AFLAC INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 001-07434

Aflac Incorporated

(Exact name of registrant as specified in its charter)

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

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 ¨ 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 ¨ 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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ 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	October 28, 2010
Common Stock, $.10 Par Value	471,261,454 shares

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Aflac Incorporated and Subsidiaries

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2010

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Review by Independent Registered Public Accounting Firm

The September 30, 2010, and 2009, consolidated 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.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Aflac Incorporated

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries as of September 30, 2010, and the related consolidated statements of earnings and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2010 and 2009, and the consolidated statements of shareholders equity and cash flows for the nine-month periods ended September 30, 2010 and 2009. 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 standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aflac Incorporated and subsidiaries as of December 31, 2009, 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 26, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Atlanta, Georgia
November 5, 2010

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Aflac Incorporated and Subsidiaries

Consolidated Statements of Earnings

(In millions, except for share and per-share amounts - Unaudited)	Three Months Ended September 30, **2010**	Three Months Ended September 30, 2009	Nine Months Ended September 30, **2010**	Nine Months Ended September 30, 2009
Revenues:				
Premiums, principally supplemental health insurance	**$ 4,607**	$ 4,165	**$ 13,288**	$ 12,274
Net investment income	**765**	692	**2,218**	2,048
Realized investment gains (losses):				
Other-than-temporary impairment losses:				
Total other-than-temporary impairment losses	**(13)**	(376)	**(55)**	(1,002)
Other-than-temporary impairment losses recognized in other comprehensive income	**0**	8	**0**	15
Other-than-temporary impairment losses realized	**(13)**	(368)	**(55)**	(987)
Sales and redemptions	**8**	21	**0**	248
Derivative gains (losses)	**14**	0	**(72)**	0
Total realized investment gains (losses)	**9**	(347)	**(127)**	(739)
Other income	**13**	16	**59**	74
Total revenues	**5,394**	4,526	**15,438**	13,657
Benefits and expenses:				
Benefits and claims	**3,102**	2,817	**8,843**	8,351
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**243**	216	**752**	692
Insurance commissions	**412**	388	**1,213**	1,158
Insurance expenses	**505**	487	**1,493**	1,405
Interest expense	**39**	25	**105**	46
Other operating expenses	**38**	44	**114**	112
Total acquisition and operating expenses	**1,237**	1,160	**3,677**	3,413
Total benefits and expenses	**4,339**	3,977	**12,520**	11,764
Earnings before income taxes	**1,055**	549	**2,918**	1,893
Income taxes	**365**	186	**1,011**	648
Net earnings	**$ 690**	$ 363	**$ 1,907**	$ 1,245
Net earnings per share:				
Basic	**$ 1.47**	$ .78	**$ 4.07**	$ 2.67
Diluted	**1.46**	.77	**4.03**	2.66
Weighted-average outstanding common shares used in computing earnings per share (In thousands):				
Basic	**469,868**	466,586	**468,880**	466,362
Diluted	**473,569**	469,714	**472,859**	468,378
Cash dividends per share	**$ .28**	$ .28	**$ .84**	$ .84

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Balance Sheets

(In millions)	September 30, 2010 (Unaudited)	December 31, 2009
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $41,287 in 2010 and $37,633 in 2009)	**$ 41,928**	$ 36,781 [(1)]
Fixed maturities - consolidated variable interest entities (amortized cost $4,626 in 2010)	**5,060**	0 [(1)]
Perpetual securities (amortized cost $6,161 in 2010 and $7,554 in 2009)	**6,006**	7,263 [(1)]
Perpetual securities - consolidated variable interest entities (amortized cost $1,576 in 2010)	**1,446**	0 [(1)]
Equity securities (cost $23 in 2010 and $22 in 2009)	**24**	24
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $27,459 in 2010 and $25,828 in 2009)	**27,965**	26,687 [(1)]
Fixed maturities - consolidated variable interest entities (fair value $537 in 2010)	**597**	0 [(1)]
Other investments	**125**	114
Cash and cash equivalents	**2,434**	2,323
Total investments and cash	**85,585**	73,192
Receivables	**640**	764
Accrued investment income	**709**	649
Deferred policy acquisition costs	**9,418**	8,533
Property and equipment, at cost less accumulated depreciation	**610**	593
Other	**881** [(2)]	375
Total assets	**$ 97,843**	$ 84,106

(1) *Due to the prospective application of accounting guidance adopted in 2010, consolidated fixed-maturity and perpetual-security variable interest entities (VIEs) are only disclosed separately in 2010.*

(2) *Includes $383 of derivatives from consolidated VIEs.*

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Balance Sheets (continued)

(In millions, except for share and per-share amounts)	**September 30, 2010** (Unaudited)	December 31, 2009
Liabilities and shareholders equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$ 69,329**	$ 61,501
Unpaid policy claims	**3,662**	3,270
Unearned premiums	**1,118**	926
Other policyholders funds	**4,804**	3,548
Total policy liabilities	**78,913**	69,245
Notes payable	**3,008**	2,599
Income taxes	**2,146**	1,653
Payables for return of cash collateral on loaned securities	**147**	483
Other	**2,496** [3]	1,709
Commitments and contingent liabilities (Note 10)		
Total liabilities	**86,710**	75,689
Shareholders equity:		
Common stock of $.10 par value. In thousands: authorized 1,900,000 shares in 2010 and 2009; issued 662,111 shares in 2010 and 661,209 shares in 2009	**66**	66
Additional paid-in capital	**1,289**	1,228
Retained earnings	**13,758**	12,410
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains	**809**	776
Unrealized gains (losses) on investment securities:		
Unrealized gains (losses) on securities not other-than-temporarily impaired	**595**	(622)
Unrealized gains (losses) on other-than-temporarily impaired securities	**(1)**	(16)
Unrealized gains (losses) on derivatives	**(2)**	(2)
Pension liability adjustment	**(107)**	(107)
Treasury stock, at average cost	**(5,274)**	(5,316)
Total shareholders equity	**11,133**	8,417
Total liabilities and shareholders equity	**$ 97,843**	$ 84,106

[3] *Includes $683 of derivatives from consolidated VIEs*

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Statements of Shareholders Equity

(In millions - Unaudited)	Nine Months Ended September 30, **2010**	2009
Common stock:		
Balance, beginning of period	**$ 66**	$ 66
Balance, end of period	**66**	66
Additional paid-in capital:		
Balance, beginning of period	**1,228**	1,184
Exercise of stock options	**39**	6
Share-based compensation	**27**	26
Gain (loss) on treasury stock reissued	**(5)**	0
Balance, end of period	**1,289**	1,216
Retained earnings:		
Balance, beginning of period	**12,410**	11,306
Cumulative effect of change in accounting principle, net of income taxes	**(25)**	0
Net earnings	**1,907**	1,245
Dividends to shareholders	**(534)**	(261)
Balance, end of period	**13,758**	12,290
Accumulated other comprehensive income (loss):		
Balance, beginning of period	**29**	(582)
Unrealized foreign currency translation gains (losses) during period, net of income taxes:		
Cumulative effect of change in accounting principle, net of income taxes	**(320)**	0
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	**353**	112
Unrealized gains (losses) on investment securities during period, net of income taxes and reclassification adjustments:		
Cumulative effect of change in accounting principle, net of income taxes	**180**	0
Change in unrealized gains (losses) on investment securities not other-than-temporarily impaired, net of income taxes	**1,037**	108
Change in unrealized gains (losses) on other-than-temporarily impaired investment securities, net of income taxes	**15**	(9)
Pension liability adjustment during period, net of income taxes	**0**	3
Balance, end of period	**1,294**	(368)
Treasury stock:		
Balance, beginning of period	**(5,316)**	(5,335)
Purchases of treasury stock	**(5)**	(4)
Cost of shares issued	**47**	17
Balance, end of period	**(5,274)**	(5,322)
Total shareholders equity	**$11,133**	$ 7,882

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

(In millions - Unaudited)	Nine Months Ended September 30, **2010**	2009
Cash flows from operating activities:		
Net earnings	**$ 1,907**	$ 1,245
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**719**	228
Increase in deferred policy acquisition costs	**(291)**	(254)
Increase in policy liabilities	**2,463**	2,219
Change in income tax liabilities	**0**	106
Realized investment (gains) losses	**127**	739
Other, net	**(56)**	120
Net cash provided (used) by operating activities	**4,869**	4,403
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**1,637**	4,061
Fixed maturities matured or called	**729**	1,905
Perpetual securities sold	**700**	102
Equity securities sold	**328**	0
Securities held to maturity:		
Fixed maturities matured or called	**8**	210
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities acquired	**(6,663)**	(5,434)
Equity securities acquired	**(330)**	0
Securities held to maturity:		
Fixed maturities acquired	**(1,122)**	(3,127)
Cash received as collateral on loaned securities, net	**(349)**	(1,563)
Other, net	**(18)**	(41)
Net cash provided (used) by investing activities	**$ (5,080)**	$ (3,887)

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(In millions - Unaudited)	Nine Months Ended September 30, 2010	2009
Cash flows from financing activities:		
Purchases of treasury stock	**$ (5)**	$ (4)
Proceeds from borrowings	**748**	1,004
Principal payments under debt obligations	**(456)**	(544)
Dividends paid to shareholders	**(395)**	(393)
Change in investment-type contracts, net	**299**	274
Treasury stock reissued	**39**	6
Other, net	**36**	3
Net cash provided (used) by financing activities	**266**	346
Effect of exchange rate changes on cash and cash equivalents	**56**	1
Net change in cash and cash equivalents	**111**	863
Cash and cash equivalents, beginning of period	**2,323**	941
Cash and cash equivalents, end of period	**$ 2,434**	$1,804
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 926**	$ 550
Interest paid	**77**	22
Impairment losses included in realized investment losses	**55**	987
Noncash financing activities:		
Capitalized lease obligations	**1**	1
Treasury stock issued for:		
Associate stock bonus	**0**	7
Share-based compensation grants	**3**	4

See the accompanying Notes to the Consolidated Financial Statements.

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Aflac Incorporated and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions - Unaudited)	**2010**	2009	**2010**	2009
Net earnings	**$ 690**	$ 363	**$ 1,907**	$ 1,245
Other comprehensive income (loss) before income taxes:				
Unrealized foreign currency translation gains (losses) during period	**59**	162	**102**	111
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) on investment securities during period	**712**	1,228	**1,590**	(590)
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	**6**	349	**55**	745
Unrealized gains (losses) on derivatives during period	**2**	0	**0**	0
Pension liability adjustment during period	**(1)**	(1)	**1**	5
Total other comprehensive income (loss) before income taxes	**778**	1,738	**1,748**	271
Income tax expense (benefit) related to items of other comprehensive income (loss)	**112**	454	**343**	57
Other comprehensive income (loss), net of income taxes	**666**	1,284	**1,405**	214
Total comprehensive income (loss)	**$ 1,356**	$ 1,647	**$ 3,312**	$ 1,459

See the accompanying Notes to the Consolidated Financial Statements.

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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 (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company s insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac s policies are individually underwritten and marketed through independent agents. Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC). Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan s revenues, including realized gains and losses on its investment portfolio, accounted for 75% and 78% of the Company s total revenues in the nine-month periods ended September 30, 2010, and 2009, respectively. The percentage of the Company s total assets attributable to Aflac Japan was 85% at both September 30, 2010, and December 31, 2009.

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). In these Notes to the Consolidated Financial Statements, references to GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). 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, liabilities for future policy benefits and unpaid policy claims, and income taxes. 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 unaudited consolidated financial statements include the accounts of the Parent Company, its 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, 2010, and December 31, 2009, the consolidated statements of earnings and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2010, and 2009, and the consolidated statements of shareholders equity and cash flows for the nine-month periods ended September 30, 2010, and 2009. 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, 2009.

Significant Accounting Policies

As a result of accounting guidance adopted subsequent to December 31, 2009, we have updated our accounting policy for investments and derivatives and hedging. All other categories of significant accounting policies remain unchanged from our annual report to shareholders for the year ended December 31, 2009.

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 and recognition of impairment charges, if any. The amortized cost of debt and perpetual securities we purchase at a discount or premium will equal the face or par value at maturity or the call date, if applicable. Interest is reported as income when earned and is adjusted for amortization of any premium or discount.

We have investments in variable interest entities (VIEs) and qualified special purpose entities (QSPEs). In periods prior to 2010, VIEs were evaluated for consolidation based on the variable interest created by a VIE, and QSPEs were exempt from consolidation. Our investments in VIEs and QSPEs were accounted for as fixed-maturity or perpetual securities. The majority of our investments in VIEs and QSPEs were held in our available-for-sale portfolio.

Subsequent to the adoption of updated accounting guidance on VIEs and QSPEs on January 1, 2010, our accounting treatment for these investments changed. The concept of QSPEs was eliminated, and therefore, the former QSPEs are treated as normal VIEs and are evaluated for consolidation. We adopted the new criteria for evaluating VIEs for consolidation, which, instead of focusing on a quantitative approach, focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As a result of the application of this new guidance, we are the primary beneficiary of certain VIEs. While the VIEs generally operate within a defined set of documents, there are certain powers that are retained by us that are considered significant in our conclusion that we are the primary beneficiary. These powers vary by structure but generally include the initial selection of the underlying collateral or, for collateralized debt obligations (CDOs), the reference credits to include in the structure; the ability to obtain the underlying collateral in the event of default; and the ability to appoint or dismiss key parties in the structure. In particular, our powers surrounding the underlying collateral were the most significant powers since those most significantly impact the economics of the VIE. We have no obligation to provide any continuing financial support to any of the entities in which we are the primary beneficiary. Our maximum loss is limited to our original investment. Neither we nor any of our creditors have the ability to obtain the underlying collateral. Nor do we have control over the instruments in the VIEs, unless there is an event of default. This collateral is reported separately under the captions fixed maturities- and perpetual securities- consolidated variable interest entities on our balance sheet.

For those entities where we are the primary beneficiary, the assets consolidated are fixed-maturity securities, perpetual securities and derivative instruments. The calculation method of the yields on these investments did not change as a result of adoption of the new accounting guidance.

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.

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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.

In periods prior to 2009, if, after monitoring and analyses, management believed that a decline in fair value was other than temporary, we adjusted the amortized cost of the security to fair value and reported a realized loss in the consolidated statements of earnings. Subsequent to the adoption of updated accounting guidance on impairments in 2009, our accounting policy changed. 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.

Derivatives and Hedging: We do not use derivatives for trading purposes, nor do we engage in leveraged derivative transactions.

Freestanding derivative instruments are reported in the consolidated balance sheet at fair value and are reported in other assets and other liabilities, with changes in value reported in earnings and/or other comprehensive income. These freestanding derivatives are interest rate swaps, credit default swaps (CDSs) and/or foreign currency swaps. Interest rate and foreign currency swaps are used within VIEs to hedge the risk arising from interest rate and currency exchange risk, while the CDSs are used to increase the yield and improve the diversification of the portfolio.

From time to time, we purchase certain investments that contain an embedded derivative. We assess whether this embedded derivative is clearly and closely related to the asset that serves as its host contract. If we deem that the embedded derivative s terms are not clearly and closely related to the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the derivative is separated from that contract, held at fair value and reported with the host instrument in the consolidated balance sheet, with changes in fair value reported in earnings.

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

We have designated certain interest rate swaps as a hedge of the variability of the interest cash flows associated with our variable rate Uridashi notes. Changes in the fair value of these and any of our other derivatives that are designated and qualify as cash flow hedges are recorded in other comprehensive income as long as they are deemed effective. Any hedge ineffectiveness is recorded immediately in current period earnings as a net realized investment gain or loss. Periodic derivative net coupon settlements are recorded in the line item of the consolidated statements of earnings in which the cash flows of the hedged item are recorded. We include the fair value of these derivatives in either other assets or other liabilities on the balance sheet.

We have designated our yen-denominated Samurai and Uridashi notes and yen-denominated loans (see Note 6) as nonderivative hedges of the foreign currency exposure to our investment in Aflac Japan. At the beginning of each quarter, we make our net investment hedge designation. If the total of our designated yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these designated yen-denominated liabilities exceed our investment in Aflac Japan, the foreign exchange effect on the portion of the liabilities that exceeds our investment in Aflac Japan would be recognized in net earnings (other income). Until their expiration in April 2009, we designated our cross-currency swaps as a hedge of the foreign currency exposure of our investment in Aflac Japan. We included the fair value of the cross-currency swaps in either other assets or other liabilities on the balance sheet. We reported the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component were reflected in other income in the consolidated statements of earnings.

For further information regarding derivatives and hedging, see Note 4.

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders equity.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Accounting for embedded credit derivatives: In March 2010, the FASB issued accounting guidance on embedded credit derivatives. This guidance clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. We adopted this guidance as of July 1, 2010. The adoption did not have a significant impact on our financial position or results of operations.

Fair value measurements and disclosures: In January 2010, the FASB issued amended accounting guidance on fair value disclosures. This guidance requires new disclosures about transfers in and out of fair value hierarchy Levels 1 and 2. We adopted this guidance as of January 1, 2010. The adoption did not have an impact on our financial position or results of operations.

Accounting for variable interest entities and transfers of financial assets: In June 2009, the FASB issued amended guidance on accounting for VIEs and transfers of financial assets. As discussed above, 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 QSPEs; establishes conditions for reporting a transfer of a portion of a financial asset as a sale; modifies the financial asset derecognition criteria; and requires additional disclosures. We adopted the provisions of this guidance on January 1, 2010, prospectively. As a result, we were required to consolidate certain of the VIEs with which we are currently involved. We were not required to deconsolidate any VIEs on January 1, 2010.

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Upon the initial consolidation of the VIEs on January 1, 2010, the assets, liabilities, and noncontrolling interests of the VIEs were recorded at their carrying values, which is the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements when we first met the conditions to be the primary beneficiary. For any of the VIEs that were required to be consolidated, we also considered whether any of the derivatives in these structures qualified on January 1, 2010, as a cash flow hedge of the changes in cash flows attributable to foreign currency and/or interest rate risk. Certain of the swaps did not qualify for hedge accounting since the swap had a fair value on January 1, 2010. Other swaps did not qualify for hedge accounting since they increased, rather than reduced, cash flow risk. See Note 4 for further discussion.

The impact of consolidating these VIEs as of January 1, 2010, includes three primary components. The first component is the valuation differences associated with the underlying securities and derivatives included in the VIE structures. Prior to the consolidation of these VIEs, we utilized a pricing model to value our beneficial interests and did not separately consider the fair value of the financial instruments included within the structures. The cumulative impact of these valuation adjustments was recorded in accumulated other comprehensive income or retained earnings depending on whether the valuation adjustment was associated with the underlying debt securities and whether the derivative qualified as a cash flow hedge.

Another portion of the impact of consolidation was related to the currency translation adjustments that were previously recognized for our beneficial interests in the VIEs that were yen-denominated. Since some of the underlying assets in the VIEs are dollar-denominated, the previously recognized currency translation adjustment was reversed.

The final portion primarily relates to the fair value of CDSs included in the CDOs that had been designated as held to maturity. Under U.S. GAAP, these credit default swaps were recorded at fair value as a cumulative effect adjustment through retained earnings. The CDSs are not eligible for hedge accounting.

The following table summarizes the cumulative after-tax consolidation impact of adopting this new accounting guidance on January 1, 2010:

(In millions)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Equity
Cumulative valuation adjustments	$ 180	$ 0	$ 180
Currency translation adjustments	(320)	0	(320)
Swaps	0	(26)	(26)
Other	0	1	1
Total	$ (140)	$ (25)	$ (165)

For additional information concerning our investments in VIEs and derivatives, see Notes 3 and 4, respectively.

Accounting Pronouncements Pending Adoption

Accounting for costs associated with acquiring or renewing insurance contracts: In October 2010, the FASB issued amended accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts. Only incremental direct costs associated with the successful acquisition of a new or renewal contract may be capitalized. The amendment also prohibits capitalizing direct-response advertising costs unless they meet certain criteria. This guidance is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact of adopting this guidance on our financial position and results of operations.

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Fair value measurements and disclosures: In January 2010, the FASB issued amended accounting guidance on fair value disclosures. This guidance requires the activity in fair value hierarchy Level 3 for purchases, sales, issuances, and settlements to be reported on a gross, rather than net, basis. This guidance is effective for interim and annual periods beginning after December 15, 2010. We do not expect the adoption of this guidance to have any impact on our financial position or results of operations.

Recent accounting guidance not discussed above is not applicable or did not have an impact to our business.

For additional information on new accounting pronouncements 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, 2009.

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2. BUSINESS SEGMENT INFORMATION

The Company consists of two reportable insurance business segments: Aflac Japan and Aflac U.S., both of which sell 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 (Derivatives and Hedging), 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)	**2010**	2009	**2010**	2009
Revenues:				
Aflac Japan:				
Earned premiums	**$ 3,456**	$ 3,054	**$ 9,849**	$ 8,967
Net investment income	**624**	568	**1,810**	1,673
Other income	**5**	8	**31**	30
Total Aflac Japan	**4,085**	3,630	**11,690**	10,670
Aflac U.S.:				
Earned premiums	**1,150**	1,110	**3,438**	3,307
Net investment income	**138**	123	**404**	375
Other income	**2**	3	**9**	7
Total Aflac U.S.	**1,290**	1,236	**3,851**	3,689
Other business segments	**12**	13	**35**	38
Total business segment revenues	**5,387**	4,879	**15,576**	14,397
Realized investment gains (losses)	**9**	(347)	**(127)**	(739)
Corporate	**58**	40	**159**	108
Intercompany eliminations	**(60)**	(46)	**(170)**	(109)
Total revenues	**$ 5,394**	$ 4,526	**$ 15,438**	$ 13,657

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(In millions)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Pretax earnings:				
Aflac Japan	**$ 866**	$ 725	**$ 2,485**	$ 2,086
Aflac U.S.	**228**	216	**699**	617
Other business segments	**0**	1	**(3)**	1
Total business segment pretax earnings	**1,094**	942	**3,181**	2,704
Interest expense, noninsurance operations	**(37)**	(24)	**(99)**	(48)
Corporate and eliminations	**(11)**	(22)	**(37)**	(36)
Pretax operating earnings	**1,046**	896	**3,045**	2,620
Realized investment gains (losses)	**9**	(347)	**(127)**	(739)
Impact from ASC 815	**0**	0	**0**	(5)
Gain on extinguishment of debt	**0**	0	**0**	17
Total earnings before income taxes	**$ 1,055**	$ 549	**$ 2,918**	$ 1,893
Income taxes applicable to pretax operating earnings	**$ 362**	$ 307	**$ 1,055**	$ 901
Effect of foreign currency translation on operating earnings	**32**	42	**65**	107

Assets were as follows:

(In millions)	September 30, 2010	December 31, 2009
Assets:		
Aflac Japan	**$ 83,302**	$ 71,639
Aflac U.S.	**13,422**	11,779
Other business segments	**158**	142
Total business segment assets	**96,882**	83,560
Corporate	**14,248**	11,261
Intercompany eliminations	**(13,287)**	(10,715)
Total assets	**$ 97,843**	$ 84,106

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3. INVESTMENTS

Investment Holdings

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.

(In millions)	September 30, 2010 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	$ 15,346	$ 916	$ 0	$ 16,262
Mortgage- and asset-backed securities	1,206	44	6	1,244
Public utilities	2,500	127	110	2,517
Sovereign and supranational	750	31	17	764
Banks/financial institutions	6,047	177	1,338	4,886
Other corporate	5,815	125	582	5,358
Total yen-denominated	31,664	1,420	2,053	31,031
Dollar-denominated:				
U.S. government and agencies	47	5	0	52
Municipalities	838	46	12	872
Mortgage- and asset-backed securities(1)	536	101	17	620
Collateralized debt obligations	5	0	0	5
Public utilities	2,263	382	8	2,637
Sovereign and supranational	396	83	0	479
Banks/financial institutions	3,445	249	77	3,617
Other corporate	6,719	998	42	7,675
Total dollar-denominated	14,249	1,864	156	15,957
Total fixed maturities	45,913	3,284	2,209	46,988
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	6,998	180	526	6,652
Other corporate	320	11	1	330
Dollar-denominated:				
Banks/financial institutions	419	76	25	470
Total perpetual securities	7,737	267	552	7,452
Equity securities	23	3	2	24
Total securities available for sale	$ 53,673	$ 3,554	$ 2,763	$ 54,464

(1) *Includes $2 of other-than-temporary non-credit-related losses*

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	September 30, 2010			
(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	$ 390	$ 35	$ 0	$ 425
Municipalities	395	28	5	418
Mortgage- and asset-backed securities	148	6	0	154
Public utilities	6,165	185	197	6,153
Sovereign and supranational	4,517	160	150	4,527
Banks/financial institutions	12,054	164	806	11,412
Other corporate	4,893	165	151	4,907
Total yen-denominated	28,562	743	1,309	27,996
Total securities held to maturity	$ 28,562	$ 743	$ 1,309	$ 27,996

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(In millions)	December 31, 2009 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	$ 11,710	$ 405	$ 174	$ 11,941
Mortgage- and asset-backed securities	549	13	0	562
Public utilities	2,284	145	79	2,350
Collateralized debt obligations	165	97	24	238
Sovereign and supranational	833	28	96	765
Banks/financial institutions	5,248	144	784	4,608
Other corporate	6,401	112	714	5,799
Total yen-denominated	27,190	944	1,871	26,263
Dollar-denominated:				
U.S. government and agencies	221	3	7	217
Municipalities	519	4	28	495
Mortgage- and asset-backed securities[(1)]	586	9	78	517
Collateralized debt obligations	24	7	2	29
Public utilities	1,587	123	42	1,668
Sovereign and supranational	353	48	9	392
Banks/financial institutions	2,668	75	259	2,484
Other corporate	4,485	339	108	4,716
Total dollar-denominated	10,443	608	533	10,518
Total fixed maturities	37,633	1,552	2,404	36,781
Perpetual securities:				
Yen-denominated:				
Banks/financial institutions	6,964	311	604	6,671
Other corporate	291	28	0	319
Dollar-denominated:				
Banks/financial institutions	299	30	56	273
Total perpetual securities	7,554	369	660	7,263
Equity securities	22	4	2	24
Total securities available for sale	$ 45,209	$ 1,925	$ 3,066	$ 44,068

[(1)] *Includes $25 of other-than-temporary non-credit-related losses*

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(In millions)	December 31, 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	$ 217	$ 6	$ 0	$ 223
Municipalities	281	1	4	278
Mortgage- and asset-backed securities	167	2	6	163
Collateralized debt obligations	109	0	14	95
Public utilities	5,235	180	138	5,277
Sovereign and supranational	4,248	161	143	4,266
Banks/financial institutions	11,775	140	984	10,931
Other corporate	4,455	142	104	4,493
Total yen-denominated	26,487	632	1,393	25,726
Dollar-denominated:				
Collateralized debt obligations	200	0	98	102
Total dollar-denominated	200	0	98	102
Total securities held to maturity	$ 26,687	$ 632	$ 1,491	$ 25,828

The methods of determining the fair values of our investments in debt securities, perpetual securities and equity securities are described in Note 5.

As discussed in Note 1, we adopted new accounting guidance for VIEs on January 1, 2010, that resulted in the consolidation of most of our investments in CDOs. As a result, these investments are no longer reported as a single investment. In addition, in conjunction with this change in accounting for VIEs, certain VIEs, totaling $309 million at amortized cost as of January 1, 2010, are no longer classified as held to maturity. The underlying collateral for these VIEs is classified as available for sale as of January 1, 2010.

During the third quarter of 2010, we reclassified two investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of downgrades of the issuers credit rating. At the time of transfer, these investments had an aggregate amortized cost of $267 million and an aggregate unrealized loss of $165 million. During the second quarter of 2010, we reclassified four investments from the held-to-maturity portfolio to the available-for-sale portfolio as a result of downgrades of the issuers credit rating. Three of these were investments in Greek financial institutions that, at the time of transfer, had an aggregate amortized cost of $998 million and an aggregate unrealized loss of $599 million. The fourth investment was in Greek sovereign debt and had an amortized cost of $178 million and an unrealized loss of $66 million at the time of transfer. This investment was sold at a pretax realized loss of $59 million prior to the end of the second quarter of 2010. We did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio during the first quarter of 2010.

We did not reclassify any investments from the held-to-maturity portfolio to the available-for-sale portfolio during the third quarter of 2009. During the second quarter of 2009, we reclassified five 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 $660 million and an aggregate unrealized loss of $326 million. During the first quarter of 2009, we reclassified six 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 $497 million and an aggregate unrealized loss of $200 million.

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Contractual and Economic Maturities

The contractual maturities of our investments in fixed maturities at September 30, 2010, were as follows:

	Aflac Japan		Aflac U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 2,036	$ 2,107	$ 69	$ 73
Due after one year through five years	4,450	4,706	269	305
Due after five years through 10 years	2,693	2,997	904	1,084
Due after 10 years	27,145	26,577	6,488	7,147
Mortgage- and asset-backed securities	1,362	1,483	380	381
Total fixed maturities available for sale	$ 37,686	$ 37,870	$ 8,110	$ 8,990
Held to maturity:				
Due in one year or less	$ 665	$ 675	$ 0	$ 0
Due after one year through five years	1,076	1,126	0	0
Due after five years through 10 years	3,285	3,635	0	0
Due after 10 years	23,388	22,406	0	0
Mortgage- and asset-backed securities	148	154	0	0
Total fixed maturities held to maturity	$ 28,562	$ 27,996	$ 0	$ 0

At September 30, 2010, the Parent Company had a portfolio of investment-grade available-for-sale fixed-maturity securities totaling $117 million at amortized cost and $128 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.

The majority of our perpetual securities are subordinated to other debt obligations of the issuer, but rank higher than the issuer s 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 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, 2010, were as follows:

	Aflac Japan		Aflac U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 179	$ 176	$ 0	$ 0
Due after one year through five years	1,306	1,380	5	5
Due after five years through 10 years	1,455	1,478	0	0
Due after 10 years	4,558	4,123	234	290
Total perpetual securities available for sale	$ 7,498	$ 7,157	$ 239	$ 295

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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, 2010, based on amortized cost, was: Europe, excluding the United Kingdom (47%); United States (20%); United Kingdom (8%); Japan (8%); and other (17%).

As a result of the consolidation of additional VIEs as disclosed in Note 1, $120 million in additional perpetual securities in the bank and financial institution sector were recognized effective January 1, 2010, since the securities were included in the former QSPE structures.

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

	September 30, 2010		December 31, 2009	
	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	**$ 21,546**	**26 %**	$ 19,691	28 %
Fair value	**19,915**	**24**	18,023	26
Perpetual Securities:				
Upper Tier II:				
Amortized cost	**$ 4,937**	**6 %**	$ 4,909	7 %
Fair value	**4,750**	**6**	4,938	7
Tier I:				
Amortized cost	**2,480**	**3**	2,354	3
Fair value	**2,372**	**3**	2,006	3
Total:				
Amortized cost	**$ 28,963**	**35 %**	$ 26,954	38 %
Fair value	**27,037**	**33**	24,967	36

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As of September 30, 2010, our investment exposure to sovereign debt and financial institutions in Greece, Ireland, Italy, Portugal and Spain consisted of the following:

Investments in Greece, Ireland, Italy, Portugal and Spain

	September 30, 2010	
(In millions)	Amortized Cost	Fair Value
Sovereign and supranational:		
Italy	$ 298	$ 290
Spain	453	443
Total sovereign and supranational	$ 751	$ 733
Banks and financial institutions:		
Greece	$ 1,120	$ 416
Ireland	970	717
Italy	179	173
Portugal	835	749
Spain	514	489
Total banks and financial institutions	$ 3,618 [1]	$ 2,544

[1] *Represents 12% of total investments in the banks and financial institutions sector and 4% of total investments in debt and perpetual securities*

As of September 30, 2010, two securities issued by Irish financial institutions with amortized costs and fair values totaling $463 million and $261 million, respectively, were rated below investment grade. During the second quarter of 2010, the Greek financial institutions, which comprise Lower Tier II investments, were downgraded to below investment grade. As a result of the downgrades, we reclassified these investments from held to maturity to available for sale. While these financial institutions have significant investments in Greek Government Bonds (GGBs), we believe that these institutions will be solvent even if there were a future restructuring of GGBs. As a result, we believe that we will collect all cash flows under the terms of their obligations to us. All other securities included in the table above were rated investment grade as of September 30, 2010.

During the second quarter of 2010, the creditworthiness of the Greek sovereign debt deteriorated, and we expected further deterioration in the performance of Greek debt as a result of the stressed economic environment. As a result, in June 2010 we sold our entire holdings of Greek sovereign debt and recognized an after-tax investment loss of $67 million.

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Realized Investment Gains and Losses

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

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Realized investment gains (losses) on securities:				
Debt securities:				
Available for sale:				
Gross gains from sales	**$ 25**	$ 19	**$ 75**	$ 244
Gross losses from sales	**(17)**	0	**(207)**	(2)
Net gains (losses) from redemptions	**0**	0	**1**	2
Other-than-temporary impairment losses	**(12)**	(40)	**(12)**	(450)
Total debt securities	**(4)**	(21)	**(143)**	(206)
Perpetual securities:				
Available for sale:				
Gross gains from sales	**0**	0	**133**	0
Other-than-temporary impairment losses	**0**	(326)	**(41)**	(535)
Total perpetual securities	**0**	(326)	**92**	(535)
Equity securities:				
Gross losses from sales	**0**	0	**(2)**	0
Other-than-temporary impairment losses	**(1)**	(2)	**(2)**	(2)
Total equity securities	**(1)**	(2)	**(4)**	(2)
Other assets:				
Derivative gains (losses)	**14**	0	**(72)**	0
Other long-term assets	**0**	2	**0**	4
Total other assets	**14**	2	**(72)**	4
Total realized investment gains (losses)	**$ 9**	$ (347)	**$ (127)**	$ (739)

During the three-month period ended September 30, 2010, we realized pretax investment gains, net of losses, of $14 million ($9 million after-tax) from valuing foreign currency, interest rate and credit default swaps related to certain VIEs that were required to be consolidated following the adoption of new accounting guidance effective January 1, 2010. During the nine-month period ended September 30, 2010, we realized pretax investment losses, net of gains, of $72 million ($46 million after-tax) from valuing these swaps.

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 an investment remains in an unrealized loss position for 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 fair 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:

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- 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, legislative and political 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 may be 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 structure. In addition, 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.

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The following table details our pretax other-than-temporary impairment losses by investment category.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	2009	**2010**	2009
Perpetual securities	**$ 0**	$ 326	**$ 41**	$ 535
Corporate bonds	**0**	0	**0**	288
Collateralized debt obligations	**0**	35	**0**	148
Mortgage- and asset-backed securities	**12**	5	**12**	14
Equity securities	**1**	2	**2**	2
Total other-than-temporary impairment losses	**$ 13**	$ 368	**$ 55**	$ 987

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-month period ended September 30, 2010, the perpetual securities of two 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 $41 million ($27 million after-tax) during the three-month period ended March 31, 2010, and no additional impairment losses were recognized in the six-month period ended September 30, 2010. 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.

Impairments on mortgage- and asset-backed securities during the nine-month period ended September 30, 2010, were credit-related. During our review of certain mortgage- and asset-backed securities during the nine-month period ended September 30, 2009, we determined that a portion of the other-than-temporary impairment of the securities was credit-related. However, we concluded that 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 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.

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 cumulative credit-related impairment losses on securities still held at the end of the reporting period, for which other-than-temporary losses have been recognized and only the amount related to credit loss was recognized in earnings.

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(In millions)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Cumulative credit loss impairments, beginning of period	**$ 13**	$ 9	**$ 24**	$ 0
Credit losses for which an other-than-temporary impairment was not previously recognized	**0**	5	**0**	13
Credit losses for which an other-than-temporary impairment was previously recognized	**1**	0	**1**	1
Securities sold during period	**(1)**	0	**(12)**	0
Cumulative credit loss impairments, end of period	**$ 13**	$ 14	**$ 13**	$ 14

Unrealized Investment Gains and Losses

Effect on Shareholders Equity

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

(In millions)	**September 30, 2010**	December 31, 2009
Net unrealized gains (losses) on securities available for sale	**$ 791**	$ (1,141)
Unamortized unrealized gains on securities transferred to held to maturity	**138**	148
Deferred income taxes	**(335)**	356
Other	**0**	(1)
Shareholders equity, net unrealized gains (losses) on investment securities	**$ 594**	$ (638)

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.

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	September 30, 2010					
	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:						
Municipalities:						
Dollar-denominated	$ 83	$ 12	$ 30	$ 1	$ 53	$ 11
Yen-denominated	55	5	0	0	55	5
Mortgage- and asset- backed securities:						
Dollar-denominated	103	17	5	0	98	17
Yen-denominated	393	6	393	6	0	0
Public utilities:						
Dollar-denominated	136	8	30	0	106	8
Yen-denominated	4,428	307	1,612	106	2,816	201
Sovereign and supranational:						
Yen-denominated	2,016	167	605	26	1,411	141
Banks/financial institutions:						
Dollar-denominated	825	77	87	4	738	73
Yen-denominated	11,078	2,144	2,143	76	8,935	2,068
Other corporate:						
Dollar-denominated	546	42	248	20	298	22
Yen-denominated	5,096	733	1,280	99	3,816	634
Total fixed maturities	24,759	3,518	6,433	338	18,326	3,180
Perpetual securities:						
Dollar-denominated	153	25	34	14	119	11
Yen-denominated	4,862	527	2,542	132	2,320	395
Total perpetual securities	5,015	552	2,576	146	2,439	406
Equity securities	14	2	12	1	2	1
Total	$ 29,788	$ 4,072	$ 9,021	$ 485	$ 20,767	$ 3,587

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	December 31, 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	$ 175	$ 7	$ 112	$ 3	$ 63	$ 4
Japan government and agencies:						
Yen-denominated	5,760	174	5,456	153	304	21
Municipalities:						
Dollar-denominated	378	28	322	11	56	17
Yen-denominated	223	4	223	4	0	0
Mortgage- and asset- backed securities:						
Dollar-denominated	338	78	78	3	260	75
Yen-denominated	54	6	35	0	19	6
Collateralized debt obligations:[(1)]						
Dollar-denominated	117	100	0	0	117	100
Yen-denominated	181	38	0	0	181	38
Public utilities:						
Dollar-denominated	465	42	200	10	265	32
Yen-denominated	3,290	217	592	37	2,698	180
Sovereign and supranational:						
Dollar-denominated	92	9	43	3	49	6
Yen-denominated	2,331	239	948	31	1,383	208
Banks/financial institutions:						
Dollar-denominated	1,325	259	305	14	1,020	245
Yen-denominated	10,306	1,768	807	313	9,499	1,455
Other corporate:						
Dollar-denominated	1,393	108	535	13	858	95
Yen-denominated	6,084	818	1,643	93	4,441	725
Total fixed maturities	32,512	3,895	11,299	688	21,213	3,207
Perpetual securities:						
Dollar-denominated	181	56	0	0	181	56
Yen-denominated	3,117	604	373	28	2,744	576
Total perpetual securities	3,298	660	373	28	2,925	632
Equity securities	6	2	3	1	3	1
Total	$ 35,816	$ 4,557	$ 11,675	$ 717	$ 24,141	$ 3,840

[(1)] *Beginning January 1, 2010, these investments are consolidated and are no longer reported as a single investment.*

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Analysis of Securities in Unrealized Loss Positions

The unrealized losses on our investments have been 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 nine-month period ended September 30, 2010. The following summarizes our evaluation of investment categories with significant unrealized losses and securities that were rated below investment grade. All other investment categories with securities in an unrealized loss position that are not specifically discussed below were comprised of investment grade fixed maturities.

Municipalities and Mortgage- and Asset-Backed Securities

As of September 30, 2010, 57% of the unrealized losses on investments in the municipalities sector and 27% of the unrealized losses on investments in the mortgage- and asset-backed securities sector were related to investments that were investment grade, compared with 74% and 39%, respectively, at December 31, 2009. 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.

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 were 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, 2010		December 31, 2009	
	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	**40 %**	**55 %**	33 %	44 %
Perpetual securities:				
Upper Tier II	**12**	**7**	5	5
Tier I	**5**	**6**	4	10
Total perpetual securities	**17**	**13**	9	15
Total	**57 %**	**68 %**	42 %	59 %

Throughout 2008 and during the first half of 2009, concerns related to troubled residential mortgages in the United States, United Kingdom and Europe spread to structured investment securities. As a result, banks and financial institutions suffered significant write-downs of asset values, which pressured banks and financial institutions to seek capital and liquidity support. National governments responded with various forms of support, ranging from guarantees on new and existing debt to significant injections of capital. In the second half of 2009, asset valuations generally improved. In addition, banks and other financial institutions have sought to enhance their core capital in part through exchanges and tender offers. Should capital markets deteriorate, more of these banks and financial institutions may need various forms of government support. While it does not appear to be a preferred solution, some troubled banks and financial institutions may be nationalized. Few nationalizations have occurred to date, and the governments have generally supported the classes of investments that we own.

As of September 30, 2010, 53% of the $2.8 billion in unrealized losses on investments in the bank and financial institution sector, including perpetual securities, were related to investments that were investment grade,

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compared with 75% at December 31, 2009. The decrease in this percentage is primarily due to investments in Greek financial institutions that were downgraded to below investment grade in the second quarter of 2010, as discussed previously in the Investment Concentrations section. Of the $16.9 billion in investments, at fair value, in the bank and financial institution sector in an unrealized loss position at September 30, 2010, only $1.9 billion ($1.3 billion in unrealized losses) were below investment grade. Six investments comprised nearly 90% of the $1.3 billion unrealized loss. The remaining investments that comprised the unrealized loss were divided among 11 issuers with average unrealized losses per investment of less than $16 million. We conduct our own independent credit analysis for investments in the bank and financial institution sector. Our assessment includes our own analysis of financial information, as well as consultation with the issuers from time to time. Based on our independent credit analysis, 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. Assuming no credit-related factors develop, as investments near maturity, the unrealized gains or losses can be expected to diminish. In particular, for our investments rated below investment grade, we have observed improvements in the fair value of those investments during the last half of 2009 and continuing into 2010 resulting from improvements in the issuers capital structure, operating fundamentals and, to a lesser extent, the global economic environment. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligations to us.

Other Corporate Investments

As of September 30, 2010, 54% of the unrealized losses on investments in the other corporate sector were related to investments that were investment grade, compared with 58% at December 31, 2009. 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 creditworthiness of certain issuers in the other corporate sector. Based on our credit analysis, we believe that our investments in this sector have the ability to service their obligation to us.

Perpetual Securities

As of September 30, 2010, 84% of the unrealized losses on investments in perpetual securities were related to investments that were investment grade, compared with 92% at December 31, 2009. 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, 2010, were as follows:

Perpetual Securities

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Upper Tier II:				
	AA	$ 187	$ 200	$ 13
	A	3,189	3,140	(49)
	BBB	1,238	1,151	(87)
	BB	643	589	(54)
Total Upper Tier II		5,257	5,080	(177)
Tier I:				
	A	618	563	(55)
	BBB	1,351	1,240	(111)
	BB or lower	511	569	58
Total Tier I		2,480	2,372	(108)
Total		$ 7,737	$ 7,452	$ (285)

With the exception of the Icelandic bank securities that we completely impaired in 2008, our Lloyds Banking Group plc dollar-denominated Tier I perpetual securities (par value of $33 million at September 30, 2010), our Royal Bank of Scotland dollar-denominated Tier I perpetual security (par value of $20 million at September 30, 2010), and our RBS Capital Trust II dollar-denominated Tier I perpetual security (par value $38 million at September 30, 2010), all of the perpetual securities we own were current on interest and principal payments at September 30, 2010. Based on amortized cost as of September 30, 2010, the geographic breakdown of our perpetual securities by issuer was as follows: European countries, excluding the United Kingdom (71%); the United Kingdom (10%); Japan (13%); and other (6%). To determine 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. 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.

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

As discussed in Note 1, effective January 1, 2010, we have consolidated all of the components of each former QSPE investment, including a debt or hybrid instrument and a corresponding derivative transaction (swap). In addition, new criteria for determining the primary beneficiary of a VIE that was effective January 1, 2010, has resulted in the consolidation of additional VIE investments. Under accounting guidance in effect at December 31, 2009, QSPEs were exempt from consolidation and VIEs were evaluated for consolidation using a quantitative approach.

The following table details our investments in VIEs and former QSPEs.

Investments in Qualified Special Purpose Entities

and Variable Interest Entities

(In millions)	September 30, 2010 Amortized Cost	September 30, 2010 Fair Value	December 31, 2009 Amortized Cost	December 31, 2009 Fair Value
QSPEs:				
Total QSPEs	**$ 0**	**$ 0**	$ 4,405	$ 4,089
VIEs:				
Consolidated:				
Total VIEs consolidated	**$ 6,799** (1)	**$ 7,043** (1)	$ 1,809	$ 1,522
Not consolidated:				
CDOs	**5**	**5**	498	464
Other	**12,690**	**11,939**	727	689
Total VIEs not consolidated	**12,695**	**11,944**	1,225	1,153
Total VIEs	**$ 19,494**	**$ 18,987**	$ 3,034	$ 2,675

(1) *Includes CDOs and former QSPEs consolidated beginning on January 1, 2010*

QSPEs

The underlying collateral in the former QSPEs, which we began consolidating effective January 1, 2010, are structured as fixed-maturity or perpetual investments and we have classified these securities as available for sale. We are the only beneficial interest holder in the former QSPEs and our risk of loss over the life of these investments is limited to the amount of our original investment.

VIEs

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.

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. Further, 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.

Our risk of loss related to our interests in any of our VIEs is limited to our investment in the debt securities issued by them.

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VIEs-Consolidated

We are substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, we have the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and are therefore considered to be the primary beneficiary of the VIEs that we consolidate. We also participate in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding debt securities and interest rate and/or foreign currency swaps, as appropriate, and utilizing the cash flows from these securities to service our investment. Neither we nor any of our creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default. Further, we are not a direct counterparty to the swap contracts and have no control over them. Our loss exposure to these VIEs is limited to our original investment.

Prior to January 1, 2010, we had interests in VIEs that we were not required to consolidate as reflected in the above table. Included in the VIEs that we did not consolidate are CDOs issued through VIEs originated by third parties. These VIEs combine highly rated underlying assets as collateral for the CDOs with CDSs to produce an investment security that consists of multiple asset tranches with varying levels of subordination within the VIE. However, subsequent to the adoption of new criteria for determining the primary beneficiary of a VIE, we have consolidated the majority of these investments effective January 1, 2010.

The underlying collateral assets and funding of these VIEs are generally static in nature. 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.

Consistent with our other debt and perpetual securities we own, 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 investment.

VIEs-Not Consolidated

The 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 do not have the power to direct the activities that most significantly impact the entity s economic performance, nor do we have (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. As such, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them. The increase in the amounts disclosed for VIEs not consolidated of $11.5 billion at amortized cost at September 30, 2010, compared with December 31, 2009, was due to a change in disclosure requirements that was effective January 1, 2010.

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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, 2010**	December 31, 2009
Security loans outstanding, fair value	**$ 143**	$ 467
Cash collateral on loaned securities	**147**	483

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

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

4. DERIVATIVE INSTRUMENTS

We do not use derivative financial instruments for trading purposes, nor do we engage in leveraged derivative transactions. The majority of our freestanding derivatives are interest rate, foreign currency and credit default swaps that are associated with investments in special-purpose entities, including VIEs where we are the primary beneficiary. The remaining derivatives are interest rate swaps associated with our variable interest rate yen-denominated debt.

Derivative Types

Interest rate and credit default swaps involve the periodic exchange of cash flows with other parties, at specified intervals, calculated using agreed upon rates or other financial variables and notional principal amounts. Generally, no cash or principal payments are exchanged at the inception of the contract. Typically, at the time a swap is entered into, the cash flow streams exchanged by the counterparties are equal in value. Interest rate swaps are primarily used to convert interest receipts on floating-rate fixed-maturity securities contracts to fixed rates. These derivatives are predominantly used to better match cash receipts from assets with cash disbursements required to fund liabilities.

Credit default swaps are used to assume credit risk related to an individual security or an index. These contracts entitle the consolidated VIE to receive a periodic fee in exchange for an obligation to compensate the derivative counterparty should the referenced security issuers experience a credit event, as defined in the contract. The consolidated VIE is also exposed to credit risk due to embedded derivatives associated with credit-linked notes.

Foreign currency swaps exchange an initial principal amount in two currencies, agreeing to re-exchange the currencies at a future date, at an agreed upon exchange rate. There may also be a periodic exchange of payments at specified intervals calculated using the agreed upon rates and exchanged principal amounts. Foreign currency swaps are used primarily in the consolidated VIEs in our Aflac Japan portfolio to convert foreign denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations.

Credit Risk Assumed through Derivatives

Our exposure to credit risk in the event of nonperformance by counterparties to our interest rate swaps associated with our variable interest rate Uridashi notes as of September 30, 2010, was immaterial. For the interest rate, foreign currency, and credit default swaps associated with our VIE investments for which we are the primary beneficiary, we do not bear the risk of loss for counterparty default. We are not a direct counterparty to those contracts.

The consolidated VIE enters into credit default swaps that assume credit risk from an asset pool in order to synthetically replicate investment transactions. The consolidated VIE will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment by delivery of associated collateral, which consists of highly rated asset-backed securities, if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced obligations. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The credit default swaps in which the consolidated VIE assumes credit risk primarily reference investment grade baskets. The diversified portfolios of corporate issuers are established within sector concentration limits.

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The following table presents the maximum potential risk, fair value, weighted-average years to maturity, and underlying referenced credit obligation type for credit derivatives as of September 30, 2010.

(In millions)	Less than one year Maximum potential risk	Less than one year Estimated fair value	One to three years Maximum potential risk	One to three years Estimated fair value	Three to five years Maximum potential risk	Three to five years Estimated fair value	Greater than five years Maximum potential risk	Greater than five years Estimated fair value	Total Maximum potential risk	Total Estimated fair value
Index exposure:										
Corporate bonds	$ 0	$ 0	$ 0	$ 0	$ (326)	$ (102)	$ (393)	$ (225)	$ (719)	$ (327)

Derivative Balance Sheet Classification

The table below summarizes the balance sheet classification of the Company s derivative fair value amounts, as well as the gross asset and liability fair value amounts. The fair value amounts presented do not include income accruals. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated. Notional amounts are not reflective of credit risk.

(In millions)	September 30, 2010			
	Net Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Fair Value
Cash flow hedges:				
Interest rate swaps	$ 239	$ (2)	$ 0	$ (2)
Foreign currency swaps	375	112	112	0
Total cash flow hedges	$ 614	$ 110	$ 112	$ (2)
Non-qualifying strategies:				
Interest rate swaps	$ 708	$ 56	$ 118	$ (62)
Foreign currency swaps	3,539	(139)	153	(292)
Credit default swaps	719	(327)	0	(327)
Total non-qualifying strategies	$ 4,966	$ (410)	$ 271	$ (681)
Total cash flow hedges and non-qualifying strategies	$ 5,580	$ (300)	$ 383	$ (683)
Balance Sheet Location				
Other assets	$ 1,468	$ 383	$ 383	$ 0
Other liabilities	4,112	(683)	0	(683)
Total derivatives	$ 5,580	$ (300)	$ 383	$ (683)

Hedging

As part of the adoption of the new accounting requirements associated with VIEs, we considered whether the interest rate and/or foreign currency swaps in the consolidated VIEs would qualify for hedge accounting treatment on January 1, 2010. For those that qualified, the Company designated the derivative on January 1, 2010, as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset (cash flow hedge). We expect to continue this hedging activity for a weighted-average period of approximately 19 years. The remaining derivatives that did not qualify for hedge accounting were designated on January 1, 2010, as held for other investment purposes (non-qualifying strategies).

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We have interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes (see Note 5). By entering into these contracts, we have been able to lock in the interest rate at 1.52% in yen. We have designated these interest rate swaps as a hedge of the variability in our interest cash flows associated with the variable interest rate Uridashi notes. The notional amounts and terms of the swaps match the principal amount and terms of the variable interest rate Uridashi notes. The swaps had no value at inception. Changes in the fair value of the swap contracts are recorded in other comprehensive income so long as the hedge is deemed effective. Should any portion of the hedge be deemed ineffective, that value would be reported in net earnings.

Hedge Documentation and Effectiveness Testing

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated changes in cash flow of the hedged item. At hedge inception, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking each hedge transaction. The documentation process includes linking derivatives that are designated as cash flow hedges to specific assets or liabilities on the statement of financial position or to specific forecasted transactions and defining the effectiveness and ineffectiveness testing methods to be used. The Company also formally assesses both at the hedge s inception and ongoing on a quarterly basis, whether the derivatives that are used in hedging transactions have been and are expected to continue to be highly effective in offsetting changes in cash flows of hedged items. Hedge effectiveness is assessed using qualitative and quantitative methods. Qualitative methods may include the comparison of critical terms of the derivative to the hedged item. Quantitative methods include regression or other statistical analysis of changes in cash flows associated with the hedge relationship. Hedge ineffectiveness of the hedge relationships is measured each reporting period using the Hypothetical Derivative Method.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings as a component of realized gains (losses). All components of each derivative s gain or loss were included in the assessment of hedge effectiveness.

Discontinuance of Hedge Accounting

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item; (2) the derivative is de-designated as a hedging instrument; or (3) the derivative expires or is sold, terminated or exercised.

When hedge accounting is discontinued on a cash-flow hedge, including those where the derivative is sold, terminated or exercised, amounts previously deferred in other comprehensive income are reclassified into earnings when earnings are impacted by the variability of the cash flow of the hedged item.

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Cash Flow Hedges

The following table presents the components of the gain or loss on derivatives that qualify as cash flow hedges:

Derivatives in Cash Flow Hedging Relationships

(In millions)	Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Net Realized Investment Gains (Losses) Recognized in Income on Derivative (Ineffective Portion)	
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Interest rate swaps	$ 0	$ 1	$ 0	$ 0
Foreign currency swaps	2	(1)	13	13
Total	$ 2	$ 0	$ 13	$ 13

There was no gain or loss reclassified from accumulated other comprehensive income into earnings related to our cash flow hedges for the three- and nine-month periods ended September 30, 2010. As of September 30, 2010, before-tax deferred net gains on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months are immaterial.

Non-qualifying Strategies

Our other derivative activities in VIEs do not receive hedge accounting treatment. All changes in the value of these derivative instruments are reported in current period earnings as net realized investment gains (losses). The following table presents the gain or loss recognized in income on non-qualifying strategies:

Non-qualifying Strategies

Gain (Loss) Recognized within Net Realized Investment Gains (Losses)

(In millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Interest rate swaps	$ 4	$ 7
Foreign currency swaps	(33)	(77)
Credit default swaps	30	(15)
Total	$ 1	$ (85)

The amount of gain or loss recognized in earnings for our VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed income or perpetual securities associated with these swaps is recorded through other comprehensive income. For the nine-month period ended September 30, 2010, the change in value of our total investment in these VIEs, consisting of swaps and their associated fixed income or perpetual securities, had a favorable impact on total shareholders equity.

Nonderivative Hedges

We have designated a majority of the Parent Company s yen-denominated Samurai and Uridashi notes and yen-denominated loans (see Note 6) as nonderivative hedges of the foreign currency exposure of our investment in Aflac Japan. Our net investment hedge was effective during the nine-month period ended September 30, 2010; therefore, there was no impact on net earnings during that period. We recognized an immaterial loss in net earnings during the nine-months ended September 30, 2009, for the negative foreign exchange effect on the Parent Company yen-denominated liabilities that exceeded our yen net asset position in Aflac Japan.

For additional information on our financial instruments, see the accompanying Notes 1, 3 and 5 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2009.

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5. FAIR VALUE MEASUREMENTS

We determine the fair values of our debt, derivative, 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 incorporates an option adjusted spread and utilizes various market inputs we obtain from both active and inactive markets. The estimated fair values developed by the DCF pricing model is most sensitive to prevailing credit spreads, the level of interest rates (yields) and interest rate volatility. Prior to March 31, 2010, credit spreads were derived based on pricing data obtained from investment brokers and took into account the current yield curve, time to maturity and subordination levels for similar securities or classes of securities. Subsequent to March 31, 2010, credit spreads are derived from using a bond index to create a credit spread matrix which takes into account the current credit spread, ratings and remaining time to maturity, and subordination levels for securities that are included in the bond index. Our DCF pricing model is based on a widely used global bond index that is comprised of investments in active markets. The index provides a broad-based measure of the global fixed-income bond market. This widely used bond index extensively covers bonds issued by European and American issuers, which account for the majority of bonds that we hold. We validate the reliability of the DCF pricing model periodically by using the model 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.

In recent years, we have noted a continued reduction in the availability of pricing data from market sources. This decline is due largely to 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 assess the reasonableness of the pricing data we receive by comparing it to relevant market indices and other performance measurements. 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 valuation 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.

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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.

(In millions)	Level 1	Level 2	Level 3	Total
		September 30, 2010		
Assets:				
Fixed maturities:				
Government and agencies	$ 15,617	$ 697	$ 0	$ 16,314
Municipalities	0	872	0	872
Mortgage- and asset-backed securities	0	1,594	270	1,864
Public utilities	0	5,154	0	5,154
Collateralized debt obligations	0	0	5	5
Sovereign and supranational	0	1,243	0	1,243
Banks/financial institutions	0	8,086	417	8,503
Other corporate	0	13,033	0	13,033
Total fixed maturities	15,617	30,679	692	46,988
Perpetual securities:				
Banks/financial institutions	0	7,122	0	7,122
Other corporate	0	330	0	330
Total perpetual securities	0	7,452	0	7,452
Equity securities	15	5	4	24
Other assets:				
Interest rate swaps	0	118	0	118
Foreign currency swaps	0	145	120	265
Total other assets	0	263	120	383
Total assets	$ 15,632	$ 38,399	$ 816	$ 54,847
Liabilities:				
Interest rate swaps	$ 0	$ 64	$ 0	$ 64
Foreign currency swaps	0	226	66	292
Credit default swaps	0	0	327	327
Total liabilities	$ 0	$ 290	$ 393	$ 683

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	December 31, 2009			
(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
Government and agencies	$ 10,178	$ 1,980	$ 0	$ 12,158
Municipalities	0	495	0	495
Mortgage- and asset-backed securities	0	1,017	62	1,079
Public utilities	35	3,486	497	4,018
Collateralized debt obligations[(1)]	0	0	267	267
Sovereign and supranational	0	864	293	1,157
Banks/financial institutions	0	5,852	1,240	7,092
Other corporate	13	9,254	1,248	10,515
Total fixed maturities	10,226	22,948	3,607	36,781
Perpetual securities:				
Banks/financial institutions	0	5,503	1,441	6,944
Other corporate	0	319	0	319
Total perpetual securities	0	5,822	1,441	7,263
Equity securities	15	0	9	24
Total assets	$ 10,241	$ 28,770	$ 5,057	$ 44,068
Liabilities:				
Interest rate swaps	$ 0	$ 3	$ 0	$ 3
Total liabilities	$ 0	$ 3	$ 0	$ 3

[(1)] *Beginning January 1, 2010, the majority of these investments are consolidated and are no longer reported as a single investment.*

Approximately 45% of our fixed income and perpetual 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 51% of our Level 2 fixed income and perpetual 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.

We use derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified with the same fair value hierarchy as the associated asset. Derivative instruments are reported in Level 2 of the fair value hierarchy, except CDSs and certain foreign currency swaps which are classified as Level 3.

The interest rate and certain foreign currency derivative instruments were priced by broker quotations using inputs that are observable in the market. Inputs used to value derivatives include, but are not limited to, interest rates, foreign currency forward and spot rates, credit spreads and correlations, and interest volatility. For any derivatives associated with any of our VIEs where we are the primary beneficiary, we are not the direct counterparty to the swap contracts. As a result, the fair value measurements provided by the broker incorporate the credit risk of the collateral associated with the VIE and counterparty credit risk. All other derivatives where we are the direct counterparty incorporate our credit risk along with counterparty credit risk in the valuation.

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The fair value of our interest rate swap contracts associated with our variable interest rate yen-denominated debt 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 rates, duration, counterparty credit risk and our own credit rating.

The fixed maturities, perpetual securities and derivatives 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.

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

The following tables present the changes in our available-for-sale investments and derivatives classified as Level 3.

	Three Months Ended September 30, 2010						
(In millions)	Balance, Beginning of Period	Realized Gains or Losses Included in Earnings	Unrealized Gains or Losses Included in Other Comprehensive Income	Purchases, Issuances, Sales, and Settlements	Transfers Into and/ or Out of Level 3	Balance, End of Period	Change in Unrealized Gains (Losses) Still Held[1]
Fixed maturities:							
Mortgage- and asset-backed securities	$ 282	$ (1)	$ 17	$ (2)	$ (26)	$ 270	$ 0
Public utilities	27	0	0	0	(27)	0	0
Collateralized debt obligations	4	1	0	0	0	5	0
Banks/financial institutions	352	0	65	0	0	417	0
Other corporate	52	0	0	0	(52)	0	0
Total fixed maturities	717	0	82	(2)	(105)	692	0
Equity securities	4	0	0	0	0	4	0
Derivatives:							
Foreign currency swaps	0	0	0	0	54	54	0
Credit default swaps	(357)	30	0	0	0	(327)	30
Total derivatives	(357)	30	0	0	54	(273)	30
Total	$ 364	$ 30	$ 82	$ (2)	$ (51)	$ 423	$ 30

[1] *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, 2010*

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	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, Issuances, Sales, and Settlements	Transfers Into and/ or Out of Level 3	Balance, End of Period	Change in Unrealized Gains (Losses) Still Held[1]
Fixed maturities:							
Mortgage- and asset-backed securities	$ 33	$ 0	$ 2	$ 31	$ 0	$ 66	$ 0
Public utilities	457	0	40	0	9	506	0
Collateralized debt obligations[2]	111	(25)	61	(14)	0	133	(35)
Sovereign and supranational	272	0	42	0	0	314	0
Banks/financial institutions	1,117	3	186	(3)	43	1,346	0
Other corporate	1,082	0	160	0	0	1,242	0
Total fixed maturities	3,072	(22)	491	14	52	3,607	(35)
Perpetual securities:							
Banks/financial institutions	1,063	(325)	600	0	0	1,338	(325)
Total perpetual securities	1,063	(325)	600	0	0	1,338	(325)
Equity securities	9	0	1	0	0	10	0
Total	$ 4,144	$ (347)	$1,092	$ 14	$ 52	$ 4,955	$ (360)

[1] *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*

[2] *Beginning January 1, 2010, the majority of these investments are consolidated and are no longer reported as a single investment.*

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(In millions)	Balance, Beginning of Period	Effect of Change in Accounting Principle (1)	Revised Balance, Beginning of Period	Nine Months Ended September 30, 2010 Realized Gains or Losses Included in Earnings	Unrealized Gains or Losses Included in Other Comprehensive Income	Purchases, Issuances, Sales, and Settlements	Transfers Into and/ or Out of Level 3	Balance, End of Period	Change in Unrealized Gains (Losses) Still Held(2)
Fixed maturities:									
Mortgage- and asset- backed securities	$ 62	$ 0	$ 62	$ (1)	$ 19	$ (3)	$ 193	$ 270	$ 0
Public utilities	497	0	497	0	(9)	(2)	(486)	0	0
Collateralized debt obligations	267	(263)	4	1	0	0	0	5	0
Sovereign and supranational	293	0	293	0	5	0	(298)	0	0
Banks/financial institutions	1,240	0	1,240	5	99	(175)	(752)	417	0
Other corporate	1,248	0	1,248	0	6	0	(1,254)	0	0
Total fixed maturities	3,607	(263)	3,344	5	120	(180)	(2,597)	692	0
Perpetual securities:									
Bank/financial institutions	1,441	0	1,441	108	51	(585)	(1,015)	0	0
Total perpetual securities	1,441	0	1,441	108	51	(585)	(1,015)	0	0
Equity securities	9	0	9	0	0	0	(5)	4	0
Derivatives:									
Foreign currency swaps	0	0	0	0	0	0	54	54	0
Credit default swaps	0	(312)	(312)	(15)	0	0	0	(327)	(15)
Total derivatives	0	(312)	(312)	(15)	0	0	54	(273)	(15)
Total	$ 5,057	$ (575)	$ 4,482	$ 98	$ 171	$ (765)	$ (3,563)	$ 423	$ (15)

(1) Change in accounting for VIEs effective January 1, 2010. See Notes 1, 3 and 4 for additional information.

(2) 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, 2010

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(In millions)	Balance, Beginning of Period	Realized Gains or Losses Included in Earnings	Unrealized Gains or Losses Included in Other Comprehensive Income	Purchases, Issuances, Sales, and Settlements	Transfers Into and/ or Out of Level 3	Balance, End of Period	Change in Unrealized Gains (Losses) Still Held[(1)]
	Nine Months Ended September 30, 2009						
Fixed maturities:							
Mortgage- and asset-backed securities	$ 35	$ 0	$ 0	$ 31	$ 0	$ 66	$ 0
Public utilities	502	0	(5)	0	9	506	0
Collateralized debt obligations[(2)]	19	(140)	227	(14)	41	133	(148)
Sovereign and supranational	260	0	54	0	0	314	0
Banks/financial institutions	876	(75)	61	(3)	487	1,346	(78)
Other corporate	898	0	144	0	200	1,242	0
Total fixed maturities	2,590	(215)	481	14	737	3,607	(226)
Perpetual securities:							
Banks/financial institutions	412	(325)	539	0	712	1,338	(325)
Total perpetual securities	412	(325)	539	0	712	1,338	(325)
Equity securities	4	0	0	0	6	10	0
Total	$ 3,006	$ (540)	$ 1,020	$ 14	$ 1,455	$ 4,955	$ (551)

(1) *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*

(2) *Beginning January 1, 2010, the majority of these investments are consolidated and are no longer reported as a single investment.*

The inputs we receive from pricing brokers for forward exchange rates and the credit spreads for certain issuers, including liquidity risk, have become increasingly difficult for us to observe or corroborate in the markets for our investments in CDOs (prior to January 1, 2010), callable reverse-dual currency securities (RDCs), securities rated below investment grade, and to a lesser extent less liquid sinking fund securities. This has resulted in the transfer of affected fixed maturities available for sale from the Level 2 valuation category into the Level 3 valuation category.

As discussed in Notes 1 and 3, we adopted new accounting guidance on VIEs effective January 1, 2010, and as a result have consolidated certain VIE investments. Upon consolidation, the beneficial interest was derecognized and the underlying securities and derivatives were recognized. In many cases, the fair value hierarchy level differed between the original beneficial interest asset and the underlying securities that are now being recognized. In the Level 3 rollforward, we have separately disclosed the impact of consolidating these VIE investments that were previously categorized as Level 3 and now the underlying securities are Level 2. As noted in the Level 3 rollforward above, the CDSs which are separately recognized as a result of this change in accounting are reported as Level 3 investments. In addition, approximately $1.0 billion of Level 2 investments were reclassified upon the adoption of this guidance, and their underlying securities are being reported as Level 1 as of January 1, 2010.

During the nine-month period ended September 30, 2010, we transferred investments totaling $716 million into Level 3 from Level 2 as a result of lack of visibility to observe significant inputs to price and due to credit downgrades of respective issuers of securities to below investment grade. During the same period, we transferred investments totaling $4.3 billion into Level 2 from Level 3 as a result of changing our pricing methodology to using a pricing index for estimating fair value instead of obtaining pricing of the securities from brokers or arrangers. During the year ended December 31, 2009, we transferred investments totaling $1.8 billion into Level 3 as a result of credit downgrades of the respective issuers of the securities to below investment grade.

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The significant valuation inputs that are used in the valuation process for the below-investment-grade, callable RDC and private placement investments classified as Level 3 include forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, certain probability assumptions, and call option data.

Some of these securities require the calculation of a theoretical forward exchange rate which is developed by using yen swap rates, U.S. dollar swap rates, interest rate volatilities, and spot exchange rates. The forward exchange rate is then used to convert all future dollar cash flows of the bond, where applicable, into yen cash flows. Additionally, credit spreads for the individual issuers are key valuation inputs of these securities. Finally, in pricing securities with a call option, the assumptions regarding interest rates in the U.S. and Japan are considered to be significant valuation inputs. Collectively, these valuation inputs, are included to estimate the fair values of these securities at each reporting date.

In obtaining the above valuation inputs, we have determined that certain pricing assumptions and data used by our pricing sources are becoming increasingly more difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities and consequently, causes more volatility in their estimated fair values.

Fair Value of Financial Instruments

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

	September 30, 2010		December 31, 2009	
(In millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Assets:				
Fixed-maturity securities	**$ 69,893**	**$ 69,387**	$ 63,468	$ 62,609
Fixed-maturity securities - consolidated variable interest entities	**5,657**	**5,597**	0	0
Perpetual securities	**6,006**	**6,006**	7,263	7,263
Perpetual securities - consolidated variable interest entities	**1,446**	**1,446**	0	0
Equity securities	**24**	**24**	24	24
Interest rate, foreign currency, and credit default swaps	**383**	**383**	0	0
Liabilities:				
Notes payable (excluding capitalized leases)	**3,002**	**3,305**	2,593	2,683
Interest rate, foreign currency, and credit default swaps	**683**	**683**	3	3
Obligation to Japanese policyholder protection corporation	**104**	**104**	128	128

As mentioned previously, we determine the fair values of our debt, perpetual and privately issued equity securities, and our derivatives using three basic pricing approaches or techniques: quoted market prices readily available from public exchange markets, pricing models, and price quotes we obtain from outside brokers.

The fair values of notes payable with fixed interest rates were obtained from an independent financial information service. The fair value of the obligation to the Japanese policyholder protection corporation is our estimated share of the industry s obligation calculated on a pro rata basis by projecting our percentage of the industry s premiums and reserves and applying that percentage to the total industry obligation payable in future years.

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

DCF Sensitivity

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. Management believes that under normal market conditions, a movement of 50 basis points (bps) in the key assumptions used to estimate these fair values would be reasonably likely. Therefore, we selected a uniform magnitude of movement (50 bps) and provided both upward and downward movements in the assumptions. Since the changes in fair value are relatively linear, readers of these financial statements can make their own judgments as to the movement in interest rates and the change in fair value based upon this data. The following scenarios provide a view of the sensitivity of our securities priced by our DCF pricing model.

The fair values of our available-for-sale fixed-maturity and perpetual securities valued by our DCF pricing model totaled $19.6 billion at September 30, 2010. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	$ (1,076)	+50 bps	$ (1,063)	+50 bps	$ (181)
-50 bps	1,161	-50 bps	1,142	-50 bps	18

The fair values of our held-to-maturity fixed-maturity securities valued by our DCF pricing model totaled $26.5 billion at September 30, 2010. The estimated effect of potential changes in interest rates, credit spreads and interest rate volatility on these fair values as of such date is as follows:

Interest Rates		Credit Spreads		Interest Rate Volatility	
Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)	Factor change	Change in fair value (in millions)
+50 bps	$ (1,714)	+50 bps	$ (1,581)	+50 bps	$ (326)
-50 bps	1,790	-50 bps	1,605	-50 bps	310

The two tables above illustrate the differences on the fair values of our investment portfolio among each of the inputs for interest rates, credit spreads and interest volatility. These differences are driven principally by the securities in our portfolio that have call features. These call features cause the fair values of the affected securities to react differently depending on the inputs used to price these securities.

For additional information on our investments and financial instruments, see the accompanying Notes 1, 3 and 4 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2009.

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6. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	**September 30, 2010**	December 31, 2009
8.50% senior notes due May 2019	**$ 850**	$ 850
6.45% senior notes due August 2040	**448** [(1)]	0
6.90% senior notes due December 2039	**396** [(2)]	396 [(2)]
3.45% senior notes due August 2015	**300**	0
Yen-denominated Uridashi notes:		
1.52% notes due September 2011 (principal amount 15 billion yen)	**179**	163
2.26% notes due September 2016 (principal amount 8 billion yen)	**95**	87
Variable interest rate notes due September 2011 (.66% at September 2010, principal amount 20 billion yen)	**239**	217
Yen-denominated Samurai notes:		
.71% notes paid July 2010 (principal amount 39.4 billion yen)	**0**	428
1.87% notes due June 2012 (principal amount 26.6 billion yen)	**317**	289
Yen-denominated loans:		
3.60% loan due July 2015 (principal amount 10 billion yen)	**119**	109
3.00% loan due August 2015 (principal amount 5 billion yen)	**59**	54
Capitalized lease obligations payable through 2015	**6**	6
Total notes payable	**$ 3,008**	$ 2,599

(1) *$450 issuance net of a $2 underwriting discount that is being amortized over the life of the notes*

(2) *$400 issuance net of a $4 underwriting discount that is being amortized over the life of the notes*

In July 2010, we used existing cash to redeem 39.4 billion yen (approximately $470 million using the September 30, 2010, exchange rate) of our Samurai notes upon their maturity. In August 2010, we issued $450 million and $300 million of senior notes through a U.S. public debt offering. These notes pay interest semi-annually and have 30-year and five-year maturities, respectively. These notes are redeemable at our option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the principal amount of the notes or (ii) the present value of the remaining scheduled payments of principal and interest to be redeemed, discounted to the redemption date, plus accrued and unpaid interest.

We have no restrictive financial covenants related to our notes payable. We were in compliance with all of the covenants of our notes payable at September 30, 2010. No events of default or defaults occurred during the nine-month period ended September 30, 2010.

For additional information, see Notes 4 and 7 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2009.

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7. SHAREHOLDERS EQUITY

The following table is a reconciliation of the number of shares of the Company s common stock for the nine-month periods ended September 30.

(In thousands of shares)	**2010**	2009
Common stock - issued:		
Balance, beginning of period	**661,209**	660,035
Exercise of stock options and issuance of restricted shares	**902**	693
Balance, end of period	**662,111**	660,728
Treasury stock:		
Balance, beginning of period	**192,641**	193,420
Purchases of treasury stock:		
Open market	**0**	0
Other	**98**	141
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	**0**	(355)
Exercise of stock options	**(1,589)**	(121)
Other	**(83)**	(134)
Balance, end of period	**191,067**	192,951
Shares outstanding, end of period	**471,044**	467,777

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share. The following table presents the approximate number of share-based awards to purchase shares, on a weighted-average basis, that were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share for the following periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2010**	2009	**2010**	2009
Anti-dilutive share-based awards	**3,320**	7,317	**3,460**	11,231

As of September 30, 2010, a remaining balance of 32.4 million shares of our common stock was available for purchase under share repurchase authorizations by our board of directors. The 32.4 million shares were comprised of 2.4 million shares remaining from a board authorization in 2006 and 30.0 million shares remaining from an authorization by the board of directors in 2008.

8. SHARE-BASED TRANSACTIONS

The Company has two long-term incentive compensation plans. The first plan, which expired in February 2007, is a stock option plan which allowed grants for incentive stock options (ISOs) to employees and non-qualifying stock options (NQSOs) to employees and non-employee directors. Options granted before the plan s expiration date remain outstanding in accordance with their terms. The second long-term incentive plan allows awards to Company employees for ISOs, NQSOs, restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs, restricted stock, and stock appreciation rights. As of September 30, 2010, approximately 16.4 million shares were available for future grants under this plan, and the only performance-based awards issued and outstanding were restricted stock awards.

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

The following table provides information on stock options outstanding and exercisable at September 30, 2010.

	Stock Option Shares (in thousands)	Weighted-Average Remaining Term (in years)	Aggregate Intrinsic Value (in millions)	Weighted-Average Exercise Price Per Share
Outstanding	15,427	5.5	$ 188	$ 40.47
Exercisable	11,585	4.5	143	39.78

We received cash from the exercise of stock options in the amount of $54 million during the first nine months of 2010, compared with $7 million in the first nine months of 2009. The tax benefit realized as a result of stock option exercises and restricted stock releases was $22 million in the first nine months of 2010, compared with $6 million in the first nine months of 2009.

As of September 30, 2010, total compensation cost not yet recognized in our financial statements related to restricted-share-based awards was $25 million, of which $11 million (633 thousand shares) was related to restricted-share-based awards with a performance-based vesting condition. We expect to recognize these amounts over a weighted-average period of approximately 1.5 years. There are no other contractual terms covering restricted stock awards once vested.

For additional information on our long-term share-based compensation plans and the types of share-based awards, see Note 10 of the Notes to the Consolidated Financial Statements included in our annual report to shareholders for the year ended December 31, 2009.

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9. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees in Japan and the United States. The components of retirement expense for the Japanese and U.S. pension plans were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		**2010**		2009	
(In millions)	**Japan**	**U.S.**	Japan	U.S.	**Japan**	**U.S.**	Japan	U.S.
Components of net periodic benefit cost:								
Service cost	**$ 4**	**$ 3**	$ 3	$ 2	**$ 11**	**$ 9**	$ 9	$ 7
Interest cost	**1**	**3**	1	3	**3**	**10**	3	9
Expected return on plan assets	**(1)**	**(4)**	(1)	(3)	**(2)**	**(10)**	(2)	(9)
Amortization of net actuarial loss	**1**	**2**	1	1	**2**	**4**	2	3
Net periodic benefit cost	**$ 5**	**$ 4**	$ 4	$ 3	**$ 14**	**$ 13**	$ 12	$ 10

During the nine months ended September 30, 2010, Aflac Japan contributed approximately $15 million (using the September 30, 2010, exchange rate) to the Japanese pension plan, and Aflac U.S. contributed $20 million to the U.S. pension plan.

For additional information regarding our Japanese and U.S. benefit plans, see Note 12 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2009.

10. COMMITMENTS AND CONTINGENT LIABILITIES

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

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING INFORMATION

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

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

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and downgrades in certain securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with Aflac s investment in perpetual securities
- differing judgments applied to investment valuations
- subjective determinations of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular sector
- concentration of business in Japan
- ongoing changes in our industry

exposure to significant financial and capital markets risk

fluctuations in foreign currency exchange rates

significant changes in investment yield rates

deviations in actual experience from pricing and reserving assumptions

subsidiaries ability to pay dividends to Aflac Incorporated

changes in law or regulation by governmental authorities

ability to attract and retain qualified sales associates and employees

decreases in our financial strength or debt ratings

ability to continue to develop and implement improvements in information technology systems

changes in U.S. and/or Japanese accounting standards

failure to comply with restrictions on patient privacy and information security

level and outcome of litigation

ability to effectively manage key executive succession

catastrophic events

failure of internal controls or corporate governance policies and procedures

MD&A OVERVIEW

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-month and nine-month periods ended September 30, 2010 and 2009. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2009. This MD&A is divided into the following sections:

- Our Business
- Performance Highlights
- Critical Accounting Estimates
- Results of Operations, consolidated and by segment
- Analysis of Financial Condition, including discussion of market risks of financial instruments
- Capital Resources and Liquidity, including discussion of availability of capital and the sources and uses of cash

OUR BUSINESS

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

PERFORMANCE HIGHLIGHTS

Results for the third quarter of 2010 benefited from the stronger yen/dollar exchange rate and lower realized investment losses. Total revenues rose 19.2% to $5.4 billion, compared with $4.5 billion in the third quarter of 2009. Net earnings were $690 million, or $1.46 per diluted share, compared with $363 million, or $.77 per share, in the third quarter of 2009.

Results for the first nine months of 2010 also benefited from the stronger yen. Total revenues rose 13.0% to $15.4 billion, compared with $13.7 billion in the first nine months of 2009. Net earnings were $1.9 billion, or $4.03 per diluted share, compared with $1.2 billion, or $2.66 per share, for the first nine months of 2009.

We experienced pretax net realized investment gains of $9 million ($6 million after-tax) in the third quarter of 2010, which included $13 million ($8 million after-tax) of other-than-temporary impairments, gains on the sale of securities of $8 million ($5 million after-tax) and the recognition of derivative gains of $14 million ($9 million after-tax). For the first nine months of 2010, we had pretax net realized investment losses of $127 million ($83 million after-tax), which included $55 million ($37 million after-tax) of other-than-temporary impairments and $72 million ($46 million after-tax) of net derivative losses. Shareholders equity at September 30, 2010, included a net unrealized gain on investment securities (including derivatives) of $592 million, compared with a net unrealized loss of $640 million at December 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

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). In this MD&A, references to GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with GAAP requires us to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that we deem to be most critical to an understanding of Aflac s results of operations and financial condition are those related to the valuation of investments, deferred policy acquisition costs, liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management s analyses and judgments. The application of these critical accounting estimates determines the values at which 95% of our assets and 87% of our liabilities are reported as of September 30, 2010, and thus has a direct effect on net earnings and shareholders equity. Subsequent experience or use of other assumptions could produce significantly different results.

There have been no changes in the items that we have identified as critical accounting estimates during the nine months ended September 30, 2010. For additional information, see the Critical Accounting Estimates section of MD&A included in our annual report to shareholders for the year ended December 31, 2009.

New Accounting Pronouncements

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

RESULTS OF OPERATIONS

The following table is a presentation of items impacting net earnings and net earnings per diluted share.

Items Impacting Net Earnings

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	In Millions		**Per Diluted Share**		**In Millions**		**Per Diluted Share**	
Net earnings	**$ 690**	$ 363	**$ 1.46**	$ .77	**$ 1,907**	$ 1,245	**$ 4.03**	$ 2.66
Items impacting net earnings, net of tax:								
Realized investment gains (losses):								
Securities transactions and impairments	**(3)**	(226)	**(.01)**	(.48)	**(37)**	(482)	**(.08)**	(1.02)
Impact from ASC 810	**9**	0	**.02**	.00	**(46)**	0	**(.10)**	.00
Impact from ASC 815	**0**	0	**.00**	.00	**0**	(3)	**.00**	(.01)
Gain on extinguishment of debt	**0**	0	**.00**	.00	**0**	11	**.00**	.02

Realized Investment Gains and Losses

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

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Securities Transactions and Impairments

During the nine-month period ended September 30, 2010, we realized pretax investment losses of $55 million ($37 million after-tax) as a result of the recognition of other-than-temporary impairment losses. We also realized pretax investment losses, net of gains, of less than $1 million from securities sold or redeemed in the normal course of business.

During the nine-month period ended September 30, 2009, we realized total pretax investment losses of $987 million ($642 million after-tax) as a result of the recognition of other-than-temporary impairment losses. We also realized pretax investment gains, net of losses, of $248 million ($161 million after-tax) from securities sold or redeemed, primarily resulting from bond swaps.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	2009	**2010**	2009
Perpetual securities	**$ 0**	$ 326	**$ 41**	$ 535
Corporate bonds	**0**	0	**0**	288
Collateralized debt obligations	**0**	35	**0**	148
Mortgage- and asset-backed securities	**12**	5	**12**	14
Equity securities	**1**	2	**2**	2
Total other-than-temporary impairment losses	**$ 13**	$ 368	**$ 55**	$ 987

Impact from ASC 810

Effective January 1, 2010, we adopted updated accounting guidance in ASC 810, Consolidation, which resulted in the consolidation of certain of the variable interest entities (VIEs) in which we have an investment. Upon consolidation, the beneficial interest in these VIEs was derecognized and the underlying collateral assets, fixed-maturity securities and perpetual securities, and corresponding foreign currency, interest rate and credit default swaps were recognized. The change in value of the swaps is recorded through current period earnings, and the change in value of the available-for-sale fixed-maturity and perpetual securities associated with these swaps is recorded through other comprehensive income. During the three-month period ended September 30, 2010, we realized pretax investment gains, net of losses, of $14 million ($9 million after-tax) from valuing foreign currency, interest rate and credit default swaps related to our consolidated VIEs. During the nine-month period ended September 30, 2010, we realized pretax investment losses, net of gains, of $72 million ($46 million after-tax) from valuing these swaps.

For additional information regarding realized investment gains and losses, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Impact from ASC 815

For a description of items that would be included in the Impact from ASC 815, Derivatives and Hedging, see the Hedging Activities subsection of MD&A and Notes 4 and 7 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2009.

Debt Extinguishment

We did not extinguish any debt during the first nine months of 2010. During the first nine months of 2009, we extinguished portions of our yen-denominated Uridashi and Samurai debt by buying the notes on the open market. We realized a total gain from extinguishment of debt of 1.6 billion yen, or $17 million ($11 million after-tax), which we included in other income.

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Foreign Currency Translation

Aflac Japan s premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate Aflac Japan s yen-denominated income statement into dollars using an average exchange rate for the reporting period, and we translate its yen-denominated balance sheet using the exchange rate at the end of the period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

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

Income Taxes

Our combined U.S. and Japanese effective income tax rate on pretax earnings was 34.6% for the nine-month period ended September 30, 2010, compared with 34.2% for the same period in 2009.

Earnings Guidance

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management s control may have a significant impact on actual results. Therefore, our comparison of net earnings includes certain assumptions to reflect the limitations that are inherent in projections of net earnings. In comparing period-over-period results, we exclude the effect of realized investment gains and losses (securities transactions, impairments, and the impact from ASC 810), the impact from ASC 815, and nonrecurring items. We also assume no impact from foreign currency translation on the Aflac Japan segment and the Parent Company s yen-denominated interest expense for a given period in relation to the prior period.

Subject to the preceding assumptions, our objective for 2010 is to increase net earnings per diluted share by 9% to 12% over 2009. Within that range, we expect to increase net earnings by approximately 10% for the full year to $5.34 per diluted share before the effect of foreign currency. If the yen/dollar exchange rate averages 80 to 85 for the fourth quarter of 2010, we would expect full-year reported net earnings to be approximately $5.52 to $5.57 per diluted share. Using that same exchange rate assumption, we expect fourth quarter 2010 net earnings to be in the range of $1.31 to $1.36 per diluted share. The following table shows the likely results for 2010 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

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2010 Net Earnings Per Share (EPS) Scenarios[1]

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Diluted Share	% Growth Over 2009	Yen Impact on EPS
85.00	$ 5.61 - 5.76	15.7 - 18.8 %	$ .33
90.00	5.41 - 5.56	11.5 - 14.6	.13
93.49 [2]	5.29 - 5.43	9.1 - 12.0	.00
95.00	5.24 - 5.38	8.0 - 10.9	(.05)
100.00	5.08 - 5.22	4.7 - 7.6	(.21)

[1] *Excludes realized investment gains/losses (securities transactions, impairments, and impact from ASC 810), impact from ASC 815, and nonrecurring items in 2010 and 2009*
[2] *Actual 2009 weighted-average exchange rate*

Our objective for 2011 is to increase net earnings per diluted share by 8% to 12% over 2010, excluding the effect of realized investment gains and losses, the impact from ASC 815, nonrecurring items, and foreign currency translation. If interest rates remain at historically low levels, earnings growth in 2011 would likely be at the low end of the range.

INSURANCE OPERATIONS

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

We measure and evaluate our insurance segments financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our operations before realized investment gains and losses (securities transactions, impairments, and the impact from ASC 810), the impact from ASC 815, and nonrecurring items. We believe that an analysis of segment pretax operating earnings is vitally important to an understanding of the underlying profitability drivers and trends of our insurance business. Furthermore, because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

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

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AFLAC JAPAN SEGMENT

Aflac Japan Pretax Operating Earnings

Changes in Aflac Japan s pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac Japan for the periods ended September 30.

Aflac Japan Summary of Operating Results

	Three Months		Nine Months	
(In millions)	**2010**	2009	**2010**	2009
Premium income	**$ 3,456**	$ 3,054	**$ 9,849**	$ 8,967
Net investment income:				
Yen-denominated investment income	**419**	379	**1,212**	1,107
Dollar-denominated investment income	**205**	189	**598**	566
Net investment income	**624**	568	**1,810**	1,673
Other income (loss)	**5**	8	**31**	30
Total operating revenues	**4,085**	3,630	**11,690**	10,670
Benefits and claims	**2,434**	2,175	**6,939**	6,469
Operating expenses:				
Amortization of deferred policy acquisition costs	**146**	123	**428**	369
Insurance commissions	**279**	262	**814**	785
Insurance and other expenses	**360**	345	**1,024**	961
Total operating expenses	**785**	730	**2,266**	2,115
Total benefits and expenses	**3,219**	2,905	**9,205**	8,584
Pretax operating earnings(1)	**$ 866**	$ 725	**$ 2,485**	$ 2,086
Weighted-average yen/dollar exchange rate	**85.74**	93.56	**89.33**	94.79

	In Dollars				**In Yen**			
Percentage change over	Three Months		Nine Months		Three Months		Nine Months	
previous period:	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Premium income	**13.2%**	18.9%	**9.8%**	15.4%	**3.8%**	3.4%	**3.6%**	3.4%
Net investment income	**9.9**	12.7	**8.2**	10.9	**.8**	(2.0)	**2.1**	(.6)
Total operating revenues	**12.5**	18.0	**9.6**	14.7	**3.2**	2.6	**3.4**	2.8
Pretax operating earnings(1)	**19.5**	28.7	**19.1**	23.4	**9.5**	11.8	**12.3**	10.6

(1) *See the Insurance Operations section of this MD&A for our definition of segment operating earnings.*

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 4.2% in the first nine months of 2010 and 3.0% for the same period of 2009 reflect the high persistency of Aflac Japan s business and the sales of new policies. Annualized premiums in force at September 30, 2010, were 1.24 trillion yen, compared with 1.19 trillion yen a year ago. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were $14.8 billion at September 30, 2010, compared with $13.2 billion a year ago.

Aflac Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 33% of Aflac Japan s investment income in the first nine months of 2010, compared with 34% for the same period of 2009. In periods when the yen strengthens in relation to the dollar, translating Aflac Japan s dollar-denominated investment income into yen lowers growth rates for net investment income, total operating revenues, and pretax operating earnings in yen terms. In periods when the yen weakens, translating dollar-denominated investment income into yen magnifies growth rates for net investment income, total operating revenues, and pretax operating earnings in yen

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terms. On a constant currency basis, dollar-denominated investment income accounted for approximately 34% of Aflac Japan s investment income during the first nine months of 2010. The following table illustrates the effect of translating Aflac Japan s dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the comparable period in the prior year.

Aflac Japan Percentage Changes Over Previous Period

(Yen Operating Results)

For the Periods Ended September 30,

	Including Foreign Currency Changes				**Excluding Foreign Currency Changes**[2]			
	Three Months		Nine Months		Three Months		Nine Months	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net investment income	**.8 %**	(2.0) %	**2.1 %**	(.6) %	**3.8 %**	2.9 %	**4.1 %**	3.3 %
Total operating revenues	**3.2**	2.6	**3.4**	2.8	**3.9**	3.6	**3.8**	3.4
Pretax operating earnings[1]	**9.5**	11.8	**12.3**	10.6	**12.5**	16.7	**14.3**	13.7

[1] *See the Insurance Operations section of this MD&A for our definition of segment operating earnings.*

[2] *Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current period as the comparable period in the prior year.*

The following table presents a summary of operating ratios for Aflac Japan.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Ratios to total revenues:	**2010**	2009	**2010**	2009
Benefits and claims	**59.6 %**	59.9 %	**59.4 %**	60.6 %
Operating expenses:				
Amortization of deferred policy acquisition costs	**3.6**	3.4	**3.7**	3.5
Insurance commissions	**6.8**	7.2	**7.0**	7.4
Insurance and other expenses	**8.8**	9.5	**8.6**	9.0
Total operating expenses	**19.2**	20.1	**19.3**	19.9
Pretax operating earnings[1]	**21.2**	20.0	**21.3**	19.5

[1] *See the Insurance Operations section of this MD&A for our definition of segment operating earnings.*

The benefit ratio has declined over the past several years, reflecting the impact of newer products and riders with lower loss ratios. We have also experienced favorable claim trends in our major product lines. We expect the improvement in the benefit ratio to continue. However, this improvement is partially offset by the effect of low investment yields, which impacts our profit margin by reducing the spread between investment yields and required interest on policy reserves. Due to improvement in the benefit ratio and the operating expense ratio, the pretax operating profit margin expanded in the three- and nine-month periods ended September 30, 2010.

Aflac Japan Sales

The following table presents Aflac Japan s total new annualized premium sales for the periods ended September 30.

	In Dollars				In Yen			
	Three Months		Nine Months		Three Months		Nine Months	
(In millions of dollars and billions of yen)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Total new annualized premium sales	**$ 403**	$ 320	**$ 1,105**	$ 922	**34.6**	30.0	**98.7**	87.5
Increase (decrease) over comparable period in prior year	**25.8 %**	22.4 %	**19.8 %**	15.4 %	**15.5 %**	6.5 %	**12.8 %**	3.7 %

The following table details the contributions to total new annualized premium sales by major insurance product for the periods ended September 30.

	Three Months		Nine Months	
	2010	2009	**2010**	2009
Medical	**33 %**	36 %	**35 %**	34 %
Cancer	**21**	27	**22**	31
Ordinary life	**42**	31	**38**	28
Rider MAX	**1**	2	**1**	3
Other	**3**	4	**4**	4
Total	**100 %**	100 %	**100 %**	100 %

Ordinary life again emerged as our number one insurance product category with product sales increasing 57.3% during the third quarter of 2010, compared with the same period a year ago. The increase in our ordinary life products was driven by a favorable consumer response to our child endowment product that we introduced at the end of first quarter 2009. The child endowment product is a popular means in Japan for saving for a child s future education. We have successfully linked the marketing of our child endowment product to the new government subsidy that was first sent in June 2010 to families with children age 15 and younger. Child endowment product sales accounted for almost half of the ordinary life category sales in the third quarter of 2010. We believe that traditional life insurance products, like our child endowment plan, provide further opportunities for us to sell our third sector cancer and medical products.

Another solid contributor to third quarter ordinary life sales, particularly through the bank channel, was WAYS, a product that we first introduced in early 2006. This unique hybrid product starts out as a whole life policy. When the policyholder reaches retirement age, usually 60 or 65, they can choose to convert a large part of their life benefit to a fixed annuity, medical coverage or nursing care benefits. Consumers find this product attractive because of the various options and the future flexibility it affords. As our banking distribution system becomes a greater contributor to our top-line growth, we expect sales of this innovative product to grow substantially.

Medical insurance sales increased 3.9% during the third quarter of 2010, compared with the same period a year ago. The slowing of medical sales in the third quarter reflected a difficult comparison to the same period a year ago, which benefited from the introduction of a new version of EVER. With continued cost pressure on

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Japan s health care system, we expect the need for medical products will continue to rise in the future, and we remain encouraged about the outlook for the medical insurance market.

In June 2010, we introduced a revision to Gentle EVER, our non-standard medical product. This new product offers more benefits than the original non-standard medical product that we rolled out in 2007. We believe it will continue to meet the needs of certain consumers who cannot qualify for our base EVER plan.

Cancer insurance sales were impacted by our focus on our other products and declined 9.3% during the third quarter of 2010, compared with the same period in 2009. Despite this decrease, we are convinced that the affordable cancer products Aflac Japan provides will continue to be an important part of our product portfolio. In June 2010, we introduced a product called Corsage, which is a female-specific rider to our cancer insurance product. In Japan, young women are more likely to suffer from cancer than young men. Corsage provides surgery benefits that address the high cost of treating female-specific cancers. As the number one provider of cancer insurance in Japan, we believe this new product will get consumers attention, further strengthen our brand, and most importantly, provide valuable benefits to consumers who are looking for solutions to cancer-related costs.

The sales of our supplemental health insurance products through the bank channel increased 170.7% during the third quarter of 2010, compared with the same period in 2009. At September 30, 2010, we had agreements with 360 banks, approximately 90% of the total number of banks in Japan, to sell our products. We continue to have significantly more banks selling our third sector insurance products than any other insurer operating in Japan. We believe our long-standing and strong relationships within the Japanese banking sector, along with our strategic preparations, have proven to be an advantage as this channel opened up for our types of products.

We remain committed to selling through our traditional channels, which allows us to reach consumers through affiliated corporate agencies, independent corporate agencies and individual agencies. During the third quarter of 2010, we recruited approximately 1,100 new sales agencies. At September 30, 2010, Aflac Japan was represented by more than 19,900 sales agencies, or more than 114,100 licensed sales associates employed by those agencies.

We believe that there is still a strong need for our products in Japan. We are ahead of our annual sales objective for 2010 for total new annualized premium sales to be flat to up 5% in Japan, however the fourth quarter will be more challenging in terms of sales comparisons to prior year. Overall, we remain confident that Aflac Japan will exceed its sales objective for the year.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has invested in privately issued securities to secure higher yields than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards for credit quality. All of our privately issued securities are rated investment grade at the time of purchase. These securities are generally issued with documentation consistent with standard medium-term note programs. In addition, many of these investments have protective covenants appropriate to the specific issuer, industry and country. These covenants often require the issuer to adhere to specific financial ratios and give priority to repayment of our investment under certain circumstances.

The following table presents the results of Aflac Japan s investment activities for the periods ended September 30.

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	Three Months		Nine Months	
	2010	2009	**2010**	2009
New money yield - yen only	**2.14 %**	2.77 %	**2.41 %**	3.07 %
New money yield - blended	**2.45**	2.89	**2.65**	3.30
Return on average invested assets, net of investment expenses	**3.44**	3.64	**3.52**	3.68

The decrease in the Japan new money yield reflects a low level of interest rates and tightening credit spreads. At September 30, 2010, the yield on Aflac Japan s investment portfolio, including dollar-denominated investments, was 3.64%, compared with 3.80% a year ago. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments.

Japanese Economy

Japan s economic conditions have shown signs of improvement due to various policy measures taken in Japan and abroad; however, improvement is expected to continue only at a moderate pace. For additional information, see the Japanese Economy subsection of MD&A in our annual report to shareholders for the year ended December 31, 2009.

Japanese Regulatory Environment

We expect that our distribution system will continue to evolve in Japan. Regulatory changes that took effect in December 2007 enabled banks to sell the third sector products that Aflac specializes in developing to their customers. Our strong brand as the leading seller of cancer and medical insurance products in Japan and our many long-term relationships within the Japan banking sector place us in a strong position to sell through this channel.

Japan s Financial Services Agency (FSA) maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The FSA will apply a revised method of calculating the solvency margin ratio for life insurance companies as of fiscal year-end 2011 (March 31, 2012) and requires the disclosure of the ratio as reference information for fiscal year-end 2010 (March 31, 2011). The FSA has stated that the revision would generally reduce life insurance companies solvency margin ratios to approximately half the level of those reported under the current calculation method. We do not expect our relative position within the industry to materially change.

In 2005, legislation aimed at privatizing Japan s postal system (Japan Post) was enacted into law. The privatization laws split Japan Post into four entities that began operating in October 2007. In 2007, one of these entities selected Aflac Japan as its provider of cancer insurance to be sold through post offices, and, in 2008, we began selling cancer insurance. Japan Post has historically been a popular place for consumers to purchase insurance products. Currently, our products are being offered in approximately 1,000 post offices.

Japan Post reform legislation was introduced earlier this year in the Japanese Diet session, but the session ended before the legislation could be passed. The Diet reconvened in October 2010, but given that the ruling coalition no longer controls a majority in the Diet s upper house following its defeat in the July 2010 election, it is unclear whether the postal reform legislation will be passed in the fall 2010 Diet session. Regardless, we believe that the Diet debate on postal reform is unlikely to change Aflac Japan s relationship with the post office company.

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AFLAC U.S. SEGMENT

Aflac U.S. Pretax Operating Earnings

Changes in Aflac U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac U.S for the periods ended September 30.

Aflac U.S. Summary of Operating Results

	Three Months		Nine Months	
(In millions)	**2010**	2009	**2010**	2009
Premium income	**$ 1,150**	$ 1,110	**$ 3,438**	$ 3,307
Net investment income	**138**	123	**404**	375
Other income	**2**	3	**9**	7
Total operating revenues	**1,290**	1,236	**3,851**	3,689
Benefits and claims	**668**	642	**1,904**	1,882
Operating expenses:				
Amortization of deferred policy acquisition costs	**96**	93	**324**	323
Insurance commissions	**133**	126	**399**	373
Insurance and other expenses	**165**	159	**525**	494
Total operating expenses	**394**	378	**1,248**	1,190
Total benefits and expenses	**1,062**	1,020	**3,152**	3,072
Pretax operating earnings[1]	**$ 228**	$ 216	**$ 699**	$ 617

	Three Months		Nine Months	
Percentage change over previous period:	**2010**	2009	**2010**	2009
Premium income	**3.6%**	3.0%	**4.0%**	3.6 %
Net investment income	**11.9**	(4.4)	**7.8**	(.4)
Total operating revenues	**4.4**	2.2	**4.4**	3.2
Pretax operating earnings[1]	**5.8**	5.7	**13.3**	5.6

[1] *See the Insurance Operations section of MD&A for our defintion of segment operating earnings.*

Annualized premiums in force increased 2.6% in the first nine months of 2010 and 2.0% for the same period of 2009. Annualized premiums in force at September 30, 2010, were $4.9 billion, compared with $4.8 billion a year ago.

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The following table presents a summary of operating ratios for Aflac U.S.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Ratios to total revenues:	**2010**	2009	**2010**	2009
Benefits and claims	**51.8 %**	51.9 %	**49.4 %**	51.0 %
Operating expenses:				
Amortization of deferred policy acquisition costs	**7.5**	7.5	**8.4**	8.8
Insurance commissions	**10.3**	10.2	**10.4**	10.1
Insurance and other expenses	**12.7**	12.9	**13.6**	13.4
Total operating expenses	**30.5**	30.6	**32.4**	32.3
Pretax operating earnings[1]	**17.7**	17.5	**18.2**	16.7

[1] *See the Insurance Operations section of this MD&A for our definition of segment operating earnings.*

The pretax operating profit margin improved during the first nine months of 2010, compared with the same period a year ago, due to improvement in the benefit ratio.

Aflac U.S. Sales

Weak economic conditions continued to challenge Aflac s sales results in the United States. The following table presents Aflac s U.S. total new annualized premium sales for the periods ended September 30.

	Three Months		Nine Months	
(In millions)	**2010**	2009	**2010**	2009
Total new annualized premium sales	**$ 324**	$ 342	**$973**	$ 1,034
Increase (decrease) over comparable period in prior year	**(5.3) %**	(7.2) %	**(5.9) %**	(6.4) %

The following table details the contributions to total new annualized premium sales by major insurance product category for the periods ended September 30.

	Three Months		Nine Months	
	2010	2009	**2010**	2009
Accident/disability	**48 %**	49 %	**48 %**	48 %
Cancer	**16**	17	**16**	17
Hospital indemnity	**17**	17	**18**	17
Life	**6**	7	**6**	7
Fixed-benefit dental	**5**	5	**5**	5
Other	**8**	5	**7**	6
Total	**100 %**	100 %	**100 %**	100 %

Total new annualized premium sales for accident/disability insurance, our leading product category, decreased 7.8%, cancer insurance sales decreased 11.5%, and our hospital indemnity insurance sales decreased 2.0% in the third quarter of 2010, compared with the same period a year ago.

One aspect of our U.S. sales strategy is our focus on growing and enhancing the effectiveness of our U.S. sales force. We recruited more than 5,400 new sales associates in the third quarter of 2010, resulting in more than 71,000 licensed sales associates at September 30, 2010. Recruiting was weak in the third quarter, compared with a year ago, showing a continuation of the trend from the first half of the year. To improve our recruiting results in the fourth quarter of this year and beyond, we have shifted the bonus structure for our state and regional coordinators from one that was

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based entirely on sales results to a structure that incorporates a people development component. We have also initiated a national recruiting contest that incentivizes producer recruitment. In addition, we have been rolling out a recruiting workshop that focuses on improving coordinator productivity by emphasizing sourcing recruiting candidates, interviewing, and contract acceptance.

In addition to expanding the size and capabilities of our traditional sales force, we are encouraged about the opportunities to broaden our distribution by pursuing and strengthening relationships with insurance brokers. In 2009, we implemented our new Aflac for Brokers[SM] initiative. Insurance brokers have been a historically underleveraged sales channel for Aflac, and we believe we can establish relationships that will complement our traditional distribution system. We have assembled a management team experienced in broker sales, and we are supporting this initiative with streamlined products, targeted broker-specific advertising campaigns, customized enrollment technology, and competitive compensation. Additionally, a new level of management was introduced in 2009 to deliver this initiative. More than 100 broker development coordinators have been hired to be single points of contact for brokers across the country. Broker development coordinators are responsible for building relationships with new brokers as well as strengthening relationships with our current brokers. These coordinators are assisted by a team of certified case managers whose role is to coordinate and manage the account enrollments for brokers.

Furthering our initiatives in the broker arena, we purchased CAIC in 2009. CAIC, now branded as Aflac Group Insurance, equips us with a platform for offering attractive voluntary group insurance products that are well-suited for distribution by insurance brokers at the worksite. We believe that CAIC has the potential to benefit us in the U.S. market by helping us meet the product requests and needs of our field force when they pursue larger payroll accounts.

Broker sales increased 34.9% in the third quarter of 2010, compared with the same period a year ago. On a proforma basis including CAIC s sales results in the third quarter of 2009, broker sales rose 7.2%. The group product platform that we obtained through the purchase of CAIC enables us to give brokers the type of products they know and prefer. At the same time, we expect group products to enhance sales opportunities for our traditional sales force of individual associates.

Although our sales outlook for Aflac U.S. remains cautious in the short term, our view on the U.S. market has not changed over the long run. We believe the United States provides a vast and underpenetrated market for our products. Following the passage of health care reform earlier this year, we believe employers and consumers will increasingly come to understand the need for the products we offer, just as they have in Japan. We also believe that brokers will increasingly view Aflac products as meaningful, relevant, and beneficial to their business and beneficial to their clients needs.

Aflac U.S. Investments

The following table presents the results of Aflac s U.S. investment activities for the periods ended September 30.

	Three Months		Nine Months	
	2010	2009	**2010**	2009
New money yield	**5.69 %**	7.36 %	**5.89 %**	7.74 %
Return on average invested assets, net of investment expenses	**6.25**	6.57	**6.32**	6.72

The decrease in the U.S. new money yield reflects a low level of interest rates and tightening credit spreads. At September 30, 2010, the portfolio yield on Aflac s U.S. portfolio was 6.96%, compared with 7.20% a year ago. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements and the Analysis of Financial Condition section of this MD&A for additional information on our investments.

U.S. Economy

Operating in the U.S. economy continues to be challenging. The weak economic environment has likely had an impact on some of our policyholders, potential customers and sales associates. Consumer confidence declined even further in the third quarter. Small businesses, in particular, have proven to be especially vulnerable to ongoing economic weakness, and both small-business owners and their workers are anxious about the future. Workers at small businesses are holding back on increasing their spending for voluntary insurance products. Although we believe that the weakened U.S. economy has been a contributing factor to slower sales growth, we also believe our products remain affordable to the average American consumer. We believe that consumers underlying need for our U.S. product line remains strong, and that the United States remains a sizeable and attractive market for our products.

U.S. Regulatory Environment

In March 2010, President Barack Obama signed the Patient Protection and Affordable Care Act (PPACA) to give Americans of all ages and income levels access to comprehensive major medical health insurance. The primary subject of the new legislation is major medical insurance; therefore, the PPACA does not directly affect the design of our insurance products or our sales model. Our experience with Japan s national health care environment leads us to believe that the need for our products will only increase over the coming years.

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) which, among other things, created a Financial Stability and Oversight Council. The Council may designate by a two-thirds vote whether certain insurance companies and insurance holding companies pose a grave threat to the financial stability of the United States, in which case such nonbank financial companies would become subject to prudential regulation by the Board of Governors of the U.S. Federal Reserve (the Federal Reserve Board of Governors), including capital requirements, leverage limits, liquidity requirements and examinations. The Board may limit the ability of such a company to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities. The Dodd-Frank Act also established a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement. Despite the lack of regulations to implement this law, we believe that Aflac would not likely be considered a company that would pose a systemic risk to the financial stability of the United States. However, at the current time, it is not possible to predict with any degree of certainty what impact, if any, the Dodd-Frank Act will have on our U.S. business, financial condition, or results of operations.

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ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes.

The following table demonstrates the effect of the change in the yen/dollar exchange rate by comparing select balance sheet items as reported at September 30, 2010, with the amounts that would have been reported had the exchange rate remained unchanged from December 31, 2009.

Impact of Foreign Exchange on Balance Sheet Items

(In millions)	As Reported	Exchange Effect	Net of Exchange Effect
Yen/dollar exchange rate[1]	83.82		92.10
Investments and cash	$ 85,585	$ 6,055	$ 79,530
Deferred policy acquisition costs	9,418	601	8,817
Total assets	97,843	6,787	91,056
Policy liabilities	78,913	6,422	72,491
Total liabilities	86,710	6,774	79,936

[1] *The exchange rate at September 30, 2010, was 83.82 yen to one dollar, or 9.9% stronger than the December 31, 2009, exchange rate of 92.10.*

Market Risks of Financial Instruments

Our investment philosophy is to maximize investment income while emphasizing liquidity, safety and quality. Our investment objective, subject to appropriate risk constraints, is to fund policyholder obligations and other liabilities in a manner that enhances shareholders equity. We seek to achieve this objective through a diversified portfolio of fixed-income investments that reflects the characteristics of the liabilities it supports. Aflac invests primarily within the fixed income securities markets.

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The following table details investment securities by segment.

Investment Securities by Segment

(In millions)	Aflac Japan September 30, 2010	Aflac Japan December 31, 2009	Aflac U.S. September 30, 2010	Aflac U.S. December 31, 2009
Securities available for sale, at fair value:				
Fixed maturities	**$ 37,870**	$ 29,952	**$ 8,990** [1]	$ 6,712 [1]
Perpetual securities	**7,157**	7,041	**295**	222
Equity securities	**23**	24	**1**	0
Total available for sale	**45,050**	37,017	**9,286**	6,934
Securities held to maturity, at amortized cost:				
Fixed maturities	**28,562**	26,487	**0**	200
Total held to maturity	**28,562**	26,487	**0**	200
Total investment securities	**$ 73,612**	$ 63,504	**$ 9,286**	$ 7,134

[1] *Excludes investment-grade, available-for-sale fixed-maturity securities held by the Parent Company of $128 in 2010 and $117 in 2009.*

Because we invest in fixed-income securities, our financial instruments are exposed primarily to three types of market risks: currency risk, interest rate risk and credit risk.

Currency Risk

The functional currency of Aflac Japan s insurance operations is the Japanese yen. All of Aflac Japan s premiums, claims and commissions are received or paid in yen, as are most of its investment income and other expenses. Furthermore, most of Aflac Japan s investments, cash and liabilities are yen-denominated. When yen-denominated securities mature or are sold, the proceeds are generally reinvested in yen-denominated securities. Aflac Japan holds these yen-denominated assets to fund its yen-denominated policy obligations. In addition, Aflac Incorporated has yen-denominated debt obligations.

Although we generally do not convert yen into dollars, we do translate financial statement amounts from yen into dollars for financial reporting purposes. Therefore, reported amounts are affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income.

Aflac Japan maintains a portfolio of reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments), which exposes Aflac to changes in foreign exchange rates. This foreign currency effect is accounted for as a component of unrealized gains or losses on available-for-sale securities in accumulated other comprehensive income. When the yen strengthens against the dollar, shareholders equity is negatively impacted and, conversely, when the yen weakens against the dollar, shareholders equity is positively impacted. Aflac Japan invests a portion of its assets in reverse-dual currency securities to provide a higher yield than those available on Japanese government or other public corporate bonds, while still adhering to prudent standards of credit quality. The yen/dollar exchange rate would have to strengthen to approximately 45 before the yield on these instruments would equal that of a comparable yen-denominated instrument.

On a consolidated basis, we attempt to minimize the exposure of shareholders equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan s investment portfolio in dollar-denominated securities and by the Parent Company s issuance of yen-denominated debt (for additional information, see the discussion under Hedging Activities as follows in this section of MD&A). As a result, the effect of currency fluctuations on our net assets is reduced.

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The following table demonstrates the effect of foreign currency fluctuations by presenting the dollar values of our yen-denominated assets and liabilities, and our consolidated yen-denominated net asset exposure at selected exchange rates.

Dollar Value of Yen-Denominated Assets and Liabilities

at Selected Exchange Rates

(In millions)	**September 30, 2010**			December 31, 2009		
Yen/dollar exchange rates	**68.82**	**83.82** [(1)]	**98.82**	77.10	92.10[(1)]	107.10
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$ 34,215**	**$ 28,090**	**$ 23,828**	$ 31,373	$ 26,263	$ 22,585
Fixed maturities - consolidated variable interest entities	**3,583**	**2,941**	**2,495**	0	0	0
Perpetual securities	**6,884**	**5,651**	**4,794**	8,350	6,990	6,011
Perpetual securities - consolidated variable interest entities	**1,621**	**1,331**	**1,129**	0	0	0
Equity securities	**22**	**18**	**16**	23	19	17
Securities held to maturity:						
Fixed maturities	**34,061**	**27,965**	**23,721**	31,640	26,487	22,777
Fixed maturities - consolidated variable interest entities	**727**	**597**	**506**	0	0	0
Cash and cash equivalents	**782**	**642**	**545**	1,088	911	783
Other financial instruments	**140**	**115**	**98**	111	93	80
Subtotal	**82,035**	**67,350**	**57,132**	72,585	60,763	52,253
Liabilities:						
Notes payable	**1,236**	**1,014**	**861**	1,616	1,353	1,163
Japanese policyholder protection corporation	**127**	**104**	**89**	153	128	110
Subtotal	**1,363**	**1,118**	**950**	1,769	1,481	1,273
Net yen-denominated financial instruments	**80,672**	**66,232**	**56,182**	70,816	59,282	50,980
Other yen-denominated assets	**9,916**	**8,145**	**6,905**	8,630	7,225	6,213
Other yen-denominated liabilities	**90,417**	**74,237**	**62,968**	77,327	64,733	55,667
Consolidated yen-denominated net assets (liabilities) subject to foreign currency fluctuation	**$ 171**	**$ 140**	**$ 119**	$ 2,119	$ 1,774	$ 1,526

[(1)] *Actual period-end exchange rate*

Effective January 1, 2010, we were required to consolidate certain VIEs upon the adoption of new accounting guidance. Prior to the adoption of this new accounting guidance, our beneficial interest in certain VIEs was a yen-denominated available-for-sale fixed maturity security. Upon consolidation on January 1, 2010, the original yen-denominated investment was derecognized and the underlying U.S. dollar-denominated fixed-maturity or perpetual securities and cross-currency swaps were recognized. While the combination of a U.S. dollar-denominated investment and cross-currency swap economically creates a yen-denominated investment, these investments will create foreign currency fluctuations but have no impact on our net investment hedge position. For additional information, see the Hedging Activities subsection of MD&A.

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This primarily occurs when we repatriate funds from Aflac Japan to Aflac U.S., which is generally done annually. The exchange rates prevailing at the time of repatriation will differ from the exchange rates prevailing at the time the yen profits were earned. A portion of the repatriation may be used to service Aflac Incorporated s yen-denominated notes payable with the remainder converted into dollars.

Interest Rate Risk

Our primary interest rate exposure is to the impact of changes in interest rates on the fair value of our investments in debt and perpetual securities. We estimate that the reduction in the fair value of debt and perpetual securities we own resulting from a 100 basis point increase in market interest rates, based on our portfolios at September 30, 2010, and December 31, 2009, would be as follows:

(In millions)	**September 30, 2010**	December 31, 2009
Effect on yen-denominated debt and perpetual securities	**$ (7,534)**	$ (6,404)
Effect on dollar-denominated debt and perpetual securities	**(2,076)**	(974)
Effect on total debt and perpetual securities	**$ (9,610)**	$ (7,378)

There are various factors that affect the fair value of our investment in debt and perpetual securities. Included in those factors are changes in the prevailing interest rate environment. Changes in the interest rate environment directly affect the balance of unrealized gains or losses for a given period in relation to a prior period. Decreases in market yields generally improve the fair value of debt and perpetual securities while increases in market yields generally have a negative impact on the fair value of debt and perpetual securities. However, we do not expect to realize a majority of any unrealized gains or losses because we have the intent and ability to hold such securities until a recovery of value, which may be maturity. For additional information on unrealized losses on debt and perpetual securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. Currently, when debt and perpetual securities we own mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, adding riders to our older policies has helped offset negative investment spreads on these policies. Overall, adequate profit margins exist in Aflac Japan s aggregate block of business because of profits that have emerged from changes in the mix of business and favorable experience from mortality, morbidity and expenses.

We have entered into interest rate swap agreements related to the 20 billion yen variable interest rate Uridashi notes. These agreements effectively swap the variable interest rate Uridashi notes to fixed rate notes to mitigate our exposure to interest rate risk. For additional information, see the Interest Rate Risk subsection of MD&A in our annual report to shareholders for the year ended December 31, 2009.

Credit Risk

Our investment activities expose us to credit risk, which is a consequence of extending credit and/or carrying investment positions. However, we continue to adhere to prudent standards for credit quality. We accomplish this by considering our product needs and overall corporate objectives, in addition to credit risk. In evaluating the initial rating, we look at the overall senior issuer rating, the explicit rating for the actual issue or the rating for the security class, and, where applicable, the appropriate designation from the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC). All of our securities have ratings from either a nationally recognized statistical rating organization or the SVO of the NAIC. In addition, we perform extensive internal credit reviews to ensure that we are consistent in applying rating criteria for all of our securities.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal

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credit analysis. The distributions by credit rating of our purchases of debt securities, based on acquisition cost, were as follows:

Composition of Purchases by Credit Rating

	Nine Months Ended September 30, 2010	Twelve Months Ended December 31, 2009	Nine Months Ended September 30, 2009
AAA	**.8 %**	7.6 %	9.1 %
AA	**58.7**	58.9	61.3
A	**28.2**	31.4	26.8
BBB	**12.3**	2.1	2.8
Total	**100.0 %**	100.0 %	100.0 %

We did not purchase any perpetual securities during the periods presented in the table above.

The distributions of debt and perpetual securities we own, by credit rating, were as follows:

Composition by Credit Rating

	September 30, 2010		December 31, 2009	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**3.6 %**	**3.8 %**	3.3 %	3.4 %
AA	**34.6**	**36.0**	34.6	35.8
A	**37.2**	**37.7**	39.6	39.8
BBB	**17.9**	**17.6**	15.6	15.2
BB or lower	**6.7**	**4.9**	6.9	5.8
Total	**100.0 %**	**100.0 %**	100.0 %	100.0 %

At September 30, 2010, we had $1.1 billion, at amortized cost, of available-for-sale fixed-maturity investments in Greek financial institutions. During the second quarter of 2010, the Greek financial institutions, which comprise Lower Tier II investments, were downgraded to below investment grade. While these financial institutions have significant investments in Greek Government Bonds (GGBs), we believe that these institutions will be solvent even if there were a future restructuring of GGBs and that they will have the ability to meet their obligations to us. In addition, we have the intent to hold these investments to recovery in value. As a result, we have not recognized an other-than-temporary impairment for these investments as of September 30, 2010. See Note 3 of the Notes to the Consolidated Financial Statements for more information on these investments.

As of September 30, 2010, our direct and indirect exposure to securities in our investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

Subordination Distribution

The majority of our total investments in debt and perpetual securities was senior debt as of September 30, 2010, and December 31, 2009. We also maintained investments in subordinated financial instruments that primarily consisted of Lower Tier II, Upper Tier II, and Tier I securities, listed in order of seniority. The Lower Tier II (LTII) securities are debt instruments with fixed maturities. Our Upper Tier II (UTII) and Tier I investments consisted of debt instruments with fixed maturities and perpetual securities, which have an economic maturity as opposed to a stated maturity.

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The following table shows the subordination distribution of our debt and perpetual securities.

Subordination Distribution of Debt and Perpetual Securities

	September 30, 2010		December 31, 2009	
(In millions)	Amortized Cost	Percentage of Total	Amortized Cost	Percentage of Total
Senior notes	$ 64,613	78.6 %	$ 54,971	76.5 %
Subordinated securities:				
Fixed maturities				
(stated maturity date):				
Lower Tier II	8,770	10.7	7,944	11.1
Upper Tier II	15	.0	178	.2
Tier I[(1)]	604	.7	754	1.0
Surplus notes	336	.4	336	.5
Trust preferred - non-banks	85	.1	85	.1
Other subordinated - non-banks	52	.1	52	.1
Total fixed maturities	9,862	12.0	9,349	13.0
Perpetual securities				
(economic maturity date):				
Upper Tier II	5,257	6.4	5,200	7.2
Tier I	2,480	3.0	2,354	3.3
Total perpetual securities	7,737	9.4	7,554	10.5
Total debt and perpetual securities	$ 82,212	100.0 %	$ 71,874	100.0 %

[(1)] *Includes trust preferred securities*

Portfolio Composition

For information regarding the amortized cost for our investments in debt and perpetual securities, the cost for equity securities and the fair values of these investments, refer to Note 3 of the Notes to the Consolidated Financial Statements.

Investment Concentrations

See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of our investment discipline, our largest investment industry sector concentration (banks and financial institutions), and our investment exposure to certain Eurozone countries (Greece, Ireland, Italy, Portugal and Spain).

Our largest global investment exposures as of September 30, 2010, were as follows:

Largest Global Investment Positions

(In millions)	Amortized Cost	% of Total	Seniority	Ratings Moody s	S&P	Fitch
Government of Japan[1]	**$ 14,902**	**18.1 %**	Senior	Aa2	AA	AA-
Israel Electric Corp.	**966**	**1.2**	Senior	Baa2	BBB	-
Republic of Tunisia	**910**	**1.1**	Senior	Baa2	BBB	BBB
HSBC Holdings PLC	**804**	**1.0**				
HSBC Finance Corporation (formerly Household Finance)	622	.8	Senior	A3	A	AA-
Republic New York Corp	11	.0	LTII	A2	A+	AA-
HSBC Holdings PLC	15	.0	UTII	A1	A	AA-
HSBC Bank PLC (RAV Int l. Ltd.)	40	.1	UTII	A3	A	A+
The Hongkong & Shanghai Banking Corporation Ltd	80	.1	UTII	Aa3	-	-
HSBC Holdings PLC (HSBC Capital Funding LP)	36	.0	Tier I	A3	A-	A+
Republic of South Africa	**730**	**.9**	Senior	A3	BBB+	BBB+
Commerzbank AG	**696**	**.9**				
Commerzbank AG	457	.6	LTII	A1	A-	A
Dresdner Bank AG (Dresdner Funding Trust IV)	184	.2	LTII	A1	A-	A
Dresdner Bank AG (Dresdner Funding Trust I)	55	.1	Tier I	Baa3	CCC	B
Bank of America Corp.	**634**	**.8**				
Merrill Lynch & Co Inc	324	.4	Senior	A2	A	A+
Merrill Lynch & Co Inc	12	.0	LTII	A3	A-	A
Bank of America Corp (includes Fleet Financial Group Inc, Nationsbank Corporation)	280	.4	LTII	A3	A-	A
Bank of America Corp (NB Capital Trust, Bankamerica Instit-A)	18	.0	Tier I	Baa3	BB	BBB-
Mizuho Financial Group Inc.	**619**	**.8**				
Mizuho Bank, Mizuho Finance Cayman & Aruba	619	.8	UTII	A2	A-	-
UniCredit SpA	**601**	**.7**				
Unicredito Bank Austria	11	.0	LTII	Aa3	AA+	-
Hypovereinsbank (Unicredit Bank AG)	239	.3	LTII	A2	A-	A
Hypovereinsbank (HVB Funding Trust I, III & VI)	351	.4	Tier I	Baa3	BBB	BBB
Commonwealth Bank of Australia	**585**	**.7**				
Commonwealth Bank of Australia	239	.3	LTII	Aa2	AA-	AA-
Commonwealth Bank of Australia	239	.3	UTII	-	A+	-
Bankwest	107	.1	UTII	Aa2	AA-	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	**537**	**.7**				
Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU Curacao Holdings NV)	537	.7	LTII	Aa3	A	A-
BNP Paribas	**537**	**.7**				
BNP Paribas	119	.1	Senior	Aa2	AA	AA-
Fortis Bank SA-NV	299	.4	UTII	A3	A	A-
Fortis Luxembourg Finance SA	119	.2	UTII	Baa2	A	A-
Erste Group Bank AG	**512**	**.6**				
Erste Group Bank	119	.1	LTII	A1	A-	A-
Erste Group Bank (Erste Finance Jersey Ltd. 3 & 5)	393	.5	Tier I	Ba2	-	BBB-
Investcorp SA	**491**	**.6**				
Investcorp Capital Limited	491	.6	Senior	Ba2	-	BB+
National Grid PLC	**478**	**.6**				
National Grid Gas PLC	239	.3	Senior	A3	A-	A
National Grid Electricity Transmission PLC	239	.3	Senior	A3	A-	A
Telecom Italia SpA	**477**	**.6**				
Telecom Italia Finance SA	477	.6	Senior	Baa2	BBB	BBB
Sumitomo Mitsui Financial Group Inc.	**477**	**.6**				
Sumitomo Mitsui Banking Corporation	119	.2	LTII	Aa3	A	A-
Sumitomo Mitsui Banking Corporation (SMBC International Finance)	358	.4	UTII	A1	A-	-
JP Morgan Chase & Co. (including Bear Stearns)	**475**	**.6**				
JP Morgan Chase & Co. (including Bear Stearns Companies Inc.)	418	.5	Senior	Aa3	A+	AA-
JP Morgan Chase & Co. (FNBC)	29	.1	Senior	Aa1	AA-	-
JP Morgan Chase & Co. (Bank One Corp.)	17	.0	LTII	A1	A	A+
JP Morgan Chase & Co. (NBD Bank)	11	.0	LTII	Aa2	A+	A+
Citigroup Inc.	**470**	**.6**				
Citigroup Inc. (includes Citigroup Global Markets Holdings Inc., Associates Corp.)	469	.6	Senior	A3	A	A+
Citigroup Inc. (Citicorp)	1	.0	LTII	Baa1	A-	A
Barclays Bank PLC	**465**	**.6**				

Barclays Bank PLC		179	.2	LTII	Baa1	A	A+
Barclays Bank PLC		239	.3	UTII	Baa2	A-	A
Barclays Bank PLC		47	.1	Tier I	Baa3	A-	A
Total	**$**	**26,366**	**32.4 %**				
Total debt and perpetual securities	**$**	**82,212**	**100.0 %**				

[1] *JGBs or JGB-backed securities*

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As previously disclosed, we own long-dated debt instruments in support of our long-dated policyholder obligations. Included in our largest global investment holdings are legacy positions that date back many years. Additionally, the concentration of certain of our holdings of individual credit exposures has grown over time through merger and consolidation activity. Beginning in 2005, we have generally limited our investment exposures to issuers to no more than 5% of total adjusted capital (TAC) on a statutory accounting basis, with the exception of obligations of the Japanese and U.S. governments. However, existing investment exposures that exceeded 5% of TAC at the time this guideline was adopted, or exposures that may exceed this threshold from time to time through merger and consolidation activity, are not automatically reduced through sales of the issuers securities but rather are reduced over time consistent with our investment policy.

We have investments in both publicly and privately issued securities. The outstanding amount of a particular issuance, as well as the level of activity in a particular issuance and market conditions, including credit events and the interest rate environment, affect liquidity regardless of whether it is publicly or privately issued.

The following table details investment securities by type of issuance.

Investment Securities by Type of Issuance

	September 30, 2010		December 31, 2009	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	**$ 28,901**	**$ 31,136**	$ 20,649	$ 21,087
Perpetual securities	**235**	**270**	116	122
Equity securities	**14**	**15**	14	15
Total publicly issued	**29,150**	**31,421**	20,779	21,224
Privately issued securities:				
Fixed maturities	**45,574**	**43,848**	43,671	41,522
Perpetual securities	**7,502**	**7,182**	7,438	7,141
Equity securities	**9**	**9**	8	9
Total privately issued	**53,085**	**51,039**	51,117	48,672
Total investment securities	**$ 82,235**	**$ 82,460**	$ 71,896	$ 69,896

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The following table details our privately issued investment securities.

Privately Issued Securities

(Amortized cost, in millions)	September 30, 2010	December 31, 2009
Privately issued securities as a percentage of total debt and perpetual securities	**64.6 %**	71.1 %
Privately issued securities held by Aflac Japan	**$ 50,127**	$ 48,639
Privately issued securities held by Aflac Japan as a percentage of total debt and perpetual securities	**61.0 %**	67.7 %

Reverse-Dual Currency Securities *(1)*

(Amortized cost, in millions)	September 30, 2010	December 31, 2009
Privately issued reverse-dual currency securities	**$ 12,550**	$ 14,070
Publicly issued collateral structured as reverse-dual currency securities (2)	**2,804**	0
Total reverse-dual currency securities	**$ 15,354**	$ 14,070
Reverse-dual currency securities as a percentage of total debt and perpetual securities	**18.7 %**	19.6 %

(1) *Principal payments in yen and interest payments in dollars*
(2) *Publicly issued securities held as collateral of former QSPEs*

Aflac Japan has invested in privately issued securities to better match liability characteristics and secure higher yields than those available on Japanese government or other public corporate bonds. Aflac Japan s investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers and have longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities are issued under medium-term note programs and have standard documentation commensurate with credit ratings of the issuer, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

Below-Investment-Grade and Split-Rated Securities

Debt and perpetual securities classified as below investment grade at September 30, 2010 and December 31, 2009, were reported as available for sale and carried at fair value. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. Below-investment-grade debt and perpetual securities represented 6.7% of total debt and perpetual securities at September 30, 2010, compared with 6.9% of total debt and perpetual securities at December 31, 2009, at amortized cost. The below-investment-grade securities were as follows:

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Below-Investment-Grade Securities

	September 30, 2010				December 31, 2009			
(In millions)	Par Value	Amortized Cost	Fair Value	Unrealized Gain/Loss	Par Value	Amortized Cost	Fair Value	Unrealized Gain/Loss
Investcorp Capital Limited	**$ 491**	**$ 491**	**$ 331**	**$ (160)**	$ 452	$ 452	$ 223	$ (229)
Irish Life and Permanent PLC (1)	**441**	**224**	**177**	**(47)**	402	204	197	(7)
Lloyds Banking Group PLC (Includes HBOS in 2009) (1)	**440**	**363**	**415**	**52**	896	597		