S&P Global
Market Intelligence

# Aflac Incorporated NYSE:AFL

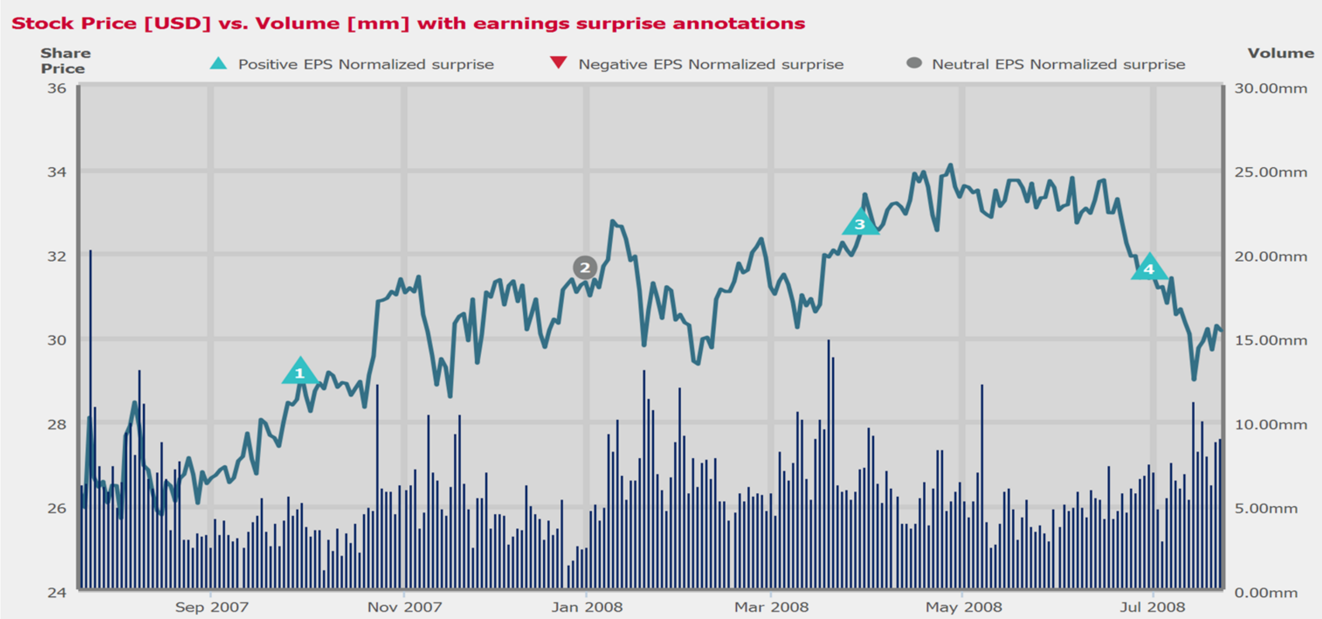
# FQ3 2008 Earnings Call Transcripts

## Friday, October 24, 2008 1:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2008- | | | -FQ4 2008- | -FY 2008- | -FY 2009- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.50 | 0.51 | ▲2.00 | 0.49 | 1.99 | 2.26 |
| **Revenue** | - | - | ▲(14.42 %) | - | - | - |
| **Revenue (mm)** | 4312.73 | 3691.00 | - | 4439.04 | 17163.96 | 18240.27 |

Currency: USD
Consensus as of Oct-24-2008 1:44 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2007** | 0.41 | 0.42 | ▲4.88 % |
| **FQ4 2007** | 0.40 | 0.40 | 0.00 % |
| **FQ1 2008** | 0.48 | 0.50 | ▲4.17 % |
| **FQ2 2008** | 0.50 | 0.50 | ▲2.00 % |

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# Call Participants

## EXECUTIVES

**Daniel P. Amos**

**Jerry Jeffery**

**Joey M. Loudermilk**

**Kenneth S. Janke, Jr.**

**Kriss Cloninger III**

**Paul Shelby Amos II**

**Tohru Tonoike**

## ANALYSTS

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*Citigroup*

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**Edward Spehar**
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**Mark Hughes**
*SunTrust Robinson Humphrey*

**Michael Gorzynski**
*Third Point LLC*

**Nigel Dally**
*Morgan Stanley*

**Suneet Kamath**
*Sanford Bernstein*

**Thomas Gallagher**
*Credit Suisse*

# Presentation

**Operator**

Good morning and thank you for standing by. At this time, all participants are in listen-only. After the presentation we will conduct a question and answer session. [Operator Instructions]. I would like to inform all participants that your call is being recorded. If you have any objections you may disconnect at this time.

And I will also like to turn the call over to your conference host this morning, Mr. Ken Janke, Senior Vice President of Investor Relations. Sir you may begin.

**Kenneth S. Janke, Jr.**

Thank you very much. Good morning everybody and thanks for joining us for our third quarter conference call. With me this morning is Dan Amos, Chairman and CEO; Kriss Cloninger, President and CFO; Paul Amos, President of Aflac and COO of our U.S. Operations; Jerry Jeffery, Senior Vice President and Chief Investment Officer; and Tohru Tonoike, President and COO of Aflac Japan joins us from Tokyo.

Before we begin this morning, let me remind you of the Safe Harbor. I would like to point out that some of the statements in this conference call are forward-looking within the meaning of Federal Securities Laws. And although we believe these statements are reasonable, we can give you no assurance that they will prove to be accurate because they are perspective in nature.

The actual results in future could differ materially from those we discussed today. And I'd encourage you to look at our quarterly release or latest filing to see some of the risk factors that could influence our results materially in the future.

Now, I'd like to ask Dan to give us some comments to go over the quarter and then we will run through some numbers and be happy to take your questions. Dan?

**Daniel P. Amos**

Good morning and thank you for joining us today to discuss the third quarter results and outlook. It's turning on certain times like these that one of our primary attributes, consistency, is so widely important. Aflac has a long history of consistent operating performance and this year has been no exception.

Our operating results for the third quarter and for the first 9 months of 2008 were strong and we met or exceeded our expectations. As we noted in yesterday's press release, we expect operating earnings per year for 2008 of a 15% increase before the impact at the end. I also believe we're well positioned to achieve our objective for the operating earnings per share for 2009.

I want to spend some time talking about the balance sheet and the capital provision. But first let me briefly review our operations beginning with Aflac Japan. At our Tokyo Analyst meeting in September, we said we were disappointed with sales in July and August. Aflac Japan's management also discussed plans we believe could result a strong September, which would leave us in a position to achieve our sales target for the year. Overall, those plans were pretty successful. We had a significant increase in September, which resulted in modest sales increase for the quarter. However, despite that increase, it will still be difficult to achieve the full year sales target on a year-to-date basis results.

I know that many of you have wondered how the situation of that AIG has impacted our business in Japan. Initially, there was some confusion following the extraordinary events at AIG. Following the news at AIG, we received more than 1,200 calls in a day from consumers wondering if we were in fact the same company. Both companies began with the word American and that shouldn't come as a shock. We quickly created ads that were specifically designed to differentiate AFLAC and to promote our financial strength. Just two weeks ago, I spent three days in Tokyo speaking with the media and emphasizing that we are not related to AIG and we did not share their issues.

As a result of those interviews, the calls we received from consumers and costumers dropped dramatically to less than 50 a day. Overall sales to the distribution channels has been solid. In the third quarter we sold 1.3 billion yen in new business through the bank channel, which was a 92.8% increase over the second quarter. Although that's an impressive increase like the second quarter, we thought that we would do a little bit better.

The global financial crisis has affected some of our new banking partners. Banks are understandably more tuned to the financial turmoil of these agencies. And we've been spending a lot of time communicating our bank's financial strength to our new bank distributors. Although the Shinkin Bank sales of Aflac's products were strong in September, regional banks were somewhat weak because they've spent lot of time with their costumers on non-AFLAC products such as investment trust in light of the stock market sell-off. That is still the case in October.

We remain pleased with the number of banks that are offering our products, and at the end of September, we were sell... selling agreements with 196 banks, which is significantly more than our competitors. As you know, we just began selling Cancer Forte products through Japan post network on October 1st of this year. We are obviously in the early stages of this selling agreement.

With our product being offered to 300 of Japan's over 20,000 post offices, I'd consider our initial sales to be somewhat of a test. However, our sales through these new channels has been very good so far, and I am pleased with the strong start. We are the best branded company for cancer insurance in Japan, and there is no doubt that Japan post has a long history of successfully selling to consumers. As a result, we believe this channel will be a solid contributor to our future sale.

Now, let me turn to our business in the Unites States. Selling insurance in the current U.S. economy has proven to be a challenge this year. Total new annualized premium sales were up one-tenth of a percent to 369 million in the third quarter and up 1.8% for the nine months. As discussed in previous quarters, I think it's likely that some of our policyholders, potential customers and sales associates are feeling the impact of the weak economic environment. While we faced difficult economies before, this part of the economic cycle has been particularly challenging to the consumers. Obviously, the recent stock market turmoil has only added to consumers on these. In addition, hurricane Ike severely disrupted sales in Texas, which is our largest sales state or selling in the country. Despite the sales results of the third quarter, we continue to be pleased with the basic sales related activity of our U.S. operations. In the third quarter, we've recruited more than 6,400 new sales associates, an increase of 4.9%. The average number of weekly producing associates increases 3.7% in the third quarter. Other indicators have also remained positive.

The number of new payroll of Dutch-in [ph] accounts rose by 6.4% in the third quarter. Our new agents in particular continued to be a key driver in opening new accounts and selling new business. We believe the solid results and the fundamental activities of our business position us for better results next year. We have certainly faced a much more challenging economy this year than I think anyone expect. However, that has not changed consumers underlying need for U.S. product line. Our coverage provides valuable protection at affordable prices. We are absolutely convinced, that U.S. remains a sizable and attractive market.

Considering Wall Street's current focus on the insurance hinge [ph], I would spend some time on the balance sheet. I will remain pleased with our balance sheet, which I consider to be strong, especially from a capital adequacy standpoint. Because of the nature of our products our Japanese operation, our ability and assets were unique compared with other North American insurers you might fallow or own.

The most important distinction of our policy liability is that are products help protect wealth, they don't help built wealth. Some of our products in Japan do offer a small cash surrender value particularly with our older block of cancer insurance. However we do not have a similar benefit feature in the U.S. products. At the same time our products have very affordable premiums and as a result our business is not subject to so called run on the bank. In fact the persistency of our business in both the U.S. and in Japan remains stable.

Turning to the asset side, let me first remind you why we invest the way that we do. Ultimately the characteristics of the products we sell that drive our investment approach. Our products in Japan result in long duration yen denominated liabilities. As such we purchase long duration yen denominated assets to support those liabilities.

It is the primarily the long duration nature of the investments that has led to the large unrealized losses in the portfolio as credit spreads have widened globally.

In addition to duration and currency matching, the investment policies of the Board of Directors do not permit the purchase of speculative investments, such as junk bonds. As a result, 98.4% of our debt securities were invested in investment grade products as of September. Our investment approach has been time tested and has been effective. In fact, it is not changed in 19 years that I've been the CEO and I am absolutely convinced. It's still the most prudent way for us to do.

As many of you know, Japan does not have a developed corporate bond market. So we have to purchase securities issued by many non-Japanese entities. We have a diversity of insurers and a portfolio from insurers in 42 countries around the world. Financial institutions have been a natural insurer for the types of assets that we own and as a result we still have large investments in the financial sector.

We take some comfort in the fact that financials are highly regulated. In addition we've always tried to invest in the market leaders and large financial institutions that underpin the economies in which they operate. I believe our investment premise has been vindicated considering the extraordinary efforts that many governments have taken in the current financial crisis to ensure that these large institutions do not fail.

Another characteristic that makes Aflac somewhat unique is the size and predictability of our cash flows to the investments in Japan. Through the nine months of this year, we invested more than 354 billion yen after we paid claims and operating expenses. That equates us to investing about 1.9 billion yen or $18 million each working day. These substantial cash flows means that we do not participate... do not anticipate liquidating invested assets to meet cash needs for paying claims. As a result of our cash flow characteristics, the incredibly high persistency rate of our business in Japan, we remain a significant percentage of the securities that are classified as held to maturity.

Of the slightly less than 5 billion in gross unrealized losses on the consolidated debt portfolio at the end of the third quarter, 1.9 billion or about 38% were attributed to held to maturity. Because we have both the liability and the intent to hold these securities to maturity, we will not realize those losses unless there's a significant credit event with the insurer. While we have a very record from an investment perspective, we know that we are not perfect. As you know, we sold our holdings in Lehman Brothers at a large loss and we disposed off some small investment in Washington Mutual at a loss. We also impaired our investment in Ford Motor Company in the third quarter even though Ford is still current in its interest payments.

As we pointed out in the press release, we own securities in Iceland's three banks. All of those banks are in receivership, and we believe it's unlikely that we will receive both interest and principle. We plan to impair these securities in the fourth quarter at an estimated loss of approximately $110 million after-tax.

Any time you extend credit, you take a risk. We understand that, and through credit analysis, is the cornerstone of the investment approach. Obviously, if we thought Lehman had been a risk to failure, we would have never bought that debt. We believe the decision to buy securities, and we accept the responsibility. Certainly, in this extreme environment, it's not surprising that some of the companies are failing. Kriss will comment in more detail on these decisions to reclassify the perpetual debentures.

We own as available for sale. However, I want to emphasize that we have been consistent with our investment accounting during the 15 years we've owned these securities. But considering the current capital market conditions, we believe our approach to reclassify them is a conservative one. I remain convinced that our investment approach is the most appropriate for Aflac given the types of products we sell. And I believe our overall approach to the balance sheet remains conservative.

Undoubtedly, conservatism in this volatile market is crucial. You'll recall our risk based capital ratio was 574% at the end of last year. As I mentioned in the press release, we do not normally compute interim ratios. However, in light of the investors' concerns about the industry's capital adequacy, we felt that it was important to calculate the RBC ratios as of September 30.

Since the end of the year the Yen has strengthen significantly to the dollar. As we have discussed at the analyst meeting, stronger Yen lowers our RBC ratio. Despite the Yen's impact and the realized investment loss that we took in the third quarter, our RBC ratio was still approximately 495% at the end of September. We also expect our solvency margin in Japan to remain strong.

As a result, we believe our capital level is more than accurate... adequate to support our rate. We do not anticipate the need for raising capital. We remain focused on the best way to manage our capital in ways that allows us to navigate current financial crisis, maintain our capital ratios and ratings and deploy excess capital to benefit our shareholders. Unlike other companies we have not suspended our share repurchase program. We bought 23.2 million shares in 2008, all of which was funded with internal capital. We believe those purchases help position us to achieve our earnings per share target for both this year and next.

Although we do not anticipate buying additional capital this year, we expect to purchase approximately 12 million shares in 2009 or about 35 million shares over the two year period, which is consistent with our prior guidance.

In addition to repurchasing our shares, we are also pursuing our same dividend policy. As you read in last night's release, our Board of Directors raised the quarterly cash dividend by 16.7%, effective with the first quarter of this year. That will mark the 27th consecutive year in which we've increased the dividend. Our intent remains to increase the annual dividend at a faster rate than our operating earnings per share growth before the impact of the yen.

Reflecting the underlying strength and profitability of the interest operation, we have upwardly revised our outlook for this year from a 14% to 15% increase in operating earnings per diluted share before the policy to 15%. We continue to believe that the 2009 objective of a 13% to 15% increase in operating earnings per diluted share excluding currency is reasonable and achievable. I am confident in Aflac's operations and its business model and I can tell you I wouldn't trade places with any other CEO.

Now I would like to turn the program over to Kriss. Kriss?

**Kriss Cloninger III**

Very good morning, everyone. I want to briefly comment on the $191 million non-cash impairment charge related to the perpetual debentures we own. In light of the recent unprecedented volatility in the debt and equity markets, we've re-evaluated two accounting issues related to our holdings of these so called hybrid securities which have both debt and equity characteristics. The first issue is whether they should be classified as debt or equity on the balance sheet.

And the second issue is the appropriate approach for determining other that temporary impairment. Regarding the classification of hybrids, with the concurrence of our auditors we've carried them as debt instruments for 15 years, and we believe with good reason.

As you may know, hybrids are priced and rated like debt securities. Although they do not have a stated maturity date, the hybrids we own have unique features that create what is essentially an economic maturity or redemption date.

All of these features make it very punitive for the issuer not to redeem the securities of their economic maturity dates regardless of the economic environment. In fact, we have one hybrid that was redeemed on October 8 this year during what was arguably one of the most distressed periods for the global credit market.

Our first purchase of these hybrids was in 1993. And just as we do, every time we invested in the new asset class, we carefully assess the statutory and GAAP accounting implications before we made our initial investment.

From a statutory accounting standpoint, the regulators treated hybrid as debt instrument and they have since affirmed that position very recently. At that time, our auditors also concluded debt treatment was appropriate given the substantial debt like characteristics of the hybrid securities. In fact, had auditors not agreed that they were debt instruments for accounting purposes; we probably never would have borrowed. However, the recent turmoil, and the debt and equity markets has resulted in a unprecedented widening of credit spread for all bank debt and equity issues including hybrids, as well as an increase in unrealized losses, particularly for longer duration securities.

As a result, we concluded it is now both reasonably conservative and prudent to classify all of our hybrids is available for sale and to carry them at market value on our balance sheet. The second issue relates to the application of the appropriate impairment policy. At the end of September, all, but two of our hybrids were rated investment grade. And they're all current on the interest payments through the third quarter.

We believe they'll be redeemed at the economic material date and that the principle will be returned. In addition we have both the intent and ability to hold these securities until maturity or at least until a recovery in value. As a result, no impairment was required using a debt approach. However after discussions with our auditors in considering market conditions, we concluded that this is prudent to evaluate these hybrids for other than temporary impairment using an equity impairment model.

After applying that model we concluded that a cumulative impairment charge of $191 million was warranted. We used evaluation day of June 30, 2008 for determining that charge because of recent comments from the SEC on that very topic. In fact just last week the office of the Chief Accountant of the SEC sent a letter to the Financial Accounting Standards Board regarding impairment treatment for hybrid securities.

In that letter, the SEC acknowledged that hybrids posed a challenge because of the debt and equity characteristics. The SEC also stated that hybrids could be treated as debt for impairment purposes for all fillings after the date of its letter until the FASB could further address the issue.

But we interpret that letter, as meaning that the SEC believes an equity approach to evaluating impairment should have been used towards June 30, 2008. So that influenced our decision to reflect the equity impairment model in our financial statements for this period.

While this is an issue requiring substantial judgment, I hope you will agree that we have been very transparent in our disclosures about our accounting treatment for these hybrid Securities. We'll continue to not only monitor but also contribute to the discussion related to these instruments and when there is further clarification of the required impairment approach, we'll keep you apprised through our normal disclosure process. Ken?

**Kenneth S. Janke, Jr.**

Thank you Chris. Before we get to your questions, let me just finish by briefly running through some of the numbers for the quarter beginning with Aflac, Japan. Starting at the top line in yen terms, revenues were up 3.3% for the quarter. Investment income rose 0.9% reflecting the impact of the stronger yen on Aflac Japan's dollar denominated investment income. Excluding the effect of a stronger yen, investment income was up 4.4% in the quarter.

As you heard from Dan, our persistency has been very stable. The annualized persistency rate excluding annuities in Japan was 94.6%, compared with 94.8% for the first 9 months of 2007.

In terms of the quarterly operating ratios, the benefit ratio continued to improve over last year. It was 62.2% in the quarter compared with 63.7% a year ago.

The expense ratio for the quarter is 19.5% compared with 19.1% in 2007 third quarter. The increase primarily reflected higher budgeted expenses for the bank channel and IT. Reflecting the lower benefit ratio, a pretax profit margin rose from 17.2% to 18.3% in the quarter. And with the expansion of the margin, pretax earnings increased 10.1% for the quarter in yen terms. Again, excluding the impact of a stronger yen on dollar denominated investment income; pretax earnings were up 13.7% in the quarter.

For the quarter, we invested our cash flow in yen dominated securities at 3.05, and including dollars the blended rate was 344. The portfolio yield was 396 at the end of September, down 2 basis points from the end of June and 10 basis points lower than a year ago. As you heard from Dan, the overall credit quality remains very high. We have only 1.6% of our debt instruments rated below investment grade that dropped from the end of June, now reflected an upgrade of our holding of our hold that we'll move to investments grade during the quarter, and also the impairment of Ford Motor Company. IKB Deutsche Industriebank and Glitnir Bank were also downgraded in the quarter and are now carried [ph] to below investment grade.

Let me turn to Aflac U.S, which has a 7.8% increase in revenues for the quarter. The annualized persistency rate for the nine months was 73.5% versus 73.8% a year ago. It's improved in each of the last two quarters. Then looking at operating ratios, benefit ratio was 52.7%, down from 53.1% a year ago. The expense ratio was 30.4% compared with 30.6% last year. And the profit margin was 16.9%, up from 16.3%.

As a result, pretax operating earnings rose 11.9% for the quarter. In terms of U.S. investment, the new money yield for the quarter was 7.48% versus 7.01% a year ago. And the yield on the portfolio at the end of September was 7.05%, up 1 basis point from the second quarter and 4 basis points higher than year ago.

Looking at some items for the quarter, the non-insurance interest expense was unchanged at $6 million. Current company and other unallocated expenses were $9 million, up from $6 million a year ago. And the margins improved on a consolidated basis and the pre-tax margin basis rose from 16.5% to 17.5%. The after-tax margin increased from 10.8% to 11.5%. The operating tax rate was 34.5%, a little changed from a year ago. And, as you saw, operating earnings per diluted share rose 20.0% to $1.02 in the quarter, which was a bit ahead of consensus.

The stronger yen increased operating earnings by $0.04 per share for the quarter and $0.17 for the first nine months of the year. Excluding the yen's impact, operating earnings per share increased 15.3% for the quarter, and 14.5% for the first nine months.

Lastly, let me comment on the outlook for earning per share for the remainder of the year. As Dan mentioned, our objective for 2008 is now 15% increase before the impact of currency translation. That would mean a target of $3.76 in operating earnings per diluted share assuming the exact same exchange rate as 2007. However, the yen is clearly stronger than it was a year ago. And that the yen average is 100 to 105 for the remainder of the year, we would expect to report operating earning per diluted share of $3.97 to $3.99.

On a debt scenario of a stronger yen, the fourth quarter operating earnings per share would likely fall in the range of $0.95 to $0.97. The current first call estimate for the forth quarter was $0.98.

And again, as you heard, our objective remains for 2009 of a 13% to 15% increase before the effect of currency translation.

Now, Trey, I'd be happy to turn it back to you, so we can take some questions. We will stay a bit longer than the top of the hour if that's warranted based on the number of questions that are in the queue. But, in the meantime, please try and limit your question to one so everyone has a chance to ask this question. Trey?
Question And Answer

# Question and Answer

**Operator**

Thank you. Yes, at this time we are ready to begin the question-and-answer session. [Operator Instructions]. Our first question does come from Nigel Dally. You may ask your question.

**Nigel Dally**
*Morgan Stanley*

Great. Thank you and good morning everyone. With the AIG situation, even if you succeed in differentiating your company from theirs, that it'd make consumers think twice about buying from a foreign end insurer in which case potentially you get depressed for several additional quarters you sell the outlook. Or alternatively, does it provide some opportunities to pickup some market-share in Japan. And if so, how quickly do you feel you'd capitalize on that opportunity? Thanks.

**Daniel P. Amos**

I'll answer that, because I just got back from there. I think that while I was over there being able to differentiate us made a big difference. We've got some research that came in even this morning that I just saw that... said that we were perceived as being much stronger, and I don't see us... I don't see it as a problem regarding foreign insurers. Remember, our operations over there, everything is run in Japanese, we've only got two Americans, they work over there. And so they perceive us as being Japanese to a great degree, even though we do have the American in the name to some point.

So I see opportunity for us. It's really not AIG, it's Alico versus Aflac is the problem. It's not AIG because Alico is American Life Insurance Company versus American Family. But now that we've differentiated ourselves and they were over 11 different newspaper articles throughout the country, while I was over there, that said we were looking at it and by the way with this uncertainty that's going on in the marketplace I think that's off the table right now. So I want to say that, although we were always just looking just as we have with any other company.

But I think it gives us opportunities to broaden our base, to hire additional associates and so over the long run I think it's going to help us, over the short run I think it caused us problems. But I think we're through that and we'll move on now.

**Nigel Dally**
*Morgan Stanley*

Very helpful. Thank Dan.

**Daniel P. Amos**

Thanks.

**Operator**

Colin Devine of Citi, you may ask your question.

**Colin Devine**
*Citigroup*

Okay, thank you very much. I have got two questions. One I want to focus on the investment portfolio but just also a clarification, Dan, that you acknowledge that you were looking at Alico for potential M&A but are not now. So, just to clarify that? But then I'd like to turn to the investment portfolio and what CG and I appreciate that you do not have surrenderable liabilities but the fact is that you pointed out, you do have almost $5 billion of unrealized losses that represents about 70% of the company's equity which is well above the average and where I want to go with this is to look at both Aflac impairment policy and its risk concentration issues.

Now, I appreciate you wrote down to Ford Motor, okay, but it's not trading at above 51% base and when you had it. There was nothing done to Ford Credit at 55% of book value, IKB at 44% of book value around... the Glitnir Bank had 54, so acknowledge you are going to impair that in the fourth quarter. What is Aflac's impairment policy and then with respect to concentration which was the issue in the fast with Parmalat, 5% of the company's equity was exposed to Ford and as a single B minus credit that seems rather high to us. But also if I am looking at your top five BBB holdings, they represent over 42% of the company's equity if we take the top nine on page 13, you are up to almost 70. What are your concentration limits? Because if I acknowledge it, you don't have much in below investment grade, but Aflac's making some big bets, say... taking some bets, they tend to make pretty big ones.

**Joey M. Loudermilk**

Collin it's Joey. First of all, I think our impairment policy says that it's anything that rated below investment grade and it is immediately subject to intense scrutiny and I think we've been through what that scrutiny details. But --

**Colin Devine**
*Citigroup*

Well, actually, then why would you write-down Ford and not Ford Credit? Why was at 44% of book value has IKB not written down?

**Joey M. Loudermilk**

Because... well, two reasons; one is that Ford cut it in four... two entirely different credits, and we can debate why they are entirely different credits in a separate conversation. But, Ford Credit is first of all; it's got receivables that are covering the maturity dates that we are exposed to, which is 2013. It's a four and half year obligation that we have. Ford Motor Company, that your point is a very different situation and we've reacted accordingly.

Again, IKB, I don't want to get into specific credit discussion with you. But I will talk to you about our impairment policy, which is, if we think that it is probable that either quoting or closely paraphrasing here, if we think it's probable that we're not going to receive either principal or interest on any investment we will impair.

And, by the way, typically we do more than impair, we simply sell it. And that was the case with Lehman Brothers, we sold those immediately. I'm not sure if they went through impairment.

The Icelandic banks you heard about, we're... those will be written down to zero. There probably will be some recovery there, but we're not counting on it.

IKB, I think, is again a situation which is very fluid right now, and as soon as there's any clarity at all, we will make a determination, and we are making a determination right now, talking about it. So, we are actually, I think, pretty proactive. In terms of your other question, speaking to concentrations, yes we do have specific concentration limit. They are lower than they were a couple of years back and we are very disciplined about any new investments we make in terms of minding that concentration limit.

**Colin Devine**
*Citigroup*

Well then what percentage do you fell is prudent that equity to expose a single B minus or perhaps BBB. What are your limits?

**Joey M. Loudermilk**

Our limits on new investments are typically... are 5% of tax. Now in the case of Ford Credit and Ford Motor Company, those were put on in earlier dates before these limits were imposed and if we think that we're taking on acceptable risk also and I would also say that in the past couple of years as you know our emphasis has been strong bias toward much higher rated investment.

**Colin Devine**

*Citigroup*

I acknowledge that page 13 is a big improvement. Perhaps you could add that column then to it as a percentage of tax, since that's how you're managing; let's say as a percentage of total debt security.

**Daniel P. Amos**

Well look, I'll be happy to talk with risk management.

**Colin Devine**
*Citigroup*

Thanks.

**Daniel P. Amos**

To give more clarity.

**Operator**

Mark Hughes of SunTrust, you may ask your question.

**Mark Hughes**
*SunTrust Robinson Humphrey*

Thank you. What were the most successful actions in Japan in September that drove the improved sales and then... to what extent has that continued into October?

**Joey M. Loudermilk**

Well, certainly the bank channel came through with a strong increase 92% for the quarter and it was a strong September. We were going easy comparables. Remember we had a rate increase that went into effect September 1. So, we had a surge in business last year in July and August. So it actually, it was tough comparison for July and August and easy comparisons in September. And then overall, all of our agencies just did a little bit better in the month of September. And finally, we had a direct mail campaign. Tohru's on the line and he may have something to add to that. Tohru you have anything?

**Tohru Tonoike**

Hi Hughes [ph]. You are right and the fact that you just named the many factors which helped us to have a better September. And, yeah I think that's about it.

**Mark Hughes**
*SunTrust Robinson Humphrey*

And anything on October?

**Tohru Tonoike**

For October, we do not have any specific incentive focusing in October. But instead we are having a very stable... good and stable operation in the regular channel. And all our initiatives incentives are more focused on the later part of the quarter, mostly in December.

**Mark Hughes**
*SunTrust Robinson Humphrey*

Thanks.

**Operator**

Tom Gallagher of Credit Suisse, you may ask your question.

**Thomas Gallagher**
*Credit Suisse*

Good morning. Just a quick one on capital and then another on the investment side. Kriss can you talk... just remind us what are your target RBC is. I think you've had to hold some extra margin above the normal 350 RBC for AAs because of the swing factor of the Yen and then also just remind us what the Yen's sensitivity is, because I believe the Yen has strengthen another 11% to 12% since the close of the quarter. That was my first question and I then I just have a follow up too.

**Joey M. Loudermilk**

Well, I appreciate your acknowledging the fact that I've repeatedly said that we had to carry our hours more comfortable, carrying a higher level of capital than average because of the potential for a strong yen. And we're seeing that today. Obviously, as I recall, the strengthening of the yen by about 10 basis points would cost us potentially approximately 100 basis points in RBC. I would have to go back and refresh my memory to make sure that's accurate; I've discussed that at the last analyst meeting.

But, I've said, based on our modeling, our sensitivity becomes less overtime in terms of sensitivity to a strengthened yen. And you mentioned the 350 RBC level lab [ph] have to say that's probably what we would like to maintain. And I don't see us getting anywhere near that in the near future.

**Kenneth S. Janke, Jr.**

Tom, it's Ken, remember too that the RBC is used, we've got to live with the period ending range in computing the RBC for the entire year. And the rating agencies understand the nature of our business and the sensitivity of the RBC than it had.

**Thomas Gallagher**
*Credit Suisse*

Okay. And just a follow-up on that. So, Kriss, the, sort of 10 point move in yen, which we've since quarter-end, would shift the RBC by 100 points.

**Joey M. Loudermilk**

That's what I recall, Tom. But I would want to go back and verify that from the computations we've done.

**Thomas Gallagher**
*Credit Suisse*

Okay. Great. The only other question I had was, Jerry, can you just comment on the top 30 holdings that you've laid out. Can you talk about whether any of those are on a watch list of any sort? And maybe just comment a little bit about maybe where the bonds are trading of some of the high profile ones that I think... had received government assistance like Dexia, Fortis, HBOS? Thanks.

**Jerry Jeffery**

Tom, the top 30 holdings, I guess there's obviously a heavy preponderance at bank debt. Most of... I think of those names, Fortis is one of the larger exposures. They are... and there's been significant government assistance by three different governments. And all that assistance has come in the form of capital infusions that are subordinate to our exposures. Again, our discipline remains unchanged on all of these. We are looking at all it constantly and we have been proactive in the past, we will be in the future. I... it's impossible for me to predict where these things are headed.

Obviously the market values are far lower than what we think is reasonable, but we also would say that the... well I would say to you that while the market values are far lower than where they've been. We still have had no indication that we're not getting paid or interest in principal and these are securities that are dedicated to liabilities we have, and we got reason to change our posture on that.

We're not adding to any of the top 30 by the way or anything that approaches 5% of total adjusted capital. And that has been a policy, which has been flawless [ph]. We are committed to diversification.

In fact right now in terms of our new investments, we're spending a lot of... the bulk of our cash flow is being devoted to essential service type companies and by that I would mean, primarily electric utilities, water companies and with almost any company we speak with now we're able to negotiate extremely strong covenants. So, we feel like we're continuing to build a very solid and durable portfolio.

**Thomas Gallagher**
*Credit Suisse*

Okay. Thanks.

**Operator**

Ed Spehar of Merrill Lynch, you may ask your question.

**Edward Spehar**
*Merrill Lynch*

Hi, thank you. I was wondering, Kriss, maybe you could give us sort of the key differences we should be thinking about when you talk about the equity impairment model versus debt. And related to that, is there... what do you think the risk is that the statutory accounting will follow this change on a GAAP basis? Thank you.

**Joey M. Loudermilk**

Well the equity impairment model focuses on the discount to par that these securities are trading at in the marketplace, towards how much underwater are they and the period of time they've been underwater. We have used basically a three step model that says, okay if they have been more than 10% underwater for 12 consecutive months. And then another step would be a 20% for more than nine months and the third step's like more than 35% for more than six months. And once they hit any of those conditions they are deemed to be subject to impairment. So that's sort of the equity model.

The debt model basically depends on an assessment as to whether or not you're more likely than not to suffer a loss of interest income or principle. So impairment is typically not done on a debt security unless you have those conditions unless you expect to... not to receive principle on interest.

If you intend to hold them... if you have the ability intent to hold them to maturity and we normally do have the ability intent to hold all of our debt securities to maturity. And we've got long duration securities because we've got long duration liabilities and I pointed out to our board yesterday that basically we run a larger risk for investing in short duration securities because of reinvestment risk than we do suffering through these periods of market value fluctuation over the long duration characteristics where we remain matched between asset and liability durations. So that's that.

As far as this --

**Edward Spehar**
*Merrill Lynch*

Kriss can I ask you just on that though. If... so does this mean that this is a bright line test then for this... for these securities when you say --?

**Kriss Cloninger III**

You could call it that. You could call it that, and that equity impairment model has been brought into question.

**Edward Spehar**
*Merrill Lynch*

Well does that mean... I guess, can you give us a sense for... I would guess that there are a number... given the declines we've seen in some of these hybrid types securities that are a number of these that are sort of falling into that, at least down 20% and probably down more 35% bucket. If there were no change in market conditions, can you give us some sense of six months from now what we would be talking about in terms of the straight line?

**Kriss Cloninger III**

Not much more, there were no changes in market conditions because we marked them all down as of June 30. And then, the SEC directed the FASB to reinvestigate this whole notion of... and the impairment model for these hybrid type securities. And I commented on why we made the change effective with prices as of June 30th anyway that's what the SEC seemed to say, it should have been done, and part of this time we have maintained that they were... debt securities ought to be evaluated on a debt impairment model. But in the event that the SEC forced us to change, we felt it was prudent to go ahead and take the charge through June 30th and then await further guidance from the FASB; wearing the appropriate impairment model.

The whole motion is... what is a fair value for these securities and relatively a liquid market, when values are somewhat artificially depressed you might say.

**Joey M. Loudermilk**

And at this I can I remember one thing that Kriss has commented to the 191 million after-tax charge related to the hybrids in the third quarter, really resulted from kind of a retrospective treatment of these hybrids using the equity impairment model going back several years. Yes, as per release 2004 and was cumulative through that whole period of time. I think Joey has a comment.

**Joey M. Loudermilk**

Yes. I just... your question really is... I think you're trying to look prospectively at what you can expect in terms of potential impairments and I would tell you this about how we are measuring these things. We are pricing these things really at just egregiously low levels because there are no observable markets out there for a lot of securities of all strikes.

So, we've elected the pricing very conservatively, the marks are extremely low. So, I don't see the marks really changing absent a complete and utter meltdown. And I would tell you this about the hybrid, just to give you sort of an overall characteristic of what the portfolio looks like. Our overall portfolio is 82% or better which is about as high as standard as there is in our industry.

Our overall portfolio of hybrids is weighted at this level, 97% or better. So, this is an extremely high quality slice of our portfolio, which we marked at very low levels already.

**Edward Spehar**
*Merrill Lynch*

I'm sorry for the bit delay, but as I guess I... what I... and I'm still a little confused on those, is it... if nothing changes where these securities are marked on an unrealized basis, what we have on some portion it's going to drop into this greater than 35% for more than six months bucket that has not been recognized as impairment but will be?

**Joey M. Loudermilk**

Some will migrate to those buckets, yes. So, if you are asking, could there be additional charges? Yes. But we wouldn't expect them to be anywhere near what we had in the third quarter, again, because the third quarter was a cumulative catch. We've done that model and the number is nowhere near what it would be... what it was at the end of the third quarter?

**Joey M. Loudermilk**

It's approximately $80 million pretax in the fourth quarter if nothing changes. But again the SEC is basically deferred the use of the equity impairment model until the FASB could reconsider the propriety as it relates to hybrid securities.

**Daniel P. Amos**

But Ed just remember, this is Dan, that's an accounting issue, not an economic issue because we don't plan on selling it. If you go back, while I have been CEO, I've seen $5 billion, almost $6 billion in profits in our bond portfolio, which we couldn't sell either because we've marked these assets against liabilities and as long as they were paying, we couldn't afford to make changes anyway because we wind back at lower interest deals.

We're in for this for a long run. We plan on keeping these and at the end of the time we expecting to mature with the full rate.

**Edward Spehar**
*Merrill Lynch*

And I guess, that's my... that was my second question then. Because I mean, I completely understand that and I guess that's why the question about statutory do we think there's going to be any change on the statutory basis, maybe it's more relevant.

**Joey M. Loudermilk**

Well, it was just within the last two years that we had gone through extensive discussions with the standard valuation office of the National Association of Insurance Commissioners and received agreement that these hybrid securities would be treated like debt securities for statutory accounting purposes. It's not decided that... that decision is not subject to review or change, but we haven't had any indication at this point that they are selling declined.

**Edward Spehar**
*Merrill Lynch*

Thank you.

**Operator**

Darin Arita of Deutsche Bank, you may ask your question.

**Darin Arita**
*Deutsche Bank Securities*

Thank you. The interim RBC ratio was very helpful there. Can you give us a sense there how much the... how much higher the RBC ratio would have been without any share repurchases that's there?

**Joey M. Loudermilk**

Well the required capital is about $800 million per 100 basis points of RBC. And so it probably would have been maybe close to 100 point higher without to say the extra shares we bought anyway. We didn't pull out all our money from statutory capital in 2007 to finance the share repurchase that we did this year. So it was already out of a life company into the holding company. So, that money came out in 2007 and was reflected in the end of the year RBC ratio. So, basically it wouldn't have any effect on the 2008 number.

**Darin Arita**
*Deutsche Bank Securities*

Okay, that's helpful. And can you just give us a sense of what percent of the statutory operating earnings do you need to reinvest for growth each year?

**Joey M. Loudermilk**

Well, our statutory earnings are increasing at approximately the same rate as our GAAP earnings, roughly 15% before the effective currency. And, if you say, capital needs to be increased at the same rate of growth as revenues or assets or earnings, we probably have a required increase in capital order of magnitude 10% to 15% per year. But we've always had a self financing company, would never have to raise capital for the operating capital and we have more than adequate statutory earnings to finance any required increase in capital.

**Edward Spehar**
*Merrill Lynch*

All right. Thank you.

**Operator**

John Hall of Wachovia, you may ask your questions

**John Hall**
*Wachovia Capital Markets, LLC*

Great. Thank you. Kriss, in your comments to Ed's questions, you mentioned and $80 million pretax number. Did that reflect where that charge would have been had you used third quarter ending values on the securities?

**Joey M. Loudermilk**

Yes, that's correct.

**John Hall**
*Wachovia Capital Markets, LLC*

Okay, great. Thanks.

**Daniel P. Amos**

And assuming that the prices stay constant through the end of the fourth quarter.

**John Hall**
*Wachovia Capital Markets, LLC*

Right.

**Daniel P. Amos**

Because some of these things, they weren't fully aged according to the ageing parameters would now fall in to those buckets of over 12 months, over 9 months, over 6 months, et cetera that I mentioned earlier.

**John Hall**
*Wachovia Capital Markets, LLC*

Great, that's helpful. And for Jerry, I noticed that the held to maturity bucket of investment seem to be increasing. Is there a decision to classify more securities in this environment into that bucket now?

**Joey M. Loudermilk**

Well, let me answer that this way. We have... in our Japan portfolio, you are not permitted to reclassify from available for sale to held to maturity on existing holdings under Japan GAAP. So, no, there's been no strategic decision to take existing holdings and reclassify them.

I would say that our policy on what we classify as available for sale versus held to maturity is unchanged. And a lot of the securities that we bought this year qualify as held to maturity securities under our internal rules. So, that's the only reason that's happening. We actually... if we end up purchasing more JGBs towards the end of the year, which we occasionally do. Then that will add to the available for sale component.

**John Hall**
*Wachovia Capital Markets, LLC*

Great. And I was just wondering if you could comment more broadly on the sales mix in Japan, across the banks and does that channels progress a little bit?

**Joey M. Loudermilk**

Tohru do want me... you want to talk about that a minute?

**Tohru Tonoike**

I understand the question was a sales mix in Japan.

**John Hall**
*Wachovia Capital Markets, LLC*

Sales mix at the banks.

**Joey M. Loudermilk**

Yes. Shinkin Banks versus the major banks.

**Tohru Tonoike**

I see.

**Joey M. Loudermilk**

And regional banks, how does it breakdown?

**Tohru Tonoike**

Yes, let me see. Yes, so out of the... for the month of September. Lastly, a little bit over half came from Shinkin Bank and about one-third was from the regional banks and the mega banks is less than 10%.

**John Hall**
*Wachovia Capital Markets, LLC*

Okay.

**Tohru Tonoike**

And that shares have been pretty stable during the third quarter.

**John Hall**
*Wachovia Capital Markets, LLC*

Great. Thank you.

**Tohru Tonoike**

We saw increasing shares by Shinkin Bank. Does it answer your question?

**John Hall**
*Wachovia Capital Markets, LLC*

Yes. Thank you Tohru.

**Tohru Tonoike**

You're welcome.

**Operator**

Jeff Schuman of KBW. You may ask your question.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Thanks. Good morning. A couple of things for Kriss. Kriss, is there any cash or excess capital at the holding company at this point?

**Kriss Cloninger III**

Yes. I am looking at Ralph Rogers, he monitors that cash position. We've got about $250 million right now of excess at holding company.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Okay. So that's an additional resource and whatever's embedded at the operating level?

**Kriss Cloninger III**

That is correct, Jeff.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

And I want to clear up something. I am thinking maybe the answer to one of Darin's question be a little bit confusing to us. You talked about how routine earnings needed to grow along with the top line. And it kind of sounds like... almost a breakeven picture, but that's really not the right picture. I think maybe the easiest way to think of it is that your return on statutory equity is like 40% and your premiums probably grow high single digits and there's still big spread at least on an operating basis is going to generate continued excess cash flow, right?

**Kriss Cloninger III**

Yes that's correct.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Okay, just wanted to clean that up. And then --

**Joey M. Loudermilk**

About 18 million a day.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Yes.

**Joey M. Loudermilk**

We're investing about $18 million to $20 million a day on average.

**Kriss Cloninger III**

At the end it's $20 million now.

**Joey M. Loudermilk**

Maybe net cash flow.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Yes, I guess... I didn't mean to invest in cash flow. I mean in terms of excess capital. As long as your statuary return on capital is much higher than your growth rate then you still are going to generate substantial excess capital.

**Kriss Cloninger III**

Yes, you are right.

**Joey M. Loudermilk**

Yes.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Okay. And then lastly just one clarification early on Dan indicated the preliminary share repurchase plan for '09 is $12 million shares. But then of course later we got in this discussion about the dramatic move in the yen and cost, we are having a 100 basis points impact on the RBC ratio. I mean, I would guess at some level of RBC there would be a modification to the share repurchase thinking, is that correct?

**Kriss Cloninger III**

Well, we don't see it right now. We believe that we're stronger and can handle it. And that's our position at this particular point.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Okay, great. Thank you.

**Daniel P. Amos**

Already depends on the stock price, Jeff. I mean it's a lot cheaper today than it was three months ago.

**Jeffrey Schuman**
*Keefe, Bruyette & Woods*

Sure, okay. Thanks a lot guys.

**Operator**

Michael Gorzynski of Third Point, you may ask your question.

**Michael Gorzynski**
*Third Point LLC*

Yes. My first question is about the held to maturity portfolio. As of June 30th, you had losses of around $1.8 billion. What were the losses at the end of the quarter?

**Joey M. Loudermilk**

The held to maturity portfolio?

**Michael Gorzynski**
*Third Point LLC*

Yes.

**Kriss Cloninger III**

Hold on just a second. They were 1.9 billion I believe. 1.9 billion were in held to maturity at September 30.

**Michael Gorzynski**
*Third Point LLC*

Okay. And given the risk and recent performance of your investment portfolio, why are you raising your dividend when your peers are out raising capital?

**Daniel P. Amos**

Because we don't need to raise capital, and we believe that this sends a message of the strength of the company and what's going on and that we believe with 98.5% of our investments and investment grades bonds that we're in a good position and with the enormous cash flow that we had that we can handle it.

As you reflect back on our investment portfolio, and our position for the last... since I've been here 19 years, it really hasn't changed. And we believe in retrospect although we wish we had not bought Leman Brothers' bonds or whatever, it's a very conservative investment portfolio and the way to structure it.

We don't have the real estate; we don't have any exposure there. We had this accounting change, but other than that we've had no stocks, we had no mortgage issues that have been out there. And, so we have positioned ourselves. Now, in this environment where there has been unsettling news worldwide, we are affected by that, but long term we think our position as a company is very, very strong and we believe that once we get through these uncertain times, we will come out on the other end being one of the strongest companies that's out there today. And we want to send that message to our shareholders that we feel that and that... and that's why we increased the dividend.

**Michael Gorzynski**
*Third Point LLC*

I guess, I would question is, you've got $8 billion of these perpetual bank instruments, and a number of these instruments are now trading at less than $0.50 on the dollar. If those bank issues come under... even... if those evaluations are not to be true or those evaluations deteriorate, it's going to put significant pressure on your capital. That's why I'm asking this question.

**Joey M. Loudermilk**

Well, they're mark-to-market right now in the September 30th financial statements mark-to...

**Michael Gorzynski**
*Third Point LLC*

But not held to maturity portfolio, right?

**Joey M. Loudermilk**

Yes. There are a lot of...

**Kriss Cloninger III**

All the hybrids are now in our available for sale portfolio.

**Joey M. Loudermilk**

So they didn't move.

**Kriss Cloninger III**

And that has been reflected in our September 30 financial.

**Michael Gorzynski**
*Third Point LLC*

Okay, thank you.

**Kriss Cloninger III**

Welcome.

**Operator**

Eric Berg of Barclays Capital, you may ask your questions.

**Eric Berg**
*Barclays Capital*

Yes. My first question relates to... and I don't think you've gone over this, maybe you have. The valuation of the securities of the perpetuals, you mentioned repeatedly that it doesn't... that they have been marked as of June 30th. If they had been marked as of September 30, what would be the reduction in the fair value you have been?

**Kriss Cloninger III**

We covered that, it's $80 million.

**Eric Berg**
*Barclays Capital*

80... so that... well I thought the $80 million was what the impairment would be if you went into a different bucket? No?

**Daniel P. Amos**

Hold on now, Ralph's checking it.

**Eric Berg**
*Barclays Capital*

Thank you Dan.

**Daniel P. Amos**

Okay.

**Eric Berg**
*Barclays Capital*

While you are doing that, let me ask Paul a question about recruiting. What should we infer from the significant improvement in the number of daily producers? While it might... while one might be tempted to say that this is a favorable reflection on your recruiting and training that the number of weekly average producers, pardon me, is it is also possible that this is just simply the result of a sharply deteriorating economy in the U.S. and that it's easier to get people to work for you when the job outlook is deteriorating? How should we think of that improvement?

**Paul Shelby Amos II**

I think it's a direct correlation to the fact that our success in recruiting has led to new agents going out and working extremely hard in the marketplace. I think the fact that our average weekly producer number is up and our recruiting is up, yet our premium is not up to that same level, says that the average consumer is not purchasing at the level that they once were. They are being slightly more conservative within the policies that they are buying. But overall the number of new account that are new agents as well as our veteran agents are opening Eric, is tremendous. And I'm very happy with those numbers and so what I can tell you is and I have used this analogy before, we are buying shelf space for the future. And so I think our new agents are doing exactly what we want. I think when this economy turns and people begin to purchase more insurance than they are purchasing today, we're going to see those new agents as well our veteran agents be very successful with a lot of access to future businesses. So I am very excited about some of the underlying things that I am seeing.

**Eric Berg**
*Barclays Capital*

Thank you. I'll wait for the answer from Ralph.

**Daniel P. Amos**

It is about $80 million Eric.

**Eric Berg**
*Barclays Capital*

Thanks very much.

**Daniel P. Amos**

Okay.

**Operator**

John Nadel of Sterne Agee, you may ask your question.

**John Nadel**
*Sterne Agee*

Hi, good morning. I have a question on the U.S. Understanding that the visibility has got to be very difficult given the economic outlook. But I was wondering if you could just give us a sense for any expectations you have with respect to U.S. sales and more importantly maybe than that is for U.S. persistency. Could you maybe talk about what you've seen happen over the course of past U.S. recessions with respect to the persistency levels in the U.S. And if persistency would fall, how much flexibility do you have for instance on the G&A line or in other places to keep margins intact, if sales in the top line slow?

**Paul Shelby Amos II**

U.S. persistency's remained consistent. I'll let Kriss talk about the G&A effect.

**John Nadel**
*Sterne Agee*

It is consistent but, Paul, consistent sort of across 15, sort of your period or is it... does it tend to fluctuate or move down during economic weakness or is that a time when the product is that much more important to the consumer and maybe persistency even tends to improve.

**Paul Shelby Amos II**

Yes, we've never seen material change in persistency in response to economic conditions, either favorable or unfavorable.

**John Nadel**
*Sterne Agee*

Okay. So more of a sales issue then?

**Paul Shelby Amos II**

Yes, I think that's right. People in distressed times tend to want to hold on to whatever insurance they have. It's kind of a last thing to go in many cases. So, we just haven't observed that in the whole period of time I've been around half life which has been a long time.

**John Nadel**
*Sterne Agee*

Okay. And then so it's really then just a matter of... can sales hold up enough to keep the top line growing at a reasonable pace to grow the earnings. Right?

**Kriss Cloninger III**

Yes. I think that's correct. And we do have some flexibility in managing our expenses. We certainly have variable expenses for the most part of our all agent compensations directly variable with premiums, with G&A, has a number of elements of discretionary spending and that could be adjusted. Though we are trying real hard not to cut into a muscle as we do this. We're taking a hard look at budgets for 2009 and trying to make sure our expenses are growing. Unless in the light of growth of our anticipated premium income and of course with... we really had a strong fallout in the sales in response to severe economic conditions, we'd have to make some adjustments. But we are not at that point yet.

**John Nadel**
*Sterne Agee*

Okay.

**Paul Shelby Amos II**

I want to further comment on the outlook for sales. While I can't give specific numbers, what I can tell you, I returned last week from our National Convention for Sales, more than 1500 of our top sales people from around the country. And among them the momentum remained extremely strong. They are positive, they do recognize the difficulty of the economy, but they also recognize the extreme need for our products, both by businesses as well as by individuals.

The other thing I can tell you is that we do know the gas prices both affect our agent and affect our consumers. And the fact that gas is continuing to drop and if it holds, I think it will have an effect on the average person and their ability to purchase certain things.

I think the fear around the price of gas has been something that's affected and I have continued to hear through our enrollments and questions we've had. At $64 a barrel or whatever it was this morning, that's a positive sign for me of some of the people that are purchasing our products and one of the things that we'll see in the future.

**John Nadel**
*Sterne Agee*

That's good color, thanks Paul. And then maybe just one more quick one. Just more strategic maybe for you Dan is despite the fact that the stock is down, everything is down and your relative multiple is still significantly strong. I mean is this... I know it's not... I know it's not an Aflac's character, but is this not maybe an opportunity for you to take advantage of that and grow the company via acquisition?

**Daniel P. Amos**

Well I think right now we're going to hold capital and just continue to watch and at a later date we may look at something. We always try to look but every time we do our main responsibility as you know is to protect the shareholders' interest. And we weigh it against buying the stock back, increasing the debt cash dividend and we'll look at it and see. We've looked at a lot of companies over the years, but acquisition is not our specialty. We're probably not going to be as good at it as somebody else. But, at the same time if there is a steal out there in terms of an acquisition, we are going to look at it. And that's why we were going to look at Alico is see what the price was. If it was a very high price, then we weren't interested, if it was a very reasonable price because of our understanding of Japan, we were willing to look at it.

So... but I think right now we just want to get through these uncertain times with the global economy. I think we again are well positioned. And our operations are doing extremely well. I mean, we basically... I mean, who do you know that can say that can almost guarantee a 15% in operating earnings per share for this year. And then next year is 13% to 15%. And when you've got that going for you, I'm just reluctant to look at any acquisition when you've got a burden at hand at this particular point. And we feel like we have that.

**John Nadel**
*Sterne Agee*

I understand your point. I just wouldn't sell yourself short, very few are good at acquisitions.

**Daniel P. Amos**

Thank you.

**John Nadel**
*Sterne Agee*

Thanks.

**Operator**

Our last question today comes from Suneet Kamath of Sanford Bernstein. You may ask your questions.

**Suneet Kamath**
*Sanford Bernstein*

Great. Thanks. Not to beat a dead horse, but I did want to comeback to the hybrid securities issue. In your comment you'd said a couple of times that you've really market this down. I mean if I literally just take the $191 million of losses and sort of gross that are up for taxes and then compare it to the... close to $8 billion on the balance sheet, it only look like a write-down of about 3.7%. So, you might just thinking about it wrong, I just want to understand when you say you've really marked down; how you arrive at that conclusion? And if you are related to it, Kriss, if the FASB reverses its course now in terms of how it treat these instruments, would you be looking at a write-up of the $191 million that you took in the third quarter at some point in the future?

**Kriss Cloninger III**

I feel certain that would not be permitted. It's not in the nature of accounts that allow you to write things up once they are written down. So we'd have to wait till we collected the cash. I am going to let Jerry address the marks. I would say just stop till the time I hear the tier I as securities have been marked down a lot more than upper tier II.

**Jerry Jeffery**

Suneet, this... I think the point of the comment was is it now that the entire hybrid portfolio is contained in the available for sale classification; their fair values are already reflected on the balance sheet and equity.

**Paul Shelby Amos II**

Remember though that the key is bringing up is the impairment that we have taken. Now that doesn't reflect the markdown of the entire portfolio. That only speaks to securities we've impaired. To markdown the portfolio is considerably larger than that. So the 97% is actually not an accurate number.

**Suneet Kamath**
*Sanford Bernstein*

Okay. Thanks.

**Daniel P. Amos**

Okay. Are there anymore question?

**Operator**

At this time we show no further questions.

**Daniel P. Amos**
Okay. We sure appreciate you joining us today. If you do have any follow-up, please feel free to call Robin or my self on the toll free line and we'll be happy to talk to you. Thank you. .