S&P Capital IQ

CONTENTS

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 8

Aflac Incorporated NYSE:AFL

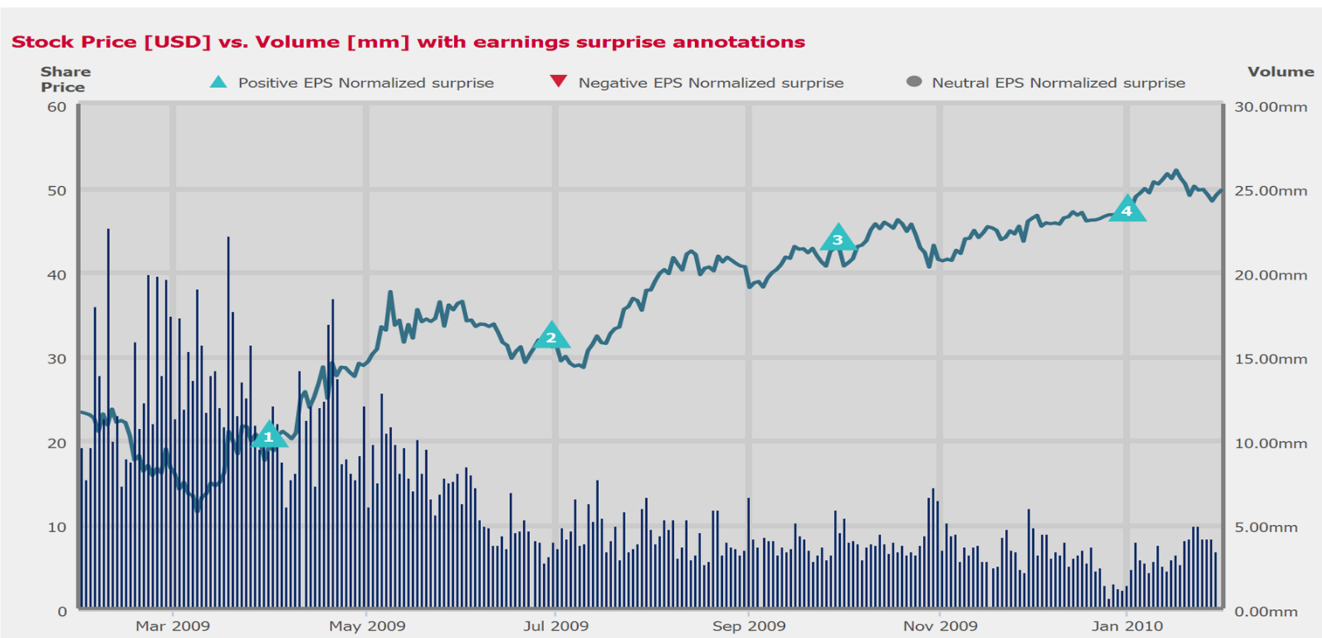
FQ1 2010 Earnings Call Transcripts

Wednesday, April 28, 2010 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.32	1.41	▲6.82	1.33	5.39	5.88
Revenue (mm)	4983.26	5065.00	▲1.64	4980.22	20228.56	20717.84

Currency: USD
Consensus as of Apr-28-2010 1:23 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	1.16	1.22	▲1 5.17 %
FQ2 2009	1.13	1.20	▲2 6.19 %
FQ3 2009	1.20	1.25	▲3 4.17 %
FQ4 2009	1.15	1.18	▲4 2.61 %

Call Participants

EXECUTIVES

Charles Ditmars Lake
Chairman of Aflac Japan & President of Aflac International

Daniel P. Amos
Chairman & CEO

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Kriss Cloninger
President & Director

Paul Shelby Amos
Former Director

Tohru Tonoike
Vice Chairman of Aflac Japan

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

ANALYSTS

Andrew Kligerman
UBS Investment Bank, Research Division

Edward A. Spehar
BofA Merrill Lynch, Research Division

Eric Noel Berg
Barclays PLC, Research Division

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Nigel Phillip Dally
Morgan Stanley, Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

Presentation

Operator

Welcome to the Aflac First Quarter Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Mr. Ken Janke, Senior Vice President of Investor Relations. Thank you. You may begin.

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Thank you, Caroline. Good morning, everybody, and welcome to our First Quarter Call. Joining me in Columbus today 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 Toru Tonoike, President and COO of Aflac Japan, joins us from Tokyo.

Before we begin this morning, let me remind you that some of the statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance they will prove to be accurate because they are prospective in nature. The actual results in the future could differ materially from those we discuss today. As such, we'd encourage you to look at our recent quarterly press release for some of the various risk factors that could affect our future results.

Now I'll turn the program over to Dan, who will talk about our quarter and operations in Japan and the United States. I'll follow up with just a few financial highlights for the quarter, and then we'll take your questions. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Ken. Good morning, and thank you for joining us. Overall, we’re very pleased with our results for the first quarter and believe we’re on track for achieving our primary financial objectives for both capital levels and earnings growth this year.

Let me begin this morning's call with a review of our insurance operations beginning with Aflac Japan.

Aflac Japan produced strong financial results in the first quarter. Revenue growth was in line with our expectations. In addition, our pretax margin continued to expand as expected, resulting in strong earnings growth for the quarter. We were especially pleased with the continued sales momentum in the quarter. In fact, Aflac Japan generated the largest first quarter production in its 36-year history. Total new sales for the quarter rose 10% to JPY 30.3 billion.

Our first quarter sales continued to benefit from strong consumer response to the recent product introductions, effective promotions and channel expansion. First quarter medical sales were again strong, increasing 21.4% over the first quarter of 2009. Medical sales reflected the successful revision of our popular medical product EVER. As you know, we promoted this revised product with the Maneki Neko duck campaign, which became an overnight sensation in Japan last year. Our commercial featuring the maneki neko duck was the number one rated television ad among 2,300 ads running on the major TV stations in Japan when we first released it last year. In addition, the jingle from the commercial was the most popular cell phone download in Japan for six days in a row after it was released. To date, we have distributed approximately 1.6 million Maneki Neko ducks through Japan.

We continued to produce strong sales in our ordinary life category. Ordinary life sales were up 64.4% in the first quarter, with the new child endowment product accounting for approximately 44% of the total ordinary life sales. We sold more than 29,900 child endowment policies in the first quarter at an average premium of JPY 155,600 per policy. Although the child endowment product has a lower margin than the health products, the premium’s almost 3x higher than the cancer in the medical products. As such, it's a solid contributor to both the top and bottom lines. In addition, we've been able to leverage our child endowment sales through cross-selling. In fact, for every 10 child endowment plans sold, our agents sold two additional policies to the same customers.

We also experienced strong gains in the bank channel sales in the first quarter. March was the single largest month of production from this channel, and bank channel sales were a record JPY 3.1 billion in the quarter. That represents 6.5% increase over the fourth quarter of 2009 and a 206.6% increase over a year ago. At the end of March, a total of 352 banks represented Aflac Japan. We have a strong position within the bank channel and have significantly more bank selling for third sector products than any other insurer operating in Japan.

We believe our objective of a 0% to 5% growth in 2010 is reasonable, and our first quarter sales results are a good start toward achieving that objective. However, we do not expect second quarter sales to be as strong as the first quarter, largely due to tougher comparisons. I'll remind you, for instance, that we introduced our popular child endowment product last March. As such, growth rates in the ordinary life product category for the remainder of the year will be much lower than we produced in the last several quarters.

In addition, as we discussed in the fourth quarter conference call, we expect much lower sales contributions from our largest telemarketing-based agency. We also expect sales from Dai-ichi Life to be down for the full year. To put this in perspective, excluding the impact from these two channels, first quarter sales rose 21.7%. Yet despite these headwinds, we are encouraged by our 10% sales increase in the quarter and our prospects in Japan for this year and beyond. We continue to believe that Aflac Japan is positioned as the strongest competitor in the third sector in Japan.

Let me turn to our U.S. operations. From a financial perspective, Aflac U.S. performance was in line with our expectations in the first quarter. As expected, our persistency rate was lower than a year ago. The drop in the first quarter was attributable to the significant lapses at the Wal-Mart account. Excluding the impact from that large account, persistency improved to 72.3% for the first quarter, compared to 66.9% a year ago. However, as we expected, when we announced the loss of the account last March, the earnings impact from the loss of the account was actually very positive in the first quarter due to the sizable release of reserves we held for the block of business.

As has been the case for the last several quarters, we continue to face sales challenges in the U.S. market. Total new annualized premium sales in the quarter were $316 million or 10% lower than a year ago. Although we weren't pleased with the sales decline, we were not surprised. I hope you remember my comment from the fourth quarter call when I said that we expected to see a sizable decline in the first quarter sales due in part to five fewer production days in the first quarter of 2010 compared to last year. The impact on sales from fewer days was approximately $16 million. However, that was largely offset by $13 million of sales from the new Aflac Group business.

Beyond the tough comparisons, difficult economic conditions continue to pose obstacles to sales growth. Throughout this period of economic weakness, our veteran agents, in particular, face very challenging re-enrollment conditions. Because many businesses have reduced staffing, it's common for our sales associates to see fewer employees during re-enrollment, and the employees they do see are likely to be more cautious about spending.

The impact from the sales through veteran agents is meaningful because approximately 70% of our total U.S. sales come from agents who’ve been with us more than one year. Remember, too, that approximately 90% of the businesses we sell through have fewer than 100 workers. Clearly, small businesses have been especially vulnerable in the current economy.

Historically, we've been able to offset some of the impact of the weak economy through better recruiting. You may recall that recruiting was up an incredible 25% to 8,100 new agents in the first quarter of last year, which was our largest number of recruits in a single quarter. Our record recruiting a year ago coincide with a major internet recruiting campaign and some massive layoffs at large employers, which gave us a unique opportunity to recruit. Against that tough comparison, recruiting in the first quarter was relatively weak, with 5,900 new recruits. However, on a sequential basis, first quarter recruiting was up 6.9% than the fourth quarter. In addition to tough comparisons, we experienced some contraction in the number of sales coordinators, which has reduced our recruiting capacity. A portion of the coordinator reduction was strategic consolidation, and some was through attrition.

We are currently evaluating our coordinator level to determine where we might need to rebuild. We've also changed the bonus structure for our state and regional coordinators from one that was based entirely on sales to a structure including people development. The comparison to last year's second quarter will be very difficult on a year-to-year basis. We expect to see recruiting decline for the second quarter. However, we expect to see better recruiting in the second quarter compared to the first quarter.

In addition to expanding the size and capabilities of the traditional sales force, we are excited about the opportunities to enhance our distribution system with the addition of insurance brokers. Our efforts to build new and better relationship in the regional and large-account broker market began in 2007. In 2009, we officially launched an initiative called Aflac for Brokers. We have staffed our broker department with employees who have significant experience in broker sales. Although our entry into the distribution outlet is fairly recent, we're very pleased with our results so far. As I mentioned on our last conference call, an independent survey in January of this year found that Aflac is the number one preferred carrier of voluntary insurance among brokers.

More importantly, our effort is translating into sales. In the first quarter, broker sales rose 30.6% over last year. That reflected the inclusion of the new Aflac Group business in the first quarter of this year, most of which is broker distributed. However, on a pro forma basis in which Aflac Group sales were included in the first quarter results, for both this year and last year, broker sales were still up 5.9%.

You'll recall that we acquired Continental American Insurance Company, now branded as Aflac Group Insurance, in part to better meet the product needs of our broker distribution. At the same time, however, Group products should enhance the sales opportunity for our traditional sales force of individual associates. In fact, our sales force is very enthusiastic about the new Group products. We also believe this will better position us to tap into the large payroll account market, as larger businesses typically prefer Group products. Admittedly, we are not only new to the Group business; we are actually playing catch-up, as some of our competitors have been offering Group products through Group for many years. In addition, it may take some time for the Group sales to have a meaningful impact to the overall U.S. sales growth. However, we bought in scalable platform, and we expect to see strong sales growth in the Group side of our business in the future.

In the short term, our outlook for new sales in the United States remains cautious due primarily to the weak economy and high levels of unemployment. Earlier this year, we established a 2010 target of 0% to 5% sales growth for the U.S. segment. We have since modified our objective to enable our U.S. officers to earn a small bonus if the sales are flat to down 5% in the first half, but that portion can only be paid if sales are flat to up 5% in the second half. We found this two-part bonus structure to be effective in motivating our management team when we used it in Japan three years ago, and we hope it will have the same impact on Aflac U.S. this year. Although I don't like the idea of paying a bonus for negative sales performance, I believe it's important to set reasonable targets. Given the circumstances, the Compensation Committee of the Board of Directors also felt the two-part bonus was appropriate for this year. I believe our objective for the second half of the year is achievable if we see improvement in employment levels of our core market, which compromises businesses with fewer than 50 workers.

In the long run, our outlook for Aflac U.S. has not changed. We continue to view the U.S. market as under penetrated. Furthermore, following the enactment of the healthcare reform, we believe employers and consumers will increasingly understand the need for products we offer, just as they have in Japan.

Overall, we're pleased with Aflac's consolidated financial performance in the first quarter of this year. Operating earnings per diluted share rose 15.6% to $1.41. Excluding the impact of the stronger yen, operating earnings per share rose 11.5% for the quarter. Gross realized investment losses in the quarter were lower than in the fourth quarter and a year ago. However, because we generated $146 million of realized gains in the first quarter of last year to take advantage of tax loss carryforwards, net realized investment losses were higher than a year ago.

As we noted in last night's press release, we booked $27 million of GAAP-only impairments on two perpetual securities using the equity impairment method. These impairments resulted from rating deterioration of these securities. As we repeatedly discussed, we are required by GAAP accounting to apply an aging schedule of unrealized losses to the perpetual securities that are classified as below investment grade.

Our business continued to generate significant capital in the first quarter. Although we've not yet completed our statutory financial statement, we estimate that our risk-based capital ratio was in excess of 525% at the end of March. Maintaining a strong RBC ratio remains a priority for us. Like last year, it's an important component of our management incentive plan for all Aflac officers. Our official objective for this year is to maintain the ratio range of 375% to 475%. However, we plan to work toward finishing 2010 with a higher RBC ratio than year end 2009 ratio of 479%.

I realize that many of you have asked when we feel comfortable deploying capital again. As I noted last quarter, we would like to extend our record of 27 consecutive annual increases in the cash dividend to 28 and beyond. If the credit markets remain relatively stable, I think it's reasonable to expect the board to approve a dividend increase sometime during the second half of the year.

Over the long run, our capital generation has allowed us to maintain a policy of steadily increasing the cash dividend. Additionally, we continue to believe it's appropriate to enhance shareholder value through prudent share repurchases. However, before we commit to resuming share repurchase, we will closely monitor global financial markets to make sure the worst is behind this. We will also regularly assess our capital levels and measure our RBC ratio. I think it's likely that the soonest we would consider repurchasing our shares is toward the end of this year or 2011. Our objective is to increase the cash dividend and resume share repurchase, but our greatest priority continues -- is to maintain a strong capital position.

Yet at the same time, we are still focused on the income statement. In that regard, we reaffirmed the earnings outlook we previously communicated in 2010. Our goal this year is to increase operating earnings per diluted share by 9% to 12% before the impact of the yen. At our upcoming analyst meeting, we will discuss the outlook for 2011 earnings growth. I remain pleased with Aflac's position in the two biggest insurance markets in the world. We continue to believe Japan and the United States each have characteristics that make them perfectly suited to our products.

Aflac has earned the distinction of being the best branded company for voluntary supplemental products in each country. Importantly, both markets offer opportunities for growth. In pursuing our objectives for this year and beyond, it's clear that we will continue to face some challenges. However, our business is strong from an operational perspective, and we have confidence in our business model and in our people. We also had to strengthen our balance sheet that will allow us to continue to fulfill the promises that we've made to the customers and the expectations of our shareholders. Ken?

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Thank you, Dan. Let me just take you briefly through some of the first quarter numbers, starting with Aflac Japan.

Beginning at the top line in yen terms, revenues were up 3.6% for the quarter and investment income rose 2.5%. Excluding the effect of the stronger yen on Aflac Japan's dollar-denominated investment income, net investment income rose 3.5% for the quarter. The annualized persistency rate, excluding the annuity business, was strong and little changed in the first quarter. The rate was 93.8% compared with 93.9% a year ago.

In terms of operating ratios, the benefit ratio continued to improve over last year and was 59.5% in the first quarter versus 61.5% a year ago. The expense ratio also improved slightly at 19.1%, down from 19.5% in the first quarter of '09. As a result of the lower benefit and expense ratios, pretax margin rose from 19% to 21.4% in the quarter, and with the expansion of the margin, pretax operating earnings increased 16.8% for the quarter in yen terms. For the quarter, we invested our cash flow in yen securities at 2.46%. Including dollars, the blended rate was 2.67%. Although new money yields were lower due to spread compression in the purchase of higher-rated securities, they were above budget for the quarter. The portfolio yield was 3.75% at the end of March, down two basis points from the end of December and 12 basis points lower than a year ago.

Turning to Aflac U.S., total revenues rose 3.7% in the first quarter. The benefit ratio was 45.5% compared with 49.5% a year ago. The decline in the benefit ratio reflected the higher lapsation from the Wal-Mart policies in the quarter. And higher lapses also increased DAC amortization, which was up 9% versus a year ago. The operating expense ratio rose from 33.9% to 35.4%, reflecting both the higher DAC amortization as well as higher advertising expenses, which were planned for the first quarter.

The profit margin for the quarter was 19.1% compared with 16.6% a year ago. And as we indicated in last night's press release, the margin would've been approximately 16% without the impact of the benefit reserve release related to the Wal-Mart terminations.

In terms of U.S. investments, the new money yield for the quarter was 5.98% versus 8.67% a year ago. Like Japan, our new money yields in the U.S. segment were ahead of budget for the quarter. The yield on the portfolio at the end of March was 7.06%, down 11 basis points from the fourth quarter and 12 basis points lower than a year ago.

Turning to some other items for the quarter. Noninsurance interest expense in the first quarter was $31 million compared with $7 million a year ago. The higher interest expense primarily reflected our debt issuance in 2009. Parent company and other expenses were unusually low in the first quarter of last year and rose from $9 million to $14 million in the first quarter of 2010. Total company operating margins rose, reflecting the improved profitability of Aflac Japan and Aflac U.S. As a result, the pretax margin rose from 18.1% to 20%, and the after-tax margin increased from 11.8% to 13% in the first quarter of this year.

On an operating basis, the tax rate was unchanged to 34.7%. Net earnings per diluted share for the quarter were a $1.35 compared with $1.22 a year ago. Realized investment losses were $0.06 per share compared with $0.01 per share in the first quarter of 2009. During the quarter, we realized investment loss of $77 million or $0.16 per diluted share, as we noted, $49 million of which came from the sale of the remaining of our holdings of Takefuji Corporation. And $27 million, as Dan mentioned, came from the equity impairment method charges on two perpetuals. We also realized investment gains of $47 million or $0.10 per diluted share in the quarter. $36 million resulted from the sale of securities. The remaining $11 million gain was due to the valuation of foreign currency, interest rate and credit default swaps as required by ASC 810, formerly known as SFAS #167.

As we discussed on our fourth quarter call, ASC 810 eliminated the concept of qualified special purpose entities and required us to consolidate certain variable interest entities on the balance sheet. Upon adoption, we made a onetime cumulative adjustment, which reduced shareholders’ equity by $165 million. As reported, operating earnings per diluted share rose 15.6% to $1.41 and the stronger yen increased earnings by $0.05 per diluted share in the quarter.

Finally, let me comment on the outlook for 2010. As you heard Dan say, we have affirmed our objective for 2010 of a 9% to 12% increase in operating earnings per diluted share before the impact of currency. That would equate to $5.29 to $5.43 for the full year. Assuming an exchange rate of JPY 90 to JPY 95 to the dollar, we would be at $5.24 to $5.56. If the yen averages JPY 90 to JPY 95 for the second quarter, we would expect operating earnings to be in the range of $1.33 to $1.38.
We’d now be happy to take your questions. And to allow time for everyone to ask questions, please try and limit your questions to one. If you have more, we'll try and get back with you. Caroline, we'd be happy to go to the Q&A now.

Question and Answer

Operator

[Operator Instructions] Our first question or comment comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I had a question on your excess capital position and ability to buy back stock, just trying to estimate the magnitudes of buybacks. I think, Dan, you mentioned that you look at potential buybacks later in 2010. Could you maybe discuss what you expect your RBC to be longer term? And just help us quantify what the size of buybacks would be on an ongoing basis. Like how much cushion you have versus your goal in the 525% RBC right now than free cash flow, I think, over $1 billion each year. So just so we can get a better idea on what the magnitude of buybacks could be on an ongoing basis.

Kriss Cloninger
President & Director

Jimmy, Kriss Cloninger. We had given some guidance in our previous FAB meeting that our EPS guidance modeling is based on share repurchase of somewhere between 0 to 12 million shares, both for 2010 and 2011. We pretty much stick to that. We had been running share repurchase at a rate of about 12 million shares a year until 2008. And then we accelerated the share repurchase when we felt we had a significant amount of excess capital. You can argue whether or not that turned out to be the case. Today, we ended last year at 479%. We're in excess of 525%. At the end of the first quarter, I'll say, with the situation in Greece and the like and their downgrades that happened yesterday, that'll have some negative effect on RBC. And it just points out the need to continue to do who we said we we're going to do during 2010, which was to watch the environment to see how things stabilize and then to make our decision toward the end of 2010, at which point, we'll start to deploy excess capital. I personally told Ken Janke I don't want to use the words “excess capital” in any of our press releases for the foreseeable future. If you want to quantify, I think it's pretty easy to tell the difference between the stated RBC ratios, of say 479%, and whatever our current position is. I will say that our required capital base is about $1.2 billion, which would represent about 100 points of RBC. So if you want to determine the difference between where we are in RBC and where you think we ought to be based on your personal opinion, you're welcome to quantify it yourself. But I don't -- I'm still avoiding using the words “excess capital” today.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And maybe you could call that a capital cushion. But the reason I was asking is if you have $1 billion above your target and you're generating $1 billion-plus of free cash flow each year, would you let -- if you're thinking longer term next year or the year beyond, would you let the capital just sit there? Or would you -- over time, if the markets are stable and the situation in Greece and everywhere else stabilizes, would you ramp up buybacks at least to use up your free cash flow each year?

Kriss Cloninger
President & Director

We've said that's under active consideration.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Do you know what the impact on your RBC is from the Greece downgrades?

Kriss Cloninger
President & Director

Well, we've done some, I'll call them quick and dirty estimates that said that if all our investments in Greece got downgraded to an NAIC-3 category, which is basically BB, it'd impact us by roughly 14 RBC points. That includes our Hernanda [ph] Bank exposure.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And just a numbers question. On your interest expense side, it was $31 million this quarter, around $25 million last couple of quarters. Is the first quarter a good run rate to use going forward?

Kriss Cloninger
President & Director

Yes, we fully absorb the increased interest expense for the first time in the first quarter of 2010. So that's a good run rate from now on. We will get a slight decrease in that run rate when we pay off our yen-denominated senior notes of JPY 40 billion in early July, but the interest rate on that was pretty low, so it's not going to be a material decline. And our interest expense will be between $110 million, $120 million for the year.

Operator

Our next question or comment comes from Steven Schwartz from Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

I was hoping we can hear from Mr. Tonoike about what was going on in Japan. I'm particularly interested in compo [ph]. My understanding is that the DPJ recently okayed compo [ph] to increase the life benefits that it pays out the sides of its policies, increase the amount of deposits it can take. And recently, I believe, there was a proposal floated to allow Japan Post Insurance to enter new markets without official approval, rather just notifying various ministries. So I was wondering what exactly was going on there with compo [ph]?

Daniel P. Amos
Chairman & CEO

This is Dan. I'm going to -- I asked Charles Lake to be on the call just in case just in case we got a question. Charles is Chairman, of course, of Aflac Japan. And so Charles, would you mind addressing that?

Charles Ditmars Lake
Chairman of Aflac Japan & President of Aflac International

Yes, let me first say that we, in terms of development relating to Japan Post and compo [ph], we expect a cabinet decision regarding a bill on Japan Post Reform either on April 30 or May 7, which will be followed by an introduction of that bill to the Japanese diet or the parliament for debate after the Golden Week holidays in Japan, which is as you know, early part of May. The cabinet decision will likely be based on the outline that was announced by the two ministers in charge of postal reform, which as you probably know, was widely reported. It provoked opposition inside the cabinet, as well as domestic and international communities. The debate that will take place in the diet will be taking place in the context of very complex political dynamics in Japan, a three-party coalition headed by Democratic Party of Japan, DPJ as you mentioned, which is about to face an upper house election in July. And for this reason, again, many of the things that you mentioned with respect to those ideas, many policy experts on the ground in Tokyo say that it's really not clear whether this bill will actually pass the diet by the June 16 close of the current legislative session. We are in close communication with many of the key players in the diet and the government, and many will verify or confirm that assessment. So even if the bill does pass the diet by June, the legislation will be lacking in detail, requiring a lot of regulatory work with an implementation date being possibly as late as October 2011. So accordingly -- really, it will be premature to discuss a lot of things that's floating out there or rumored to be in the cabinet decision. Toru and I have talked about this. In our view, this debate will not have an immediate material impact on our operations in Japan, and

Aflac Japan is continuing to work with Postal Network to develop that channel. So I don't know if that helps elaborate on sort of many of the issues that are out there.

Daniel P. Amos
Chairman & CEO

Let me say one other thing about the postal is that the new product that we've been selling, the life insurance product, the child endowment, is in direct competition with the Postal. And as you've seen the numbers, we have done exceptionally well. So I'm encouraged how we are able to compete in a head-to-head with the Post, even though I think Charles explained it better, in much more detail, that we’re a long ways from seeing anything take place.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Dan, just to follow up on that, just to make sure we're apples-to-apples here. Your child endowment policy -- well, is Post allowed to have the same amount of benefits that you provide?

Daniel P. Amos
Chairman & CEO

Toru, why don't you answer that?

Tohru Tonoike
Vice Chairman of Aflac Japan

Yes. The benefit of their product offering is not exactly the same as ours. But basically they provide the same kind of the benefit and the pay -- we think ours is a better product overall, but it is, I would say, similar in nature.

Operator

Our next question or comment comes from Nigel Dally from Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

Question is regarding the U.S., you mentioned some changes in compensation to include a component of field force development. Can you provide some additional details regarding these changes, the link to recruiting or producing agent count and how much this compensation is going to be linked to this measure relative to sales?

Paul Shelby Amos
Former Director

We have traditionally had bonuses at our highest levels of management focused solely on production. While that does well within a single calendar year, it is essential for us to look at the long-term viability and growth of our organizations, and we felt it was good to include not only producer growth but account growth on a net basis. So there's a form of retention in there, along with the production components. And we feel like this is a more balanced scorecard for our people to determine what they need to be doing in the future. I will tell you that as a part of that, it is -- recruiting is not included in that. What is included is average weekly new producer growth. The reason we did that is recruiting is merely an activity of getting people. We need to make sure that those people are being more productive. That's the reason when you saw, and as Dan mentioned, on our Internet recruiting numbers, we had a high volume of recruits, 8,100 in the first quarter of last year. Unfortunately, the productivity from those recruits was not as high as we would like. And as such, we've refocused the attention of our regional sales coordinators and state sales coordinators to be balanced among the different channels of sourcing for recruiting. Not just Internet, but also to include field nomination, the way we used to do business. And we feel like that will have a driving component behind why our average weekly new producer growth will eventually come up as recruiting comes up. And so that's why Dan spoke of second half improvement sequentially in recruiting between the first quarter and the second quarter and then hope for improved recruiting in the second half of the year.

Nigel Phillip Dally
Morgan Stanley, Research Division

And, Paul, what's the split between the compensation regarding the new measures of average weekly producing counter versus traditional production levels?

Paul Shelby Amos
Former Director

You mean the split between the two? Is that what you're asking us?

Nigel Phillip Dally
Morgan Stanley, Research Division

Yes, exactly.

Paul Shelby Amos
Former Director

It's about 50% production, 20% account growth and 30% people growth. That's a ballpark. I'll give you all details if you want them when we get to FAB, where I'll put that into a little more depth.

Operator

Our next question or comment comes from Ed Spehar from Bank of America.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Kriss, one question. If you look in the last couple of years, the required capital has grown at a rapid pace because of credit migration. But if you go back in prior years, sometime at the denominator of the RBC ratio, if you go back in prior years, it wasn't growing all that rapidly. Could you give us some sense, given the mix of business you have and -- sort of your expectations for growth? How we should think about the change in required capital over time?

Kriss Cloninger
President & Director

Yes, I think, generally, Ed, that the key factors are the growth of the premium income and the growth of the assets themselves. It's focused on insurance risk, and it's focused on asset risk. And what's really grown over the last year or two has been the asset risk component of the thing. The insurance risk is represented by growth in premium income and the like has grown, at, say, the 5%-type number on average that's represented our core growth in top line revenues and the like. So that's pretty much it. The two risks of insurance and asset are the two dominant factors, and the big increase in 2008 and 2009 related to the assets, not the insurance. And I think, absent any more credit migrations or credit downgrades, that we'll see a resumption of the more normal growth in RBC- required capital associated with just the normal growth in the business.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Could you just give me, again, what you said the RBC impact you estimated from Greece? And when you say the total amount downgraded, could you give us what that invested asset number is? Because I guess it's not just the sovereign, right, you said it was the banks as well?

Kriss Cloninger
President & Director

We've got around 350 or so sovereign debt in Greece and around $1 billion in three banks, maybe a little less than that. Jerry, do you have --

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

It’s about $950 million in three Greek banks.

Kriss Cloninger
President & Director

A little less. So, out of that $1.3 billion total, we're saying that if all those securities were downgraded NAIC-3, it would impact RBC negatively by about 14 points.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Are those a mix now of NAIC-1 and 2, or are they all 1 or...

Kriss Cloninger
President & Director

That’s correct. Yes. They’re 1 and 2 right now.

Operator

Our next question or comment comes from Eric Berg from Barclays Capital.

Eric Noel Berg
Barclays PLC, Research Division

My one question relates to the U.S. business, and what specifically has to happen in the economy for employers to be more inclined to do business with you folks than they are at present? In other words, more specifically my question is, let's say the consensus view is right that unemployment remains high for the foreseeable future, call it the next couple of years, unemployment, I don't know, 8%, 9%, 10%. Could your business prosper in the United States even with that high level of unemployment?

Paul Shelby Amos
Former Director

Well, let me begin, Eric, by saying that it really isn't the employer that's the issue. It is the employees and the individuals who are making choices. In fact, while our account number that we released was down, if you were to actually take out the five extra days of processing, we were up 3.7% in new accounts. So employers, more than ever, are listening to the fact that they want to put in our products, they see the value in what we're doing. And we continue to believe that's viable. As we've talked about for a couple of years now, the other concept is that it's building shelf space. Because it's the employees individually who are not purchasing at the same level. And to let you know, that's true of both our existing accounts and our new accounts. It's pretty consistent, which we believe points directly to the fact that it is the economy. So to your question of what needs to happen for employers to begin hiring new people, I can't speak directly to what they're going to be doing in their individual businesses. But my hope is that this will not be a jobless recovery. Certainly, the better employment is, the stronger chance we have of continuing to sell our products, and I think stability in the economy will give people more security about spending their dollars on insurance. Does that answer your question?

Eric Noel Berg
Barclays PLC, Research Division

Yes, I mean, I think it does. I mean, its’ -- I certainly got the message. The message is coming through loudly and clearly that it is fundamentally about what the employee thinks rather than his employer. But again, let's say that unemployment rate remains high. Could you still imagine an environment in which employees are willing more than at present to say yes? I guess I'm rephrasing my question to focus now on the employees.

Paul Shelby Amos
Former Director

Yes, I can absolutely imagine that. Is that something that’s going to happen in the short-term? I cannot predict. But we certainly are putting strategies in place that we believe will help better affect sales. One thing I can tell you on a positive note is that while the productivity of our veteran agents, which has been one of the key reasons that we've talked about things being difficult, has remained down. The number of veteran agents who are producing has been steadily on the increase over the last couple of months. So we feel like that is a slight uptick in trend that is positive. But again, it's productivity. And to your point, do I see employees eventually wanting to buy more of our insurance? I absolutely do. As Dan mentioned earlier, national healthcare is going to place an emphasis on people understanding the better value of our products, and I believe long-term just like it did in Japan, that will be a positive for us.

Operator

Our next question or comment comes from Randy Binner from FBR Capital Markets.

Randolph Binner
FBR Capital Markets & Co., Research Division

I was going to ask a couple of Washington policy-type questions, and it picks up a right there on what Paul was saying. On the healthcare reform -- and I'm hearing you say it's a general awareness, folks would have of kind of their personal responsibilities. But are you also potentially thinking about making a product that could be designed to be sold in or around the exchanges that’ll be formed?

Paul Shelby Amos
Former Director

As the current law exist today, our policies will not be sold through the exchanges. At this point, we have no reason to believe that that’s going to change. I mean, if you look at the regulation itself, currently, there is no regulation for life, disability and accident, some of our largest product lines. It is the remaining products that ultimately are going to be overseen. At this point, we believe that the product development that we're doing through our distribution of both field force and the brokers represents the best opportunity for us to get to the employer and I do not believe it -- right now that the exchanges will be in any way used for supplemental or voluntary worksite benefits.

Randolph Binner
FBR Capital Markets & Co., Research Division

But is there a way that you could kind of sell around the exchanges more directly if there are shortfalls that people get from products there?

Daniel P. Amos
Chairman & CEO

This is Dan. Whether it's an exchange, whether it's an HMO, whether it's a national healthcare, as in Japan, or whether it's Blue Cross Blue Shield, there are still gaps that occur. And our job as salespeople is to make sure that we expose those gaps, tell them where they are and how they need to be filled. And so the answer to your question from that standpoint is “yes.” We will continue to find products and services that help fill gaps that are created in the healthcare environment. That answer your question?

Randolph Binner
FBR Capital Markets & Co., Research Division

Yes, that’s perfect, thank you. And just on the other piece of legislation on financial reform. Through the derivatives piece of this potential legislation, and then I guess I would mention TARP tax, too, any potential exposure or change that you see for Aflac's operations through that bill?

Kriss Cloninger
President & Director

We're following it, but we don't see any major implications for us. The so-called TARP tax, it's my understanding that they're excluding financial institution liabilities that are subject to another support fund, whether it's policy-holder protection fund in Japan or the state regulatory remedies in the U.S. when insurance companies fail. So we don't think there's a big influence on us there.

Randolph Binner
FBR Capital Markets & Co., Research Division

And on the derivatives side, you just intuitively -- if you had to purchase your derivatives instead of doing it over-the-counter, which I imagine you do now, but did it more through a more transparent exchange, could that potentially save you money? Would I be thinking of it the right way if I said that?

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

This Jerry Jeffery. I think it's important to understand that we have some derivatives on our books now as a result of accounting changes. We are not active participants in derivative markets, so I don't really see any significant impact on any derivatives reform that takes place.

Operator

Our next question or comment comes from Suneet Kamath from Sanford Bernstein.

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

I just want to go back for Jerry on the sovereign exposure. I think the Greek sovereign exposure that you mentioned earlier in the call is a little bit different from the numbers that I jotted down last night. So if you don't mind, can you just walk through the sovereign exposure, Greece, Spain, Italy, and maybe just comments around what exactly your exposure is. Is it to the government or other entities? And then related to that, I think you mentioned total Greek exposure, your banks plus sovereign is something like $1.3 billion, which relative to your equity base is pretty sizable. I know we've talked on these calls about concentration restrictions and then changes that you've made to your investment philosophy there. But do you have restrictions, or are you thinking about restrictions related to total country exposure, obviously excluding Japan, given that governments and financial institutions in these countries have obviously become a lot more linked relative to the past?

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

Well, let me start with your first one, which is what our sovereign exposures look like. Our direct sovereign exposure to Greece is -- the book value is about $285 million. And we have on a book value basis, just slightly over, very slightly over, a billion to Greek banks. None of the Greek bank exposure is perpetual exposure, by the way. As far as -- I think was Portugal one you asked about? We have no direct sovereign exposure to Portugal. We have some exposure to their banking system. The total exposure to their banking system in Portugal is approximately $750 million, book value. We do have some industrial exposure there as well. Were those the...

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

Yes, and Spain and Italy were the other two I mentioned.

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

Spain, we have no direct sovereign exposure. Italy, we do have exposure to the Republic of Italy. That book value there is $269 million. In terms of your other question, which is, are we contemplating imposing sovereign limits? Is that your question?

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

That's right, exactly.

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

I think it’s a great question, and I think it's one that we're looking at very carefully right now, because the notion of a sovereign default by an E.U. country or any highly rated country was unthinkable, couple of months ago. And I still don't think it's predictable as to what's going to happen with Greece, but there's enormous pressure being applied by the E.U. and the IMF as we speak. And it’ll be very instructive as to how we proceed what takes place there. But I think we'll learn a lot today, actually, as to the course that, that takes. And we will respond to that.

Operator

Our next question or comment comes from [Audio Gap] from Deutsche Bank.

Analyst

As I take a look at this year's EPS growth guidance of 9% to 12%, can you talk about what the critical drivers are as we look to the balance of this year to get to the upper end of that growth range?

Kriss Cloninger
President & Director

This is Kriss. Well, the key drivers that are going to occur throughout the year are just the basics of revenue growth and margin changes. In Japan, we continue to think the revenue growth will be in line with the first quarter growth of roughly 3.5%. We think we'll have margin expansion of roughly 1.5% to 2% of revenue. We'll update you on that probably at the FAB meeting. But I think it’ll be in line with what we saw in the first quarter. U.S. revenue growth, certainly, the U.S. is more impacted by the level of new sales in their revenue growth, because roughly 30% of revenues come from first year premium in the U.S., whereas in Japan it's less than 10% of first year premium. So the U.S. results were much more sensitive to the level of new sales. We had predicted level margin for our U.S. business absent the impact of the Wal-Mart thing, which was totally a first quarter event. So we estimate that our U.S. margins would probably be relatively constant for the remainder of the year. I mentioned interest expense earlier. We fully absorbed the new level of interest expense in the first quarter compared to the quarters during 2009. So the effect of increased interest expense will diminish as we go through the year. We took on our first level of new debt, the $850 million of new debt, middle of May last year. We followed that with a little bit of additional yen-denominated debt in June, and, of course, another measure of senior debt in December, $400 million or so. So that effect’s going to diminish throughout the year. We had a negative impact on EPS growth in the first quarter related to an increase in diluted shares just associated with the increase in the share price and the dilutive effect of outstanding stock options. From -- well, up until 2009, when the stock price was really depressed, we had, had roughly 6 million shares of dilution each year, from, say, 2005 through 2008. First quarter of 2009, that dropped down from 6 million shares to about 1 million shares. And the first quarter of this year is back up to about 4.5 million shares. So we hope to see more dilution from stock option as the stock price goes up, but that is a bit of a drag on EPS. We doubt that we'll resume share repurchase in 2010, though it is under consideration. And I previously talked about where we -- what we’re looking for, for share repurchase in 2011. So that's the big picture, Darren.

Analyst

So are share repurchases not necessary for 2010 to get to the 12%?

Kriss Cloninger

President & Director

Well, not for the 9%, but...

Daniel P. Amos
Chairman & CEO

Yes for the 12%.

Kriss Cloninger
President & Director

Yes, I know about the 12%. I'm not sure about whether -- we'd have to have some better increases in core earnings to get to the 12%, I think. I'm not sure we're going to do share repurchase in time to have a material impact on 2010 EPS.

Operator

Our next question or comment is from Andrew Kligerman from UBS.

Andrew Kligerman
UBS Investment Bank, Research Division

Just some questions on the U.S. Firstly, you indicated that in order to pay bonuses out to the coordinators, or I guess management, in the U.S., sales would have to be up 0% to 5% in the first half of the year; is that correct?

Kriss Cloninger
President & Director

Second half.

Daniel P. Amos
Chairman & CEO

That would be flawed, down 5% to up to flat. And then the second half would be flat to up five. But you can't get the first half, if you don't get the second half. It's exactly the way we did it in Japan three years ago. So we're basically -- if we ended up being flat for the first half, we'd be thrilled. But what we want to see is a turnaround. That's what we're shooting for.

Andrew Kligerman
UBS Investment Bank, Research Division

And I guess for these folks to even make anything, then, they'd have to be flat in the second quarter in order to be down five, since you were down 10 in the first quarter. So, I mean, do you have any optimism that they could actually be flat 2Q over 2Q in the U.S?

Kriss Cloninger
President & Director

Let me say -- just a clarification. 2Q only impacts the bonus for the first half, and that's only 25% of the total. So they could still get to 75% for the second half of the year, if they got an increase, even if they missed the first-half objective. And maybe that was clear before, but I'm not sure.

Andrew Kligerman
UBS Investment Bank, Research Division

No, it's a lot clearer now. And then just so with regard to that question, do you have some optimism that they could potentially be flat in the second quarter, and then get up 0% to 5% year-over-year in the second half? What are you thinking as we move into the next three quarters?

Paul Shelby Amos
Former Director

Andrew, I honestly believe that the things that are within our control, we have the right initiatives in place to create short-term and especially long-term results. Unfortunately, there still remains a large economic component to the factors that are contributing to our sales. And until I have a better grasp on improving economic conditions, I cannot really state what I think, and how close we'll be to that. But in general, I would say that our field force remains extremely optimistic. The broker production in general remains back-end loaded, with the largest emphasis being in the latter half of the year because of open enrollments that occur. And so am I optimistic? I think that I am happy with the progress we're making internally.

Andrew Kligerman
UBS Investment Bank, Research Division

And then, Paul, maybe just to follow up. I mean, this is the first time in a while I've heard about any contraction with the sales coordinators. And you mentioned some was attrition, some you wanted to move out of that role, earlier in this call. Is there a problem right now with the sales coordinators? I mean, do you have any concerns at this stage in the game?

Paul Shelby Amos
Former Director

I honestly believe that there is always a rise and fall as you grow. The long-term is, the question is, where is the trajectory in the long-term? I believe that we contracted backwards to consolidate certain overexpanded areas where people, and coordinators specifically, were not making enough money to really be sustainable. As a result, it did decrease our recruiting and training capacity, but I believe long-term, we'll create stronger organizations that can then grow and provide people opportunities to take on management roles. So do I have an expectation in the long term with that number? With coordinators going, I do. Do I think it will be massive growth? [Audio Gap] I think it will be a linear growth that will happen over time as a result of people being successful. And being given the opportunity to grow their operation has been historical with Aflac.

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Caroline, I'm showing that we've reached the top of the hour, 10:00. So I'm afraid, if there are still people in the queue, please still free to call Robin Wilke [ph] or myself, we'd be happy to continue the dialogue and take your questions. And thank you again for joining us, and we hope to see you at our analysts' meeting in just a couple of weeks.

Operator
That concludes today's conference call. Thank you for your participation. You may disconnect at this time.