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DATE: July 15, 2004

TO: Deutsche Bank AG London

FROM: AIG Financial Products Corp.

SUBJECT: Credit Derivative Transaction

The purpose of this letter agreement is to confirm the terms and conditions of the Credit Derivative Transaction entered into on the Trade Date specified below (the "Transaction") between AIG Financial Products Corp. ("AIG-FP") and Deutsche Bank AG London ("Counterparty"). This letter agreement constitutes a "Confirmation" as referred to in the Agreement specified below.

This Confirmation is subject to and incorporates the 2003 ISDA Credit Derivatives Definitions, as supplemented by the May 2003 Supplement to such Definitions (as so supplemented, the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA").

This Confirmation supplements, forms part of, and is subject to, the 1992 ISDA Master Agreement, dated as of September 13, 1995, as amended and supplemented from time to time (the "Agreement"), between you and us. In the event of any inconsistency between the Agreement and this Confirmation, this Confirmation will govern. Capitalized terms used but not defined herein or in the Credit Derivatives Definitions shall have the respective meanings ascribed thereto in the Indenture dated July 15, 2004 among Palisades CDO Ltd., as Issuer, Palisades CDO Corp., as Co-Issuer, and Wells Fargo Bank, N.A., as Trustee (the "Indenture") as in effect as of the Effective Date and without regard to any subsequent amendment or modification thereto, unless such amendment or modification has been previously agreed to in writing by Seller in accordance with paragraph 9 hereof.

The terms of the particular Transaction to which this Confirmation relates are as follows:

1. **General Terms:**

| | |
|---|---|
| Trade Date: | July 15, 2004. |
| Effective Date: | July 15, 2004. |
| Scheduled Termination Date: | July 22, 2039. |
| Termination Date: | (i) The Scheduled Termination Date, or (ii) such earlier date designated by Seller upon (5) Business Days notice following the occurrence of an Adverse Program Amendment (as defined herein) or (iii) the date on which the Outstanding Principal Balance of the Reference Obligation equals zero, subject, in each case, to the Following Business Day Convention. For the avoidance |

of doubt, no termination payments shall be due by either party in connection with an early termination of this Transaction pursuant to the preceding sentence.

For purposes of this Confirmation, "Outstanding Principal Balance" means, with respect to the Reference Obligation, the aggregate unpaid principal amount of such Reference Obligation, which amount shall be determined without regard to Section 2.09(h) of the Indenture to the extent that such Section has the effect of reducing or extinguishing any amount in respect of principal of the Reference Obligation as a result of there being insufficient proceeds in respect of the Collateral (upon exhaustion of the Collateral (as the term "Collateral" is defined in the Indenture)) available to be applied in accordance with the priority of payments (as described in Section 11.01 of the Indenture).

| | |
|---|---|
| Floating Rate Payer: | AIG-FP (the "Seller"). |
| Fixed Rate Payer: | Counterparty (the "Buyer"). |
| Calculation Agent: | Buyer and Seller, acting jointly; provided, however, that if (i) either party, in good faith, disagrees with the other party's determination and (ii) such disagreement is not resolved within one Business Day, Seller and Buyer agree to be bound by the determination of a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such disagreement (the "Substitute Calculation Agent"), whose fees and expenses shall be met equally by both parties. If Buyer and Seller are unable to agree on a Substitute Calculation Agent, Buyer and Seller shall each elect a leading independent dealer in derivatives and such two dealers shall agree on a third dealer, who shall be the Substitute Calculation Agent. |
| Calculation Agent City: | New York. |
| Business Day(s): | New York and London; provided that (i) for the purpose of determining the Physical Settlement Date, such date must also be a Business Day in any jurisdiction on which financial institutions must be open in order to effect Settlement of the Deliverable Obligation being Delivered and (ii) for the purpose of determining Fixed Rate Payer Payment Dates for each Transaction, Business Days shall be New York and London only. |
| Business Day Convention: | Following (which, subject to Section 1.4 and 1.6 of the Credit Derivatives Definitions, shall apply to any date referred to in this Confirmation, that falls on a day that is not a Business Day). |

| | |
|---|---|
| Reference Entity: | Palisades CDO Ltd. and Palisades CDO Corp. |
| Reference Obligation: | Class A-1A Notes.<br>Maturity: July 22, 2039<br>Coupon: LIBOR (as defined in the Indenture) + 36 basis points.<br>CUSIP: G6878DAA8 |
| Reference Price: | 100% |
| Relevant Proportion: | 161/366 |
| All Guarantees: | Not Applicable. |

2. **Fixed Payments:**

| | |
|---|---|
| Fixed Rate Payer Calculation Amount: | With respect to each Fixed Rate Payer Calculation Period, an amount equal to the product of (x) the Outstanding Principal Balance of the Reference Obligation (determined as of the first Business Day of such Fixed Rate Payer Calculation Period), multiplied by (y) the Relevant Proportion. |
| Fixed Rate Payer Payment Date: | The 22nd day of each January, April, July and October in each year during the Term hereof, commencing January, 2005 up to and including the Termination Date. |
| Fixed Rates: | As set forth on Annex A attached hereto. |
| Fixed Rate Day Count Fraction: | Actual/360 |

3. **Structuring Fee; Additional Payments:**

In connection with structuring this Transaction, Buyer agrees to pay to Seller a structuring fee payable on each Fixed Rate Payer Payment Date (as set forth in Annex B attached hereto) during the term of this Transaction in an amount equal to the Structuring Fee for such Payment Date. As used herein, "Structuring Fee" means with respect to a Fixed Rate Payer Payment Date the product of (i) the Structuring Fee Rate (as set forth in Annex B attached hereto), (ii) the Fixed Rate Payer Calculation Amount and (iii) the actual number of days from and including the immediately preceding Fixed Rate Payer Payment Date (or in the case of the initial Fixed Rate Payer Payment Date, the Effective Date to but excluding such Fixed Rate Payer Payment Date divided by 360.

In the event this Transaction terminates prior to its Scheduled Termination Date, Buyer agrees to pay to Seller on the Termination Date the positive difference if

any between (i) $483,000 (the "Minimum Structuring Fee") and (ii) the sum of (a) all amounts previously paid to Seller in respect of the Structuring Fee and (b) all amounts paid to Seller as Fixed Payments (for the avoidance of doubt, other than the Structuring Fee).

**4. Floating Payments:**

Floating Rate Payer Calculation Amount: The Fixed Rate Payer Calculation Amount.

Conditions to Settlement: Credit Event Notice
Notifying Party: Buyer or Seller

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable, except as hereinafter provided.

Public Source(s): Standard Public Sources

Specified Number: Two

Notwithstanding anything herein to the contrary, a Trustee Report relating to the Reference Obligation delivered to Seller shall constitute satisfactory notice of the occurrence of a Credit Event. Accordingly, delivery of such a report shall obviate any and all requirements hereunder relating to Publicly Available Information.

Credit Events:

The following Credit Event shall apply to this Transaction:

Failure to Pay

Grace Period Extension: Not Applicable

Payment Requirement: USD 1,000.

Obligation:

Obligation Category: Reference Obligation only.

Obligation Characteristics: Not Applicable.

Excluded Obligations: None.

**5. Settlement Terms:**

Settlement Method: Physical Settlement

Settlement Currency: USD.

| | |
|---|---|
| Physical Settlement Period: | As per Section 8.6 of the Credit Derivatives Definitions, provided that such period shall not exceed 30 Business Days. |
| Deliverable Obligations: | Include Accrued Interest. |
| Deliverable Obligation Category: | Reference Obligations only. |
| Deliverable Obligation Characteristics: | Not Applicable. |
| Excluded Deliverable Obligations: | None. |
| Partial Cash Settlement of Consent Required Loans: | Not Applicable. |
| Partial Cash Settlement of Assignable Loans: | Not Applicable. |
| Partial Cash Settlement of Participations: | Not Applicable. |
| Escrow: | Not Applicable. |

6. **Collateral Terms:**

Notwithstanding anything to the contrary in the Credit Support Annex, the definition of "Exposure" for purposes of the Credit Support Annex solely in respect of this Transaction shall be determined in accordance with the following formula:

Exposure = OPB * (Max [0, [100% – MV] – T] + IAP)

Where:

OPB = the Outstanding Principal Balance of the Reference Obligation on the relevant Valuation Date (as defined in the Credit Support Annex).

MV = the market value of the Reference Obligation on the relevant Valuation Date (expressed as a percentage of par) as determined by the Calculation Agent; provided, however, that if either party, in good faith, disagrees with the Calculation Agent's determination, Seller and Buyer agree (i) that the determination as to the market value of the Reference Obligation shall be determined by a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such disagreement (the "Independent Dealer") whose fees and expenses shall be met equally by both parties, and (ii) if Buyer and Seller are unable to agree on an Independent Dealer,

Buyer and Seller shall each elect a leading independent dealer in derivatives and such two dealers shall agree on a third dealer, who shall be deemed to be the Independent Dealer, and (iii) to be bound by the determination of the Independent Dealer.

T = the "Threshold Amount Percentage", as set forth in the table below based on the Seller Rating on the relevant Valuation Date and the Bond Rating of the Reference Obligation on such Valuation Date.

IAP = the "Independent Amount Percentage", as set forth in the table below based on the Seller Rating on the relevant Valuation Date and the Bond Rating of the Reference Obligation on such Valuation Date.

| | | Seller Rating[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Aaa/ AAA | Aa1/ AA+ | Aa2/ AA | Aa3/ AA- | A1/ A+ | A2/ A | A3/ A- | Baa1/ BBB+ |
| Reference Obligation Rating[2] | Aaa/ AAA[3] | 10%[4]/ 0%[5] | 10%/ 0% | 10%/ 0% | 5%/ 0% | 5%/ 0% | 0%/ 0% | 0%/ 2% | 0%/ 10% |
| | Aa/ AA[3] | 8%/ 0% | 8%/ 0% | 8%[4]/ 0%[5] | 3%/ 0% | 3%/ 0% | 0%/ 0% | 0%/ 2% | 0%/ 10% |
| | A/A[3] | 5%/ 0% | 5%/ 0% | 5%[4]/ 0%[5] | 0%/ 0% | 0%/ 0% | 0%/ 5% | 0%/ 10% | 0%/ 25% |
| | Baa1/ BBB+ | 0%/ 0% | 0%/ 0% | 0%[4]/ 0%[5] | 0%/ 0% | 0%/ 0% | 0%/ 5% | 0%/ 10% | 0%/ 25% |

1. The lower of the S&P Rating and the Moody's Rating.
2. The lower of the S&P Rating and the Moody's Rating.
3. The ratings category of Moody's and S&P, respectively.
4. Threshold Amount Percentage.
5. Independent Amount Percentage.

"Moody's Rating": (i) with respect to Seller, the rating then assigned by Moody's to the long-term unsecured and unsubordinated debt obligations of the Credit Support Provider of Seller and (ii) with respect to the Reference Obligation, the ratings then assigned by Moody's to such security.

"S&P Rating": (i) with respect to Seller, the rating then assigned by S&P to the long-term unsecured and unsubordinated debt obligations of the Credit Support Provider of Seller and (ii) with respect to the Reference Obligation, the ratings then assigned by S&P to such security.

## 7. Additional Covenants:

Buyer will provide Seller with notice of each non-payment of principal and interest with respect to the Reference Obligation (separately identifying the amount of principal and the amount of interest not received) within 5 business days of the date such payment was due under the Reference Obligation, provided that Buyer has actual knowledge of any such non-payment.

The parties acknowledge and agree that any such notice shall not constitute a Credit Event Notice unless so indicated by Buyer.

## 8. Notice and Account Details:

Contact Details for Notices:

| | | |
|---|---|---|
| Address: | AIG Financial Products Corp.<br>50 Danbury Road<br>Wilton, CT 06897-4444 | |
| Attention: | Chief Financial Officer<br>(with a copy to the General Counsel<br>at the above address) | |
| Facsimile No.: | (203) 222-4780 | Telephone No.: (203) 222-4700 |

Counterparty: As set out in the Swap Agreement.

Account Details:

AIG-FP:

The Bank of New York, New York
CHIPS ABA 001
ABA#: 021000018
SWIFT IRVTUS3N
A/C: AIG Financial Products
A/C #: 8900416084
UID 298453

Counterparty:

Deutsche Bank AG London
Deutsche Bank Trust Co. Americas, New York
SWIFT BIC Code: BKTR US 33 XXX
Account No: 04-411-739
FED ABA No: 021001033
CHIPS ABA No: 0103
CHIPS UID No: 096804
Favour Deutsche Bank AG London

AIGFP Settlements:

Carmine Paradiso/Joanne Dulka
Wilton, Connecticut
Tel: 203-221-4805
Fax: 203-222-4780

Counterparty Settlements: Inquiries regarding payments and/or rate resetting only:

Deutsche Bank AG London
Attn: Deborah Taylor / Tsing Man
Telephone: +44(20)754-55534 / +44(20)754-75650
Facsimile: +44(20)754-75204 / +44(11)333-62128

All other inquiries and Notices send to:

Deutsche Bank AG London
Attn: Nir Vidra
Telephone: (212) 250-8484
Facsimile: (212) 797-2207

All inquiries regarding confirmations should be sent to:

Attn: New York Derivatives Documentation
Telephone: (212) 250-9425
Facsimile: (212) 797-0779
Email: NYderivative.documentation@db.com

**9. Additional Provisions:**

Definitions:

"Adverse Program Amendment" means, subject to the proviso set forth below, any amendment, supplement or other modification of a Transaction Document effected on or after the date hereof that, in the reasonable judgment of Seller, materially adversely affects the Seller's position in respect of this Transaction; provided, however, that no such amendment, supplement or other modification shall be deemed an Adverse Program Amendment if Buyer or its transferee(s) has acted, or refrained from acting, in accordance with Seller's suggestions in respect of such amendment, supplement or other modification and, if applicable based on Seller's suggestions to so act, Buyer has provided written evidence of its or such transferee(s)'s vote, consent or other action therewith and despite the action or inaction of Buyer or its transferee(s), as the case may be, the final vote of the holders of the Reference Obligation in respect or such amendment, supplement or other modification is a result that does not conform with the suggestions of Seller. If Buyer in good faith disagrees with Seller's determination of such material adverse effect on Seller's position, it shall notify Seller not later than one (1) Business Day after notice by Seller of such determination and if such disagreement is not resolved within one (1) Business Day following such disagreement notice, Seller and Buyer agree (i) that the determination as to whether Seller's position in respect of this Transaction is materially adversely affected shall be determined by a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such disagreement (the "Independent Dealer), whose fees and expenses shall be met equally by both parties, (ii) that if Seller and Buyer are unable to agree on an Independent Dealer, Seller and Buyer shall each elect an independent dealer in derivatives and such two dealers shall agree on a third dealer, who shall be deemed to be the Independent Dealer, and (iii) to be bound by the determination of the Independent Dealer.

If an amendment supplement or other modification of a Transaction Document occurs that would be an Adverse Program Amendment but for the application of the

proviso in the first sentence of the definition thereof, Seller shall be entitled to declare by notice to the Buyer, within five (5) Business Days of the effective date of the related vote, consent or other action, that an "Additional Termination Event" has occurred with respect to this Transaction and that this Transaction shall be terminated on the Early Termination Date designated in such notice. In the event that such a Termination Event is declared, a termination payment in respect of this Transaction shall be determined pursuant to Section 6(e) of the Agreement, with Buyer and Seller as Affected Parties and Second Method and Market Quotation applying.

Please confirm that the foregoing correctly sets forth the terms of our agreement with respect to the Transactions by signing in the space provided below and returning a copy of the executed Confirmation to us by facsimile transmission on 203-222-4780, Attention: Carmine Paradiso or Joanne Dulka; telephone: 203-221-4805.

It has been a pleasure working with you on this Transaction, and we look forward to working with you again in the future.

Yours sincerely,
AIG FINANCIAL PRODUCTS CORP.

By: _____
Name:
Title: Kathleen M. Furlong
Vice President, Chief Financial Officer
and Treasurer

Agreed and Accepted:
DEUTSCHE BANK AG LONDON

By: _____
Name:
Title:

Please confirm that the foregoing correctly sets forth the terms of our agreement with respect to the Transactions by signing in the space provided below and returning a copy of the executed Confirmation to us by facsimile transmission on 203-222-4780, Attention: Carmine Paradiso or Joanne Dulka; telephone: 203-221-4805..

It has been a pleasure working with you on this Transaction, and we look forward to working with you again in the future.

Yours sincerely,
AIG FINANCIAL PRODUCTS CORP.

By:_____
Name:
Title:

Agreed and Accepted:
DEUTSCHE BANK AG LONDON

By: _____
Name:
Title:

Annex A

| FIXED RATE PAYER PAYMENT DATE | FIXED RATE |
|---|---|
| Each Fixed Rate Payer Payment Date occurring on or prior to the first anniversary of the initial Fixed Rate Payer Payment Date | 0.02% per annum |
| Each Fixed Rate Payer Payment Date occurring after the first anniversary of the Effective Date and falling on or prior to the second anniversary of the initial Fixed Rate Payer Payment Date | 0.04% per annum |
| Each Fixed Rate Payer Payment Date occurring after the second anniversary of the Effective Date and falling on or prior to the third anniversary of the initial Fixed Rate Payer Payment Date | 0.06% per annum |
| Each Fixed Rate Payer Payment Date occurring after the third anniversary of the Effective Date and falling on or prior to the fourth anniversary of the initial Fixed Rate Payer Payment Date | 0.08% per annum |
| Each Fixed Rate Payer Payment Date occurring after the fourth anniversary of the initial Fixed Rate Payer Payment Date | 0.11% per annum |

Annex B

| FIXED RATE PAYER PAYMENT DATE | STRUCTURING FEE RATE |
|---|---|
| Each Fixed Rate Payer Payment Date occurring on or prior to the first anniversary of the initial Fixed Rate Payer Payment Date | 0.09% per annum |
| Each Fixed Rate Payer Payment Date occurring after the first anniversary of the Effective Date and falling on or prior to the second anniversary of the initial Fixed Rate Payer Payment Date | 0.07% per annum |
| Each Fixed Rate Payer Payment Date occurring after the second anniversary of the Effective Date and falling on or prior to the third anniversary of the initial Fixed Rate Payer Payment Date | 0.05% per annum |
| Each Fixed Rate Payer Payment Date occurring after the third anniversary of the Effective Date and falling on or prior to the fourth anniversary of the initial Fixed Rate Payer Payment Date | 0.03% per annum |
| Each Fixed Rate Payer Payment Date occurring after the fourth anniversary of the initial Fixed Rate Payer Payment Date | Zero |