 2009 and 2008.*

We have no equity interests in any of the QSPEs in which we invest, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

Under current accounting guidance, we evaluate our involvement with VIEs at inception to determine our beneficial interests in the VIE and, accordingly, our beneficiary status. As a condition to our involvement or investment in a VIE, we enter into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of our investment or our beneficial interest in the VIE. We would re-evaluate our beneficiary status should a reconsideration event occur. According to GAAP, reconsideration events include changes to a VIE s design or structure, contractual arrangements, and/or its equity at risk. Due to the static nature of these VIEs and our protective rights entered into as a condition of investing in the VIEs, there are few, if any, scenarios that would constitute a reconsideration event in our VIEs. To date, we have not had any reconsideration events in any of our VIEs. If we determine that we own less than 50% of the variable interest created by a VIE, we are not considered to be a primary beneficiary of the VIE and therefore are not required to consolidate the VIE.

Our involvement with all of the VIEs in which we have an interest is passive in nature, and we are not the arranger of these entities. Except as relates to our review and evaluation of the structure of these VIEs in the normal course of our investment decision making process, we have not been involved in establishing these entities. We have not been nor are we required to purchase the securities issued in the future by any of these VIEs.

Our ownership interest in the VIEs is limited to holding the obligations issued by them. All of the VIEs in which we invest are static with respect to funding and have no ongoing forms of funding after the initial funding date. We have no direct or contingent obligations to fund the limited activities of these VIEs, nor do we have any direct or indirect financial guarantees related to the limited activities of these VIEs. We have not provided any assistance or any other type of financing support to any of the VIEs we invest in, nor do we have any intention to do so in the future. The weighted-average lives of our notes are very similar to the underlying collateral held by these VIEs where applicable.

Table of Contents

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we absorb or participate in greater than 50%, if not all, of the variability created by these VIEs and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. The activities of these VIEs are limited to holding debt securities and utilizing the cash flows from the debt securities to service our investments therein. The terms of the debt securities held by these VIEs mirror the terms of the notes held by Aflac. Our loss exposure to these VIEs is limited to the cost of our investment.

We also have interests in VIEs that we are not required to consolidate as reflected in the above table. Included in the VIEs that we do not consolidate are CDOs issued through VIEs originated by third parties. These VIEs combine highly rated underlying assets as collateral for the CDOs with credit default swaps (CDS) to produce an investment security that consists of multiple asset tranches with varying levels of subordination within the VIE.

The underlying collateral assets and funding of these VIEs are generally static in nature, and we do not control the activities of these VIEs. These VIEs are limited to holding the underlying collateral and CDS contracts on specific corporate entities and utilizing the cash flows from the collateral and CDS contracts to service our investment therein. The underlying collateral and the reference corporate entities covered by the CDS contracts are all investment grade at the time of issuance. These VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and CDS contracts.

We currently own only senior CDO tranches within these VIEs. At inception of our investment in these VIEs, we identify the variable interests created by the VIE and, using statistical analysis techniques, evaluate our participation in the variable interests created by them.

Consistent with our other debt securities, we are exposed to credit losses within these CDOs that could result in principal losses to our investments. We have mitigated our risk of credit loss through the structure of the VIE, which contractually requires the subordinated tranches within these VIEs to absorb the majority of the expected losses from the underlying credit default swaps. Based on our statistical analysis models, each of the VIEs can sustain a reasonable number of defaults in the underlying CDS pools with no loss to our CDO investments.

While we may own a significant portion of the securities issued by these VIEs, we have determined that we do not participate in the majority of the variable interests created by the VIE. We also confirm with the arranging investment banks that the variable interests in which we do not retain an interest are issued to third parties unrelated to the arranging investment bank. Since we participate in less than 50% of the variable interests created by these VIEs, we are not the primary beneficiary and are therefore not required to consolidate these VIEs.

Included in the CDOs described above are variable interest rate CDOs purchased with the proceeds from $200 million of variable interest rate funding agreements issued to third party investors during the second quarter of 2008. We earn a spread between the coupon received on the CDOs and the interest credited on the funding agreements. Our obligation under these funding agreements is included in other policyholder funds.

The remaining VIEs that we are not required to consolidate are investments that are limited to loans in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents. These VIEs are the primary financing vehicle used by their corporate sponsors to raise financing in the international capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. We invest in less than 50% of the security interests issued by these VIEs and therefore participate in less than 50% of the variable interests created by them. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them.

Table of Contents

As previously described in Note 1, we are currently evaluating all of our VIEs under the provisions of the amended FASB guidance on accounting for VIEs discussed in Note 1 that will be effective for us on January 1, 2010, to determine whether we will be required to consolidate any of the VIEs we own upon adoption of that guidance. We do not anticipate any impact on debt covenants, capital ratios, credit ratings or dividends should we be required in the future to consolidate the VIEs we own. In the event that we incur losses on the debt securities issued by these VIEs, the impact on debt covenants, capital ratios, credit ratings or dividends would be no different than the impact from losses on any of the other debt securities we own.

Securities Lending

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These short-term security lending arrangements increase investment income with minimal risk. Our security lending policy requires that the fair value of the securities and/or cash received as collateral be 102% or more of the fair value of the loaned securities. The following table presents our security loans outstanding and the corresponding collateral held:

(In millions)	**September 30, 2009**	December 31, 2008
Security loans outstanding, fair value	**$ 103**	$ 1,679
Cash collateral on loaned securities	**106**	1,733

All security lending agreements are callable by us at any time.

For general information regarding our investment accounting policies, see Note 1.

4. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value Measurement

We determine the fair values of our debt, perpetual and privately issued equity securities primarily using three pricing approaches or techniques: quoted market prices readily available from public exchange markets, a discounted cash flow (DCF) pricing model, and price quotes we obtain from outside brokers.

Our DCF pricing model utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing models are most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Credit spreads are derived based on pricing data obtained from investment brokers and take into account the current yield curve, time to maturity and subordination levels for similar securities or classes of securities. We validate the reliability of the DCF pricing models periodically by using the models to price investments for which there are quoted market prices from active and inactive markets or, in the alternative, are quoted by our custodian for the same or similar securities.

The pricing data and market quotes we obtain from outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, the inputs are re-examined and the value is confirmed or revised.

During 2008 and through the first nine months of 2009, we noted a continued reduction in the availability of pricing data from market sources. This decline is due largely to the contraction of liquidity in the global markets and a reduction in the overall number of sources to provide pricing data. As a result, we have noted that available pricing data has become more volatile. The reduction in available pricing sources coupled with the increase in price volatility has increased the degree of management judgment required in the final determination of fair values. We continually assess the reasonableness of the pricing data we receive by comparing it to historical results. In addition to historical comparisons, we evaluate the reasonableness of the pricing data in light of current market trends and events. The final pricing data used to determine fair values is based on management s judgment.

Fair Value Hierarchy

GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuations techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market. The vast majority of our financial instruments subject to the classification provisions of GAAP relate to our investment securities classified as securities available for sale in our investment portfolio. We determine the fair value of our securities available for sale using several sources or techniques based on the type and nature of the investment securities.

Table of Contents

The following tables present the fair value hierarchy levels of the Company s assets and liabilities that are measured at fair value on a recurring basis.

	September 30, 2009			
(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
Government and agencies	$9,175	$ 2,036	$	$11,211
Municipalities	16	316		332
Mortgage- and asset-backed securities		1,013	66	1,079
Public utilities		3,449	506	3,955
Collateralized debt obligations	117	164	133	414
Sovereign and supranational		870	314	1,184
Banks/financial institutions		5,472	1,346	6,818
Other corporate		9,296	1,242	10,538
Total fixed maturities	9,308	22,616	3,607	35,531
Perpetual securities:				
Banks/financial institutions		6,187	1,338	7,525
Other corporate		311		311
Total perpetual securities		6,498	1,338	7,836
Equity securities	16		10	26
Total assets	$9,324	$29,114	$4,955	$43,393
Liabilities:				
Interest rate swaps	$	$ 3	$	$ 3
Total liabilities	$	$ 3	$	$ 3

40

Table of Contents

	December 31, 2008			
(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
Government and agencies	$10,182	$ 2,214	$	$12,396
Municipalities		106		106
Mortgage- and asset-backed securities		1,020	35	1,055
Public utilities		3,157	502	3,659
Collateralized debt obligations	116	140	19	275
Sovereign and supranational		994	260	1,254
Banks/financial institutions		5,674	876	6,550
Other corporate		8,819	898	9,717
Total fixed maturities	10,298	22,124	2,590	35,012
Perpetual securities:				
Banks/financial institutions		7,328	412	7,740
Other corporate		307		307
Total perpetual securities		7,635	412	8,047
Equity securities	18	5	4	27
Total assets	$10,316	$29,764	$3,006	$43,086
Liabilities:				
Cross-currency and interest rate swaps	$	$ 158	$	$ 158
Total liabilities	$	$ 158	$	$ 158

Approximately 41% of our investments classified as Level 2 are valued by obtaining quoted market prices from our investment custodian. The custodian obtains price quotes from various pricing services that estimate fair values based on observable market transactions for similar investments in active markets, market transactions for the same investments in inactive markets or other observable market data where available.

The fair value of approximately 54% of our Level 2 investments is determined using our DCF pricing model. The significant valuation inputs to the DCF model are obtained from, or corroborated by, observable market sources from both active and inactive markets.

For the remaining Level 2 investments that are not quoted by our custodian and cannot be priced under the DCF pricing model, we obtain specific broker quotes from up to three outside securities brokers and generally use the average of the quotes to estimate the fair value of the securities.

Historically, we have not adjusted the quotes or prices we obtain from the brokers and pricing services we use.

The fair value of our cross-currency and interest rate swap contracts is based on the amount we would expect to receive or pay to terminate the swaps. The prices used to determine the value of the swaps are obtained from the respective swap counterparties and take into account current interest and foreign currency rates, duration, counterparty credit risk and our own credit rating.

Table of Contents

The fixed maturities and perpetual securities classified as Level 3 consist of securities for which there are limited or no observable valuation inputs. We estimate the fair value of these securities by obtaining broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market flows. We consider these inputs unobservable. The equity securities classified in Level 3 are related to investments in Japanese businesses, each of which are insignificant and in the aggregate are immaterial. Because fair values for these investments are not readily available, we carry them at their original cost. We review each of these investments periodically and, in the event we determine that any are other-than-temporarily impaired, we write them down to their estimated fair value at that time.

Level 3 Rollforward

The following tables present the changes in our securities available for sale classified as Level 3.

	Three Months Ended September 30, 2009						
(In millions)	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	Unrealized gains (losses) still held*
Fixed maturities:							
Mortgage- and asset-backed securities	$ 33	$	$ 2	$ 31	$	$ 66	$
Banks/financial institutions	1,117	3	186	(3)	43	1,346	
Collateralized debt obligations	111	(25)	61	(14)		133	(35)
Other corporate	1,082		160			1,242	
Public utilities	457		40		9	506	
Sovereign and supranational	272		42			314	
Total fixed maturities	3,072	(22)	491	14	52	3,607	(35)
Perpetual securities:							
Banks/financial institutions	1,063	(325)	600			1,338	(325)
Total perpetual securities	1,063	(325)	600			1,338	(325)
Equity securities	9		1			10	
Total	$4,144	$(347)	$ 1,092	$ 14	$ 52	$4,955	$(360)

* *Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2009.*

Table of Contents

	Three Months Ended September 30, 2008						
(In millions)	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	Unrealized gains (losses) still held*
Fixed maturities:							
Mortgage- and asset-backed securities	$ 23	$	$ (1)	$	$	$ 22	$
Banks/financial institutions	19		(1)	40		58	
Collateralized debt obligations	58		(24)	7		41	
Other corporate	108		(3)			105	
Public utilities	86		(5)		41	122	
Total fixed maturities	294		(34)	47	41	348	
Equity securities	4					4	
Total	$298	$	$ (34)	$ 47	$ 41	$352	$

* *Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that were still held at September 30, 2008.*

Table of Contents

	Nine Months Ended September 30, 2009						
(In millions)	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	Unrealized gains (losses) still held*
Fixed maturities:							
Mortgage- and asset-backed securities	$ 35	$	$	$ 31	$	$ 66	$
Banks/financial institutions	876	(75)	61	(3)	487	1,346	(78)
Collateralized debt obligations	19	(140)	227	(14)	41	133	(148)
Other corporate	898		144		200	1,242	
Public utilities	502		(5)		9	506	
Sovereign and supranational	260		54			314	
Total fixed maturities	2,590	(215)	481	14	737	3,607	(226)
Perpetual securities:							
Banks/financial institutions	412	(325)	539		712	1,338	(325)
Total perpetual securities	412	(325)	539		712	1,338	(325)
Equity securities	4				6	10	
Total	$3,006	$(540)	$ 1,020	$ 14	$ 1,455	$4,955	$(551)

* *Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains*

(losses) relating to assets classified as Level 3 that were still held at September 30, 2009.

	Nine Months Ended September 30, 2008						
(In millions)	Balance, beginning of period	Realized gains or losses included in earnings	Unrealized gains or losses included in other comprehensive income	Purchases and settlements	Transfers into and/or out of Level 3	Balance, end of period	Unrealized gains (losses) still held*
Fixed maturities:							
Mortgage- and asset-backed securities	$13	$					