S&P Global
Market Intelligence

American International Group, Inc. NYSE:AIG

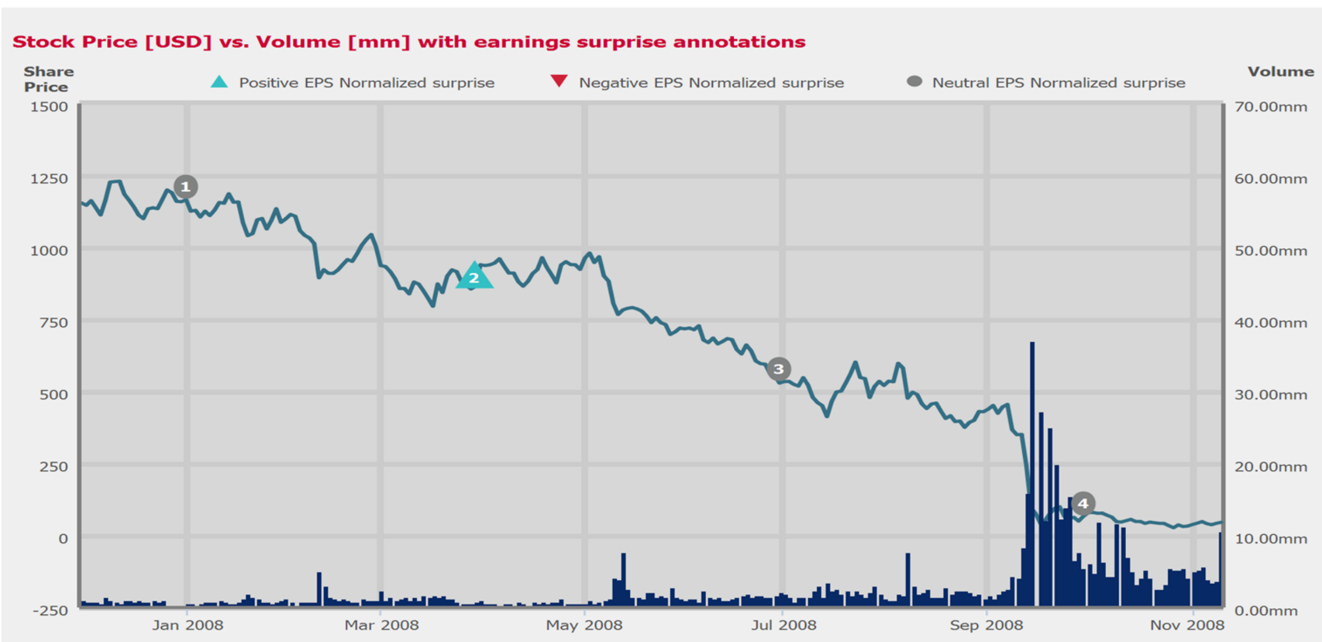
FQ4 2008 Earnings Call Transcripts

Monday, March 02, 2009 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(7.37)	(283.40)	NM	0.60	(80.34)	(398.20)
Revenue	-	-	-	-	-	-
Revenue (mm)	-	-	-	-	87143.35	95190.00

Currency: USD
Consensus as of Feb-24-2009 9:52 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	(2.91)	(25.00)	NM
FQ1 2008	9.63	18.60	93.15 %
FQ2 2008	14.24	(10.20)	NM
FQ3 2008	(22.93)	(68.40)	NM

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Call Participants

EXECUTIVES

David Herzog

Ed Liddy

Elias Habayeb

Paula Reynolds

Teri Watson

ANALYSTS

Arun Kumar
JPMorgan

Donna Halverstadt
Goldman Sachs

Ian Gutterman
Adage Capital

Josh Shanker
Citi

Lionel Tritalou
Insight Investment

Michael Barry
Banc of America

Richard Semone
Old Mutual

Scott Frost
HSBC

Tom Walsh
Barclays Capital

Presentation

Operator

Good morning and thank you all for holding. I would like to remind all parties that you will be in a listen-only mode for the duration of today's conference. (Operator instructions) Today's conference is also being recorded. If you have any objections, you may disconnect at this time. Now I will turn the call over to Teri Watson, Vice President of Investor Relations. You may begin.

Teri Watson

Good morning and thank you for joining us. Before we begin, I'd like to remind you that remarks made on this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These projections and statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control.

These projections and statements may address, among other things, the outcome of proposed transactions with the Federal Reserve Bank of New York and the United States Department of the Treasury, the number, size, terms, cost and timing of dispositions and their potential effect on AIG's businesses, financial condition, results of operations, cash flows and liquidity. And AIG at any time and from time to time may change its plans with respect to the sale of one or more businesses.

These projections and statements may also address AIG's exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets and AIG's strategy for growth, product development, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements.

Factors that could cause AIG's actual results to differ, possibly materially, from those in the specific projections and statements include a failure to complete the proposed transactions with the New York Fed and the United States Department of the Treasury, developments in global credit markets and such other factors as discussed in Item 1A. Risk Factors and throughout Management's Discussion and Analysis of Financial Condition and Results of Operations in AIG's Annual Report on Form 10-K for the year ended December 31, 2008.

AIG is not under any obligation and expressly disclaims any obligation to update or alter any projection or other statement, whether written or oral, that may be made from time to time, as a result of new information, future events or otherwise. The information provided today may also contain certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures will be included in the fourth quarter 2008 Financial Supplement available in the Investors section of AIG's corporate website.

And now I would like to turn the call over to Ed Liddy, AIG's Chairman and CEO, who will make opening statements. Then we will take question and answers, and we expect to end the call by 9:30.

Ed Liddy

Thanks and good morning everyone. We appreciate your participation this morning. I'm joined here in New York by Paula Reynolds, our Chief Restructuring Officer, and David Herzog, our CFO, and of course, Teri Watson who is our VP of Investor Relations. As usual, we have the heads of our major businesses available either from New York or from where their office headquarters are to answer any questions about our business operations. We have an ambitious agenda to try to complete all of this by 9:30. I hope you will understand that we will need to cut the call off at 9:30 so that we can move on to the other pressing activities for the day.

Today, AIG announced its fourth quarter and full year results for 2008. More importantly perhaps, we also announced a series of actions with the support of the Federal Reserve and the US Treasury that will facilitate AIG's execution of its restructuring plan and our ability to replay the government. These major steps will improve our capital structure, protect and enhance the value of our businesses, and position our key franchises for the future.

I'd like to just briefly review what these actions are. First, modifications to the terms of the US Treasury's preferred stock investment in AIG to improve the equity-like characteristics of these securities, including making the dividend non-cumulative and adding a replacement capital covenant. Next, a new $30 billion five-year equity capital commitment from the US Treasury, which AIG may drop on from time to time as needed and will serve as a backstop facility for our restructuring activities. I can't emphasize enough we need no new cash right now. This is a backup facility that will enhance the prospects for us enacting the restructuring that we are working on.

Next, debt exchanges where AIG will transfer to the Federal Reserve, preferred equity ownership interests in AIA and ALICO in return for a reduction in the outstanding balance of the government credit facility. This will allow AIG to tap the intrinsic value of its insurance companies to repay a portion of the government credit facility. It will accelerate AIG's restructuring plan and position these businesses as independent companies.

Next, the securitization of blocks of AIG's domestic life insurance business, the proceeds of which will be used to further reduce the outstanding balance under the government credit facility. Next, the elimination of the LIBOR floor on the government credit facility, which will lower AIG's current interest cost.

And then finally, we will continue to have access to approximately $20 billion of available capital under the existing $60 billion government credit facility. That $20 billion is not now currently drawn. The balance on that outstanding government facility has been in the $36 billion to $38 billion range now for the better part of 8, 10, or 12 weeks, indicating that our liquidity issue has, in fact, been stabilized.

Together, these measures offer the best opportunity to preserve the value of AIG's businesses on behalf of taxpayers to promote market stability and facilitate an orderly restructuring. There is no immediate cash infusion from the Federal government.

I'll take you through the details a little bit more in just a minute, but first let me review the chronology of events since I joined AIG last September. With so much written about AIG in the intervening period, many have questioned how AIG is run and why the US government continues to support the company. I'd like to address both these points.

First, how are we running the company? While the leaders of our insurance companies remain focused on the day-to-day management of these businesses and they are doing a great job, over the past five months, the corporate leadership team we now have in place has rolled up its sleeves to address the company's greatest challenges. There is an old expression that says the urgent crowds out the important, and that in fact has been our balancing act.

Against the backdrop of unprecedented volatility in global markets, we have a number of urgent problems we have needed to address. At the same time, we've had to map a strategy to restore the company's business vitality. Our announcement today represents a major milestone in balancing these two priorities. The tools that the government is willing to extend will make a big difference in our ability to save the businesses until markets improve.

And as I will describe in a few minutes, the fourth quarter 2008 loss does not reflect the fundamentals of our major businesses. Rather, the results primarily reflect non-cash charges associated with the restructuring of our balance sheet and the severe market disruption that is occurring around the globe. Much of this restructuring occurred in November 2008.

Together with the Federal Reserve and US Treasury, we put in place two financing entities known as Maiden Lane II and III. Maiden Lane II addresses the RMBS concentration in our securities lending program and Maiden Lane III address the severe liquidity issues related to our financial products units' multi-sector credit default swap exposure.

After the establishment of these entities, we substantially stabilize the company's cash position and the liquidity crisis. Also in November, the US government revised and broadened the initial support provided in September to include among other things the purchase by the US Treasury of $40 billion in AIG preferred stock and improvement of the terms of the government credit facility.

Now, why did the US government extend this assistance and why did they continue to do? Quite simply, the government believes and we do also that AIG is a systemically important financial institution. There are just too many people and too many institutions in the world that depend on the promise represented by an AIG commitment.

The following is just a sampling of our global reach and our interconnectedness. We operate in more than 130 countries and jurisdictions and have approximately 74 million customers and policyholders. We are the world's largest property casualty insurer. We are the largest provider of retirement savings for primary and secondary school teachers and healthcare workers. We have a $2 trillion financial products operation, with over $1 trillion of that amount concentrated with 12 major global financial institutions. We are one of the largest life insurance providers in the US and in Asia. We insure the property of 94% of the Fortune 500 companies. And we are the largest owner of airplanes in the world and the largest customer of Boeing and General Electric's Aircraft Maintenance Division, among others.

If AIG were to fail, the impact on our customers and counterparties around the world would undermine an already unsettled global financial system. As I remarked in a number of occasions, insurance is the oxygen of the free enterprise system. So, our goal throughout all of this restructuring is to create a framework where AIG's individual companies can be part of the solution to the economy's woes.

In the aftermath of the November restructuring, we moved with urgency to set up an orderly process for marketing and divesting each unit that has been designated for sale. As you all can appreciate, it's not a simple task to ready many multi-billion dollar businesses for sale, but we've done exactly that. However, market conditions make this a difficult time to execute a major divestiture program, particularly for cash.

Economic and capital market conditions have continued to weaken in 2009. To give you some perspective, the life and health insurance index as one measure of the health of the investment-sensitive portion of our industry is down 52% year-to-date as of last Friday. That's two months. And it's down over 70% since I became CEO of AIG in late September.

Today's announcement of new tools was designed to reflect this reality, namely, that it doesn't make sense to attempt to execute the most extensive corporate restructuring program in American history as if it were business as usual. Even though a wide range of potential buyers have expressed interest in many AIG businesses -- in fact, we've confirmed this interest in our releases today on AIA and ALICO -- the economic crisis had substantially limited the capacity of buyers to purchase the largest of these businesses by opening their depleted checkbooks. It has become much more difficult for companies to raise debt to finance acquisitions. And as potential buyers have seen their stock prices decline dramatically, these acquisitions would be much larger relative to the buyers' shrinking market value.

In addition, many of AIG's most attractive businesses are in Asia, but the American and European insurance companies, who have been most eager to enter the Asian markets, have been among the most hardest hit in terms of stock price declines. But these new tools should be helpful. The debt exchanges, securitizations and modifications to the pre-existing facilities, advance our restructuring plan while giving us more time to allow a recovery to take place, while maintaining our commitment to the divestitures.

I'd like to take a moment to share with you several conclusions about AIG that I've reached in conjunction with the management team. First, we believe the company's overall conglomerate structure is simply too complicated, unwieldy and opaque for its component businesses to be well managed as a single mammoth corporation. That is particularly true in this economic environment.

Second, AIG needs to take additional steps to maintain the viability of its core businesses and position them as clearly separate, independent entities worthy of investor confidence. Third, AIG needs to maintain flexibility in our divestiture process to maximize the value of our businesses over a longer time frame. The current weakness in the economy, in capital markets and the insurance industry are preventing natural buyers of AIG assets from being willing or able to pay prices for those assets that reflect their intrinsic value. And fourth, with appropriate US government support, AIG can restructure itself while protecting our policyholders and providing a return to the US taxpayer.

So you ask, where do we go from here? With the new tools in place, we will continue to work with a sense of urgency to execute our plan. Our release today announced that we intend to offer a minority portion of our general insurance business to the public. With regard to the businesses that have been designated for sale, we've been gratified by the response from potential buyers, but we continue to weigh the possibility of public market sales of those businesses.

We will look to securitize some portions of our domestic life insurance business. We really have an array of possibilities, and one of the key takeaways from this morning's meeting is the flexibility in our process. So over the next several years, depending on economic and market conditions, we will restructure AIG from a conglomerate to individual, self-governed businesses. As we do so, we will stay focused on the day-to-day operations of our businesses so that we remain competitive in our markets.

Now I'd like to address a few key questions that my colleagues and I have been asked repeatedly in recent days. I'm hoping that everyone on this call now has the benefit of our press releases and our 10-K filing, but a couple of short explanations might help as well. First, how did the company post such a big loss in the fourth quarter? Let me break the $62 billion number into four broad categories in an effort to make it more understandable and then I'll ask our CFO, Dave Herzog, to provide some further explanation around the numbers.

On the second page of our earnings release, there is table that summarizes the significant items in the quarter. They total about $64 billion, which is more than the reported loss. That table includes four broad categories. Restructuring related charges of just under $7 billion, market disruption related charges and losses of approximately $26 billion, accounting charges of $24.6 billion, and finally, the Fed credit line interest and amortization charges of $6.9 billion. It's important to note that many of these items are in fact non-cash items.

Now, let me ask David to elaborate a little bit further on our fourth quarter results.

David Herzog

Thank you. Thank you, Ed. And good morning, everyone. Following Ed's reference to the second page of the press release, I'll comment briefly on some of the items included in the table. And the first category of significant items totaling $6.7 billion relates to restructuring related activities. This category includes about $3.3 billion in charges resulting from the securities lending activities related to our exit from the domestic securities lending program and the closing of the Maiden Lane II transaction, as well as recorded losses for securities lending transactions during the quarter that did not qualify for loan accounting because of insufficient levels of collateral we received from counterparties.

The second restructuring related item involves $3.4 billion, and these items were all on an after-tax bases -- in AIGFP unrealized market valuation losses, which represents mark-to-market losses from September 30 through October 31 on the super senior credit default swaps terminated in connection with the Maiden Lane III transaction.

Moving to the second category, market disruption related items, which totaled about $26 billion. These include, among other things, about $13 billion of other-than-temporary impairment charges, a significant portion of which relates to the rapid and severe declines in our structured securities portfolio, particularly our commercial mortgage-backed securities. In addition, we had about a $4.4 billion charge related to AIGFP's credit valuation adjustment from mark-to-market fair value adjustments, where counterparty spreads increased, which reduced the fair value of the assets, and AIG's own credit spreads decreased, which increases the fair value of the liabilities.

The third category of the accounting charges that Ed referred to, and these totaled about $25 billion. These include about $21 billion of tax-related charges mainly to increase the valuation allowance on deferred tax assets for tax benefits not obtained for losses incurred during the quarter and for foreign tax credit carryforwards. Goodwill impairment charges are driven primarily by declines in market values of our peer companies.

And finally, the Fed credit interest and amortization charges of $6.9 billion included accelerated amortization of the prepaid commitment fee in connection with the reduction in the credit facility size from $85 billion to $60 billion as well as the periodic interest and amortization charges normally incurred.

In total, as Ed said, we incurred roughly $64 billion in significant items for the quarter. However, our shareholders' equity -- total shareholders' equity totaled just short of $53 billion as of December 31, 2008. As we've mentioned in last quarters, we expect there to be some continued noise in our financial results from quarter to quarter related to restructuring related activities and ongoing market volatility. Ed?

Ed Liddy

I'd say the first question was, how in the world do you lose $60 billion plus? The second question we are commonly asked is, how has AIG used the government support? After all, the government invested $44 billion in the two special purpose vehicles. They purchased $40 billion of AIG preferred stock and they have extended a credit line to the company of up to $60 billion. Now, recognize what I said before. We have drawn down only about $38 billion of that credit line. And in fact, our usage of that facility has been remarkably stable over the last roughly 2.5 to three months.

The vast majority of these funds have passed through AIG to other financial institutions as we unwound transactions with them. Among other things, the cash was used to post collateral, to repay the government credit facility and third-party debt, to settle securities lending obligations, to purchase CDOs and terminate the corresponding credit default swaps. This flow of funds through AIG to other financial institutions is a good indication of how intertwined we are with the global capital markets, and how government actions that have been thought of as strictly assistance to AIG have benefited the entire financial sector. Working with our partners in the government, we really have provided more stability to the financial sector.

We have used another portion of that cash to increase the capital of operating subsidiaries where necessary. In many cases, the funds have gone to strengthen the security of policyholders. Our goal remains unchanged. We want to protect our policyholders and we want to repay the dollars that have been extended to us from the Federal government.

Third question we get, given the government's large investment in AIG, how is the company interacting with the government? Well, I think it's obvious by the detailed nature of the tools that are being discussed today. We have worked closely with the Federal Reserve and Treasury in developing our restructuring plan and the actions announced today.

I believe that these steps provide tangible evidence of the US government's commitment to the orderly restructuring of AIG over time in the face of continuing market dislocations and continuing economic deterioration. Orderly restructuring is essential to AIG's repayment of the support it has received from the US taxpayers and to preserving financial stability. The US government has stated that it is committed to continuing to work with AIG to maintain its ability to meet its obligations as they come due.

We will be happy to respond to other questions when we open up the lines for Q&A in just a moment. But before we do that, I want to express our appreciation for the professionalism and attention from the officials at the US Treasury, the Federal Reserve and regulators around the world in working through this multi-step restructuring process. And I also owe a debt of gratitude to our employees, each and every one of you, for staying focused on the business despite the myriad distractions that are endemic to our situation.
Thank you. And now we will take a few questions within the time remaining.

Question and Answer

Operator

Thank you. (Operator instructions) Our first question will come from Michael Barry from Banc of America. Your line is open.

Michael Barry
Banc of America

Thank you for taking the questions. Actually I have two questions. The first one relates to the overall debt. And we're trying to consider this debt load that being the AIG, Inc. debt load in light of the announced organizational changes. And specifically, we were wondering whether or not the ultimate plans include the assumption by or otherwise moving of some of the holdco's debt to those other holding companies created to house the various core insurance businesses.

And along these lines, would you please discuss AIGFP's debt? In your most recent supplement, you categorize about $30 billion of AIG's total debt load as AIGFP borrowings and that excludes the match notes? And all of those AIGF borrowings are categorized as operating debt. What is the nature of the operation supporting this debt? And how can you get us comfortable that the guarantor will not ultimately be on the hook for repayment? And then I have a follow-up.

Ed Liddy

Michael, we are going to answer those two without a follow-up. We're going to spend more time on the first time and less time on the second one. First, we do not intend to take any of the unsecured debt and push it down to the operating subsidiaries. We do not intend to do that. The critical part -- one of the critical parts of this restructuring I'd like you to focus on is, to the extent we are able to contribute the assets of AIA and ALICO into a trust, give a preferred interest in that trust for the Federal Reserve. That will allow us to make material progress in paying down the outstanding credit line. So that will remove that plus securitization plus probably some small amount of cash. That will remove whatever borrowings we have from the Federal Reserve.

From a debt-to-equity standpoint, that's a great accomplishment. Second, restructuring the $40 billion of current TARP money so that it has greater equity contribution, improves the debt-to-equity characteristics. Third, the standby $30 billion, to the extent we need it, improves the equity characteristics. So the reason I walked you through that A, B, C answer is, you should just really concentrate on the debt-to-equity position of our company gets stronger and stronger with the execution of each of these particular items.

Now, with respect to your question on FP, David, if you would -- or you or Elias, if you can quickly respond. What I'd like not to do is spend too much time on that more technical issue. And Michael, if we don't answer your question satisfactorily, call back and we will do it on a one-off basis.

David Herzog

Good morning, Michael. It's David Herzog. The AIGFP debt, as you know, is we classify it as operating leverage, because the assets, the securities and the financial assets and the securities book at AIGFP are matched off against that. And we have a very well thought out and comprehensive restructuring plan well underway by our colleagues at AIGFP that will -- again, we will realize value on the assets to repay the debt. And to the extent there are shortfalls, we have the AIG, Inc. guarantee.

Michael Barry
Banc of America

Okay. And if I may, one quick other question. It seems as though AIG and the government have taken some fairly clear steps to disassociate the Asian life businesses and the general insurance businesses from the holdco and the financial services part of the organization. Why haven't similar steps been taken for the domestic life companies?

Ed Liddy

There is considerably more value in AIA and ALICO and in the combination of foreign gen and commercial insurance. So, like most prudent people, we start with where the money is first and resolve those. There will be more of the securitizations that we talked about that will probably apply more specifically to the domestic life insurance companies.

Michael Barry
Banc of America

Thank you. I appreciate it.

Ed Liddy

Okay. Next.

Operator

Our next question comes from Arun Kumar from JPMorgan. Your line is open.

Arun Kumar
JPMorgan

Thank you. A couple of quick questions for you. There is a lot of discussion earlier in the call about the life companies and so on. Could you spend 30 seconds talking about your commitment to maintaining the business profile of I Lease and American General? They both have fair amounts of debt outstanding, they are not guaranteed by AIG, and the business proposition of American General Finance is obviously is quite different in the current environment. Could you comment on your commitment to that entity and also to International Lease, if you could give any color on these for the longer-term issues facing that industry and also the company's thoughts in terms of finding a likely buyer? And the last question I have, you can quickly touch on this. How much time do you have to pull this plan together and execute? Is it six months, a year, a year-and-a-half before the business franchise within the AIG's operating companies suffer?

Ed Liddy

We're going to do the last one first and then Paula will address the issues you raised in the initial part of your question. You know, we'd like to do it tomorrow. But the practically reality is the marketplace is a pretty crummy place to be right now. You all see that with all the other companies. We are the largest insurance company in the United States; arguably one of the largest in the world. We have a massive portfolio that's in every asset class you can think of. When the world catches pneumonia, we get it too, in spades, because we are so large.

We want to execute this plan in a diligent and deliberate fashion as quickly as we can. We are very sensitive to the erosion of our franchise value, and that's one of the reasons why we are combining the two property casualty entities into one and we want to give them a separate identity. We want to give them a separate identity and a separate governance structure. We want the financial strength of that company to be evident to all of the customers in that business so that we prevent franchise erosion.

Our business unit leaders in every single business that we have, have worked unbelievably hard to make sure that we don't get franchise erosion. But the reality is you can't keep hearing in the press everyday negative news on AIG. There is so much positive in what we've been able to accomplish thus far, but it really kind of gets washed to the side and everything gets hit upon as more of a negative story. Our folks have done yeoman's work trying to prevent the erosion of the franchise. We're going to do that. And the whole purpose of this plan is to prevent the erosion of the franchise. Now, Arun, with respect to the first couple of items.

Paula Reynolds

Arun, this is Paula Reynolds. We had a plan to do some restructuring at AGF all along. And we had a time frame that said that probably over a several year period we would make some decisions about restructuring that business. I think in light of global economic conditions and certainly the recession here in the United States, we've made a decision that we're going to take a more accelerated look at what steps should be taken at AGF and we will actually kick that effort off this week. With respect to ILFC, there has been, of course, a swirl of rumors, because it is a small industry with a lot of gossip. But I am certainly prepared to confirm that there has been a high level of buyer interest in that business, and of course, that is a fabulous business with a great management team that has had a singular record of success over a long period of time in a very tough environment.

We have in consultation with the US Government, agreed that if we can bring forth a qualified buyer group, that in fact there would be some form of backstop financing available through the Fed in order to facilitate that sale and carry the new owners with some secured financing over at least an interim period. So we think that it is still possible actually to move forward on that transaction. And then let me just sort of following up on Ed's comment on saving the franchises, we operate in a world in which as you point out that there is a lot of yak about us every day. But we think that there can be no doubt based on the statements of the government, the affirmation that is emerging from the rating agencies and the structure of this deal that there is no doubt that there is going to be capital available to our company while they go through a restructuring.

And while we have urgency around allowing them to have separate identities and build their management teams and their governance in place, the fact is the core problem that the marketplace has to ultimately focus on is what's the capital available for those businesses. Having put that issue aside, everything left around what's going on with these businesses is really all in the realm of gossip rather than hard fact. And we think that moving quickly to get these management teams in place and get that separate governance in place, we'd be the last element that would restore confidence in what are great businesses.

Arun Kumar
JPMorgan

Yes. Just a real quick follow-up on American General Finance, and you mentioned that the potential for restructuring or reorganization that you will be working on fairly soon, the overall AIG enterprise has been very careful in maintaining the integrity of all your debt payments at the holding company in terms of the public debt, the $20-odd billion of public debt as well as all the debt of the different entities, including International Lease and American General Finance. As you go down the path of restructuring or reorganizing the American General Finance unit, would you continue to maintain the payment of the debt or maintain the integrity of all the public debt at that entity?

Paula Reynolds

I guess what I would say is there is no plan here to breach any covenants of the debt that we have in place. And after ultimately how that business will reform itself I think is all in the realm of study right now.

Arun Kumar
JPMorgan

Great. Thank you very much.

Ed Liddy

Next.

Operator

Our next question comes from Josh Shanker from Citi. Your line is open.

Josh Shanker
Citi

Yes, thank you.

Ed Liddy

Good morning, Josh.

Josh Shanker
Citi

Good morning to you all. I'm wondering if you can talk about timeline a little bit just to understand if there were going to be an IPO of the P&C business. How long do you think that you can, A, suffer from what might be erosion of the business? And weighing that government help and whatnot, when should we expect this sort of stuff to occur?

Ed Liddy

You know, Josh, I have found in my 37-year career that when you hold out to people the prospect of them being an independent entity, they run to it. They don't walk. Now having said that, it takes a while to get financial statements ready. You need some cooperation from the market. I'd like -- I don't want to give you a specific answer. All I want to do is tell you we are very concentrated, focused on getting that done as soon as practical, particularly given the uncertain conditions within the marketplace. Is that going to take 9 to 12 months? Probably. We'll do it as soon as practical. I'd like to focus you in a slightly different place also. One of the critical elements of what we've announced is using the value of AIA and ALICO through a trust structure to repay the Federal Reserve. We want to do that very quickly. So, that could be a 60 to 90-day kind of thing because we'd like the interest rate clock to stop. And in fact, we'd like to have a pivot point where people understand we are serious about being able to accomplish these goals. So the timeline that we have in mind isn't necessarily focused only on what do we do with the property casualty business. It's focused on the totality of the plan.

Josh Shanker
Citi

Okay. Well, thank you very much. Good luck with this.

Ed Liddy

Thanks.

Operator

Our next question comes from Donna Halverstadt -- your line is open -- from Goldman Sachs.

Donna Halverstadt
Goldman Sachs

Good morning. A quick question related to ALICO and AIA. In the release that talks about the formation of the SPVs, it does say SPV plural, and then it talks about how you hold common interest in the SPVs. And then until subsequent divestment, AIA will remain a wholly-owned subsidiary of AIG, consolidated into AIG's reported financials. But it doesn't make a similar statement about ALICO. Are ALICO and AIA somehow being treated differently? That's the first question. The second question, can you talk a little bit about how you think about the valuation of ALICO and AIA? Thank you.

Ed Liddy

Let me just start and then we'll chip in. No, they are not being treated differently. AIA is a little bit more organized for an IPO because of the way it's been run in the past than ALICO is. But there is going to be two separate structures; ALICO in one and AIA in another. We're going to continue to entertain offers to purchase the entirety of those businesses, but we are not going to just sit and have that be the only possibly outcome. So it is our intent to treat them more similarly than it is dissimilarly.

Paula Reynolds

Let me go ahead and actually append to that, if I could. This is Paula again. There is a lot of complexity with respect to the tax issues associated with those two entities. And so our wording really is intended to reflect that. The issue of consolidation or deconsolidation is going to be fact specific to each of those entities. And so that has be worked through, but we're really trying to give you some visibility to how we have assumed it for the purposes of the sort of pro forma look at the company for the time being. You know, we laughed last night. I said to Ed that it might be better to go to jail than it would be to have to deal with the intricacies of securities laws since we made announcements like this right now. But I think it is important to keep both Ed and me out of jail to point out that at this point we have to be in a mode where legally we would continue to look at alternatives because of the fact that we are not at a point where we can make a shelf for an IPO. So everything has to, as a practical matter, remain on the table.

And in terms of timing, because I think I may as well go ahead and go back to Josh's question. As we look at timing, it's a lot of work to get each of these companies to have standalone financial statements. And so it's a combination of thinking through how quickly we can get that stuff done and which market might be more receptive to accepting an IPO right now. And frankly, the Asian markets right now do appear to be somewhat more robust than US markets. And so that obviously is another fact that remains on our mind as we think this all through. So, a lot of considerations in place. As Ed said, everybody is eager to establish that separate identity in governance, but of course we are going to do it in full accord of the securities laws, which are applicable to us around the world. And there are a million of them as we are learning right now.

Donna Halverstadt
Goldman Sachs

Okay. Thank you.

Operator

Our next question comes from Ian Gutterman from Adage Capital. Your line is open.

Ian Gutterman
Adage Capital

Hi, Ed. I was hoping -- obviously there is a lot to digest here. I'm not quite sure I have it all straight. Could you just correct me if I am wrong -- it seems like the Federal debt remaining essentially after this is all executed, that would be the $40 billion in preferred shares. And I think you're saying about $25 billion left in the credit facility for $65 billion. And if I'm understanding -- the assets left to service that will be this new AIU Holdings, which is essentially the P&C company, ILFC, consumer finance and new business in the US life and retirement. Is that right or am I missing something?

Ed Liddy

No, you're close enough, Ian. I would just say -- I want to go back to your -- how you phrased the question because it may reflect how you're thinking about it. Remember, the $40 billion of TARP money is not debt. It is permanent preferred equity capital. Now, with the changes that we are making today, it has some common equity characteristics. It is not being converted to common. The only reason that I wanted to make sure you concentrate that on that is, debt is with the Federal Reserve, should be paid off by putting into trust the AIA and ALICO and securitizations and things of that nature. The preferred has a little bit longer timeframe to run. The second thing I would say is, also included in the holding company or what's left in the business is the upside on an AIA and ALICO, the upside on the Maiden Lane II and III, the 80% unless and until that's a smaller number of AIU Holdings. So there is a lot of formidable assets and earnings power there.

Ian Gutterman
Adage Capital

Okay, that's fair. I worded it a little bit poorly. I guess -- I take your point on the preferred. I guess I was trying to think about -- eventually you are going to want to pay that off hopefully. And so I guess I was just looking at $65 billion to pay off over time and the earnings power of the remaining businesses. Is there enough earnings power to pay those preferreds off over time?

Ed Liddy

There is either enough earnings power or enough asset value to satisfy those debts over time depending upon how the markets evolve.

Ian Gutterman
Adage Capital

Okay. And then just quickly, I noticed the retained earnings went negative this quarter. Are there any covenants related to retained earnings at the parent?

David Herzog

This is David. No, there are not.

Ian Gutterman
Adage Capital

Okay. Thank you very much.

Operator

Our next question comes from Scott Frost from HSBC. Your line is open.

Scott Frost
HSBC

Hi, I have a couple questions here. Just to be clear, after the transfer of the life assets, are you saying that your Fed facility will be undrawn, zero outstanding. Is that correct? And I wanted to distinguish too between the potential collateral posting requirements and the termination that might require you to post additional collateral? I'm reading you have probably $11 billion in cumulative collateral posting requirements if you were to be hit by three notches, 10, 2 and 8 if you were hit by one notch. But on the termination events, roughly $38 billion, can you -- you don't -- you say you can't estimate in the K, but can you give us an idea right now what it would be? If you were to -- what would you be required to post in terms of cash or equivalents in outlays if that were to take place, notwithstanding the agency's comments today? And the last one is, how are you thinking of treatment of currently outstanding hybrid and capital securities at the holding company?

Ed Liddy

Okay, Scott. Let me take them in the order in which you asked them. The current balance on the Federal Reserve borrowing is approximately $38 billion. That will be satisfied by putting AIA and ALICO into the trust and providing the preferred interest to the Federal Reserve on that. Asset securitizations, in our release, we've indicated that the first of those has potential value of $26 billion and the asset securitizations have values of about $8.5 billion. And then it would require some cash from other asset sales. And that would satisfy the currently outstanding $38 billion. We will continue to have available to us the roughly $20 billion remaining under that Federal facility as a liquidity facility if and when we need it. That would address the point that Paula made before about an ILFC backstop of some sort.

So, to the extent we need that standby liquidity, it could come from the $20 billion that we've not drawn down from the Federal Reserve. Lost in this process -- and I really want to emphasize it to you all, we continue to have an active and robust sale process for many of our smaller assets. Only at AIG can an asset sale of $2 billion to $3 billion to $5 billion be characterized as small. But as Paula mentioned, on ILFC, there is a very robust process there. And Star and Edison or Personal Lines or some of our third-party asset management businesses, we will generate cash from these asset sales. The reality is that the really large and most valuable assets in terms of their book value or their equity value, what have you, that's what's causing people to somewhat gag because they don't have the capital to be able to do it. So we are feeling quite good about our ability to be able to repay the outstandings on the Federal Reserves -- the Federal Reserve borrowing. With respect to the collateral posting, David, maybe you can help me with that one?

David Herzog

Yes. Scott, you saw the disclosure in the K with the various rating levels that ticks down, which total to about 11. Then there are some termination features in a multitude of the FP contracts. Again, most of those, I believe, are triggered by the ratings, which are now -- you've seen the press releases this morning from the major rating agencies but for A.M. Best, but that's not relevant for the FP-related references. So the discussion, again, it is very difficult because some of those trades have to be replaced at market levels and that's what makes it so difficult in order to estimate what they are. Elias, do you want to add anything to that?

Scott Frost
HSBC

Let me back up a second. So it's really the difference between where the mark is on the $38 billion -- and the $38 billion that had plus whatever collateral you've posted. So what I'm trying to get a sense for is, what sort of percentage of notional do you see? Is it 10%, 20% that you'd have to pony up in case that were to happen in the future? I know that -- I mean, the rating actions were fairly positive for you guys. I'm sure that's a great load off. But just to give an idea of what would be -- I know -- the way I read it, unless the underlying value of the asset is zero, you don't have to post the full $38 billion. And I also read that you have a $161 billion of the $300 billion still currently outstanding where you have had those collateral posting requirements eliminated or the termination provisions eliminated. Is that correct too?

Elias Habayeb

This is Elias Habayeb. Let me clarify it. Within the credit derivative portfolio at AIGFP, we have about $38 billion in notional debt. If we get downgraded down to the BBB range, the counterparties have the right to terminate these contracts. The contracts get terminated at market values, and the liquidity effect is the difference between what we've posted previously as collateral and where that termination value is.

Scott Frost
HSBC

What's the difference between that number and the notional amount? In other words, where are you marking these things right now?

Elias Habayeb

We mark them to where we think the market is and --

Scott Frost
HSBC

Yes. What's that level in terms of the $38 billion?

Elias Habayeb

I don't have -- we don't have that broken out, but you've got in the 10-K where we've marked each of the credit derivative portfolios. Now, we came with an estimate of what that cost would be to us if we were downgraded and they exercised their termination rights. And our estimate is included in the $8 billion to $11 billion in the front end of the Risk factors. So the $8 billion to $11 billion incorporates where we think possibly the net liquidity effect on us would be.

Scott Frost
HSBC

I see, okay. Thank you.

Elias Habayeb

From that perspective. On the $161 million is -- within the portfolio is that many of our contracts are subject to credit support annexes, is the documents, where either they are eligible right now to require us to post collateral, or subject to further triggers, we may be required a future date to post collateral. The amount of collateral we've posted and how the collateral is calculated has been all disclosed in the 10-K. And if you go through the section on the super senior credit derivative portfolio, it gives you the numbers and the methodologies that are employed to calculate how much collateral we have to post.

Scott Frost
HSBC

Okay.

Ed Liddy

Scott, we're going to do quickly the third part of your question, which was on hybrids.

Scott Frost
HSBC

Thank you.

Ed Liddy

And if you would repeat that question, I would appreciate it.

Scott Frost
HSBC

It's just sort of a general kind of open-ended, how are you thinking of treating the hybrid or capital securities issues in the holding company? I mean, how do you contemplate looking at those issues?

Ed Liddy

There is no change in our view at this time. We will continue to evaluate the company's capital structure in light of this morning's announcements and we'll make announcements when appropriate.

Scott Frost
HSBC

Thank you.

Ed Liddy

Next.

Operator

Our next question comes from Lionel Tritalou [ph] -- your line is open -- from Insight Investment.

Lionel Tritalou
Insight Investment

Hi, just to come back on these hybrid securities until you make an announcement about what you do with them. (inaudible) a coupon on them.

Ed Liddy

Yes, we do.

Lionel Tritalou
Insight Investment

Okay. And the other question is, going forward and given the different SPVs and holdcos you have created, what is AIG likely to look like in, say, five years time?

Ed Liddy

Lionel, five years is a really long time. And it's going to be very dependent upon what happens within the markets. But -- and let's just go through what we've already -- what we've put in our various releases and what we've talked about here this morning. We expected AIA and ALICO will not be a part of AIG going forward. They could be owned by another party. They could be owned by -- they could be public.

They could be owned by a consortium. There is a whole series of outcomes in that. We hope to get up to 19.9% of our combined property-casualty operations either issued to the public. I suppose you could have a consortium buy that as well.

All of the other stuff that's within AIG, much of it is for sale. There is upside in the continuing interest in Maiden Lane II and III. There is upside -- we retain 100% of the upside on AIA and ALICO because we are the common shareholder. Remember, the government owns 79.9% of us, but there is kind of a circular logic to that. What we want to do is, in that time frame, well within that time frame, we want to protect every single policyholder we have. We want to pay back the Federal Reserve debt and we want to make a meaningful dent in redeeming the preferred TARP dollars that are out there. I think this plan enables us to do that.

Lionel Tritalou
Insight Investment

Okay. And maybe the last question is, what about the CP program that was drawn? And do you think you will be able to benefit from that going forward? It's related to (inaudible).

Ed Liddy

Yes. I guess you are referring to the CPFF, which we have several participants in our asset-backed program up at -- in connection with our Aspect programs at FP. It's about $8 billion. Again, with this morning's announcements with respect to our ratings, we continue to participate and we have other fundings at the AIG, Inc. level, which is about $6 billion to $7 billion. Again, we will look to continue to participate in that.

Lionel Tritalou
Insight Investment

Okay, thanks.

Ed Liddy

Operator, we're going to take two more questions.

Operator

Our next question will come from Ryan Lee -- your line is open -- from Barclays Capital.

Tom Walsh
Barclays Capital

Hi, guys, it's Tom Walsh from Barclays. A couple of questions. One, Paula, you might have given the number before. I think I missed it. Did you guys give an equity number, combined equity number or split equity number between ALICO and AIA at year-end? Is there actually a book value number that you have disclosed?

Paula Reynolds

No, there is not. And when Ed -- the number that Ed gave was an aftermath that's been provided by the Federal Reserve of how much they would be willing to lend into these SPVs representing some percentage of value associated with these two companies. So that $26 billion number is just the amount that they are willing to lend into the SPVs and does not at all reflect anything about valuation of the individual companies or the aggregate value.

Tom Walsh
Barclays Capital

So would you be willing to describe that as a premium to book or a discount or --?

Paula Reynolds

I wouldn't want to characterize it as anything other than it's what the Fed is going to lend. And I guess I would say you can feel good about your central banker because your central banker doesn't lend on a 100% or more of value.

Tom Walsh
Barclays Capital

Okay. And just on the debt service question, with AIA and ALICO, Ed, as you describe, being your better assets, moving away, and I think as you hinted at as well, Ed, your US life subs being a little bit of a tough straits, particularly with negative unassigned funds balances and weaker RBC ratios and weakened RBC ratios even at the property casualty businesses. Just trying to get a better understanding on where the debt service on an ongoing basis will come from, which subsidiaries.

Ed Liddy

Let me -- let me go back. AIA and ALICO -- of the businesses that we have heretofore had for sale, AIA and ALICO are the largest. You should not conclude from that that there isn't enormous value in the foreign gen and commercial insurance business. So let me just first make that qualification. The -- whatever percentage our remaining interest is in the AIU Holdings, that's obviously a source of capital and cash. Whatever the source is of the remaining holdings in AIU or ALICO, that could be a source of cash. There is enough either debt service or asset value for us to take care of the unsecured debt and to make a meaningful progress in repaying the TARP dollars that have been invested in us.

Tom Walsh
Barclays Capital

All right. Maybe that would be final question. Ed, would you care to characterize how much net asset value from a book perspective is left in AIG net of the portion you are selling in ALICO and AIA?

Ed Liddy

I would not like to characterize that, no.

Tom Walsh
Barclays Capital

Thanks very much.

Ed Liddy

Operator, we will do the last questions.

Operator

Richard Semone [ph] from Old Mutual. Your line is open.

Richard Semone
Old Mutual

My question has been answered. Sorry. Thank you.

Ed Liddy

Okay. Listen, thanks for your participation. I do want to bring this to a close. Let me just say a couple of things if I can. It's easy to look at the AIG story and conclude that we just don't seem to be able to make any progress because we are on our roughly third iteration of help from the Federal government. I would like you all to conclude that that is not the case.

Back in September, our company faced one of the worst liquidity crises I think any institution has ever faced. In fact, we are still alive. We got through that liquidity crisis. As a result of our hard work with our partners at the Fed and the Treasury, the liquidity and cash position really is in quite good shape. What's happening to us now is happening to every other life insurance company, any other company that has long dated assets. It's happening to homeowners, it's happening to people who have 401(k) plans. Asset values around the globe are in free fall.

Hopefully, much of what the Obama administration has put in place and other governments and central bankers around the globe will begin to put a floor under that. We are not sitting still in the face of that free fall. What we're trying to do is get ahead of the issues and position our company in our way that we can preserve all of the valuable franchises that we have.

Our company is different, and I know that everyone says they are different. And please forgive me for using a tired refrain. But our operating businesses underneath the holding company are very, very solid. And all of our work with the Federal Reserve and Treasury is intended to keep those businesses solid so that we can recognize the value in those franchises and use it to pay back first the Federal Reserve and then redeem money that's been extended to us from TARP.

From that standpoint, we are uniquely different than any other financial institution that is in trouble. And it is our intent to keep those operating units rock solid. By doing that, we will achieve the three basic goals we have had in the five months, 5.5 months that I've been here. We want to protect every single policyholder that we have, either an individual or corporate policyholder. In the United States of America if you owe people money, you pay it back. That's what you do. That's what the 116,000 people of AIG are committed to doing.

And third, we want to have a vision for the future for as many of our 116,000 employees as is humanly possible. They have done yeoman's work in getting us to where we are and I'll ask them to please help us get through the next round of this. What this set of tools, set of solutions does is it takes much of our restructuring plan out of the capital markets arena where there is such softness and such an inability to effect a solution, and puts it more into the world of intrinsic values, which we can debate with our partners at the Federal Reserve and the Treasury. It puts us in a very strong position, but who knows what happens in the future.

I would have never predicted back in September that the valuation of life insurance companies would have gone down by 70%. There has to be a floor at some point in time. When that floor is hit and things begin to improve, this company, the taxpayers, our shareholders will be well served by that. So I thank you for your patience this morning. Good day.

Operator
Thank you. That does conclude today's conference call. You may now disconnect at this time. And thank you for participating.