691130

**EXECUTION COPY**

**AIG-FP/MLI Super Senior -**

**MERRILL LYNCH INTERNATIONAL**
**MERRILL LYNCH FINANCIAL CENTRE**
**2 KING EDWARD STREET**
**LONDON EC1A 1HQ**
**(REGISTERED NO. 2312079)**

September 22, 2005

**Re: Transaction**

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Dear Sir or Madam:

The purpose of this letter agreement (this "**Confirmation**") is to confirm the terms and conditions of the credit derivative transaction entered into between AIG Financial Products Corp. ("**AIG-FP**") and Merrill Lynch International ("**MLI**") on the Trade Date specified below (this "**Transaction**").

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, and any additional supplement or amendment identified as applicable to the specific CDS Transaction in the Reference Registry (collectively, the "**Credit Derivatives Definitions**"), as published by the International Swaps and Derivatives Association, Inc. are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Confirmation, this Confirmation shall govern.

Capitalized terms used herein but not otherwise defined herein or in the Credit Derivatives Definitions shall have the meanings set forth in the Master Confirmation in respect of the Structured Products Credit Default Swap, dated as of September 22, 2005 (the "**Khaleej Master Confirmation**"), between MLI, as Buyer (in such capacity, the "**CDS Credit Protection Buyer**"), and Khaleej II CDO ("**Khaleej**"), as Seller (in such capacity, the "**CDS Credit Protection Seller**") unless otherwise specified.

As used herein (i) "**Indenture**" means the Indenture, dated as of September 22, 2005, among Khaleej II CDO, Khaleej CDO II LLC and LaSalle Bank National Association, as amended, modified or supplemented from time to time in accordance with its terms, (ii) "**Khaleej Master Agreement**" means the Master Agreement (as defined in the Indenture) and (iii) "**Khaleej Supersenior Transaction**" means the Supersenior Transaction (as defined in the Indenture).

It is contemplated that, pursuant to the Khaleej Master Confirmation, the CDS Credit Protection Buyer and Khaleej will enter into Transactions (as defined in the Khaleej Master Confirmation) from time to time with respect to Reference Obligations (each such Transaction, a "**CDS Transaction**"), which will be managed by ACA Management, L.L.C., as collateral manager (the "**Collateral Manager**") under a Collateral Management Agreement, dated as of September 22, 2005, between Khaleej and the Collateral Manager. Each CDS Transaction will be evidenced by a Letter of Execution delivered pursuant to the Khaleej Master Confirmation.

It is contemplated that, pursuant to the Khaleej Master Agreement, Khaleej as CDS Credit Protection Buyer, and MLI as CDS Credit Protection Seller, will enter into Hedging Credit Default Swaps (as defined in the Indenture) from time to time, which will also be managed by the Collateral Manager. Each Hedging Credit Default Swap will be evidenced by a Letter of Execution delivered pursuant to the Master Hedging Confirmation. Each CDS Transaction as to which no related Hedging Credit Default Swap exists is referred to herein as an "**Unhedged CDS Transaction.**" In the event that a Hedging Credit Default Swap has a notional amount less than the CDS Transaction, such excess notional amount of the CDS Transaction shall be an Unhedged CDS Transaction.

This Confirmation supplements, forms part of, and is subject to, the 1992 ISDA Master Agreement, dated as of October 1, 1994, as amended by the Amendment to ISDA Master Agreement dated as of December 16, 2003 (including the Credit Support Annex attached to such amendment, dated as of December 16, 2004, all as amended and supplemented from time to time (as so amended and supplemented, the "**Agreement**"), and all between AIG-FP and MLI. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

**1. General Terms:**

| | |
|---|---|
| Trade Date: | September 22, 2005 |
| Effective Date: | September 22, 2005 |
| Termination Date: | The later of (i) the last day of the Reinvestment Period (as defined in the Indenture) and (ii) the date on which the Termination Date has occurred with respect to all of the CDS Transactions. |

| | |
|---|---|
| Aggregate Portfolio Loss Amount: | On any day, the excess, if any, determined in the aggregate with respect to the Unhedged CDS Transactions, of<br><br>(i) the cumulative aggregate sum of (a) all Writedown Amounts, Principal Shortfall Amounts and Physical Settlement Amounts and (b) all Relevant Determination Principal Adjustments paid by Khaleej to the CDS Credit Protection Buyer over<br><br>(ii) the cumulative aggregate sum of:<br><br>(1) (a) all Writedown Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts, (b) all Relevant Determination Principal Adjustments, and (c) all Deliverable Obligation Sales Proceeds (as defined in the Indenture) and Deliverable Obligation Payments (as defined in the Indenture) (in each case, not consisting of Interest Proceeds (as defined in the Indenture)) received by Khaleej, in each case on or prior to such day and<br><br>(2) the outstanding principal amount or Certificate Balance of all Deliverable Obligations which are held by Khaleej on such day. |
| Supersenior Threshold Amount: | USD247,500,000. |
| Notional Amount: | On the Effective Date, USD502,500,000, and thereafter on each Distribution Date, the excess (if any) of<br><br>(i) the Notional Amount on the immediately preceding Distribution Date (as defined in the Indenture) (or on the Effective Date in the case of the first Distribution Date) over<br><br>(ii) the Aggregate Reference Portfolio Amortization Amount (as defined in the Indenture) for the Due Period (as defined in the Indenture) related to such Distribution Date. |
| Loss Payment Determination Amount: | On any day, an amount equal to the excess, if any, of<br><br>(i) the Aggregate Portfolio Loss Amount over<br><br>(ii) the sum of the Supersenior Threshold Amount and the Funded Amount. |

| | |
|---|---|
| Funded Amount: | On any day, the excess, if any, of<br><br>(i) the aggregate amount of all Floating Amounts One paid by AIG-FP to MLI over<br><br>(ii) the aggregate amount of all Floating Amounts Two paid by MLI to AIG-FP , which as of the Effective Date is equal to zero;<br><br>*provided*, that for purposes of determining the Loss Payment Determination Amount, the "Funded Amount" shall only include Floating Payments made prior to the applicable date of determination. |
| Calculation Agent: | MLI; except if an Event of Default or Termination Event with respect to MLI has occurred and is continuing, in which case AIG-FP shall be entitled to appoint a financial institution which would qualify as a Reference Market-maker to act as Calculation Agent, until the earlier of (i) the Termination Date and (ii) the discontinuance of such Event of Default or Termination Event. Any fees, costs and expenses of such financial institution shall be borne by MLI exclusively.<br><br>All determinations and calculations by the Calculation Agent hereunder and, to the extent such determinations shall affect amounts payable under this Transaction, under the Khaleej Supersenior Transaction, shall be subject to agreement by AIG-FP. If they are unable to agree within one Business Day, MLI and AIG-FP agree to be bound by the determination of an independent dealer selected by agreement by the parties (the "**Substitute Calculation Agent**"), whose fees and expenses, if any, shall be met equally by them both. If MLI and AIG-FP are unable to agree on a Substitute Calculation Agent, they shall each select an independent dealer and such independent dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. The Calculation Agent or Substitute Calculation Agent will have no responsibility for the good faith errors or omissions in the determination of the amount payable pursuant to this Confirmation. |
| Calculation Agent City: | New York and London. |

| | |
|---|---|
| Business Day: | New York, London and the city in which the Corporate Trust Office (as defined in the Indenture) of the Trustee is located (which on the Effective Date is Chicago, Illinois); provided that unless MLI, the Issuer or the Trustee notifies AIG-FP if any day will not be a business day in the city in which the Corporate Trust Office is located (if it would otherwise be a Business Day) or that the Trustee has changed the location of the Corporate Trust Office, such change shall not be effective hereunder. |
| Business Day Convention: | Following (which shall apply to any date referred to in this Confirmation, other than the Effective Date, that falls on a day that is not a Business Day). |

**2. Floating Payments**

Floating Amount One

| | |
|---|---|
| Floating Amount One Payer: | AIG-FP |
| Floating Amount One Event: | Delivery of written notice (each, a "**Floating Amount Payment Notice**") from MLI to AIG-FP of the occurrence of any of the following with respect to any Unhedged CDS Transaction:<br><br>(1) satisfaction of the Conditions to Settlement with respect to any Credit Event;<br><br>(2) a Floating Amount Event(other than an Interest Shortfall); or<br><br>(3) a Relevant Determination Principal Adjustment owed by the CDS Credit Protection Seller to the CDS Credit Protection Buyer under the Khaleej Master Confirmation. |
| Floating Amount One Payment Dates: | The later of (i) the Physical Settlement Date, the Floating Rate Payer Payment Date or the Relevant Determination Adjustment Payment Date, as applicable and (ii) the fifth Business Day following MLI's delivery of a Floating Amount Payment Notice to AIG-FP. |

| | |
|---|---|
| Floating Amount One: | For any Floating Amount One Payment Date, an amount, if greater than zero, equal to the Loss Payment Determination Amount for such date (with the Aggregate Portfolio Loss Amount being determined after taking into account any Floating Amount Two payable on such date);<br><br>*provided* that payment of any Floating Amount One that constitutes a Physical Settlement Amount upon satisfaction of the Conditions to Settlement with respect to any Credit Event under an Unhedged CDS Transaction shall be made against Delivery of the related Deliverable Obligation. |

<u>Floating Amount Two</u>

| | |
|---|---|
| Floating Amount Two Payer: | MLI |
| Floating Amount Two Event: | If the Funded Amount is greater than zero, the occurrence of one of the following with respect to any Unhedged CDS Transaction:<br><br>(1) an Additional Fixed Payment Event (other than an Interest Shortfall Reimbursement);<br><br>(2) receipt by Khaleej of any Deliverable Obligation Sales Proceeds or of any Deliverable Obligation Payment;<br><br>(3) a Relevant Determination Principal Adjustment paid by the CDS Credit Protection Buyer to the CDS Credit Protection Seller; or<br><br>(4) the availability on a Distribution Date of Principal Proceeds for distribution to the Swap Counterparty under the Khaleej Supersenior Transaction to pay the Supersenior Funded Amount (as defined in the Indenture) in accordance with the Priority of Payments (as defined in the Indenture). |

| | |
|---|---|
| Floating Amount Two Payment Dates: | With respect to a Floating Amount Two Event,<br><br>(i) one Business Day following receipt by MLI under the MLI Supersenior Swap of the related Additional Fixed Amount, Deliverable Obligation Sales Proceeds or Deliverable Obligation Payments (in each case not consisting of Interest Proceeds) and/or the Relevant Determination Principal Adjustment from the CDS Credit Protection Buyer, as the case may be in respect of such Floating Amount Two Event,<br><br>(ii) in the case of a Floating Amount Two Event relating to the availability of Principal Proceeds for distribution to the Swap Counterparty under the Khaleej Supersenior Transaction for payment of the Supersenior Funded Amount in accordance with the Priority of Payments (as defined in the Indenture), the applicable Distribution Date, and<br><br>(iii) the Termination Date. |
| Floating Amount Two: | For any Floating Amount Two Event, an amount equal to the lesser of (a) (i) in the case of a Floating Amount Two Event under clause (1) thereof, the relevant Additional Fixed Amount (other than an Interest Shortfall Reimbursement Payment Amount), (ii) in the case of a Floating Amount Two Event under clause (2) thereof, Deliverable Obligation Sales Proceeds or Deliverable Obligation Payments (in each case not consisting of Interest Proceeds), as applicable, (iii) in the case of a Floating Amount Two Event under clause (3) thereof, Relevant Determination Principal Adjustment , (iv) in the case of a Floating Amount Two Event under clause (4) thereof, the Principal Proceeds payable in accordance with the Priority of Payments in respect of the Funded Amount, or (v) in the case more than one Floating Amount Two Event applies with respect to the relevant Floating Amount the sum of the amounts under clauses (i) – (iv) above as applicable in respect of the relevant Floating Amount Two Payment Date and (ii) the Funded Amount as of such date. If, on the Termination Date, Khaleej has any amounts on deposit in the UA Collateral Subaccount (as defined in the Indenture), MLI shall pay to AIG-FP the lesser of such amounts and the Funded Amount. |

**3. Fixed Payments**

| | |
|---|---|
| Fixed Amount Payer: | MLI. |

| | |
|---|---|
| Fixed Rate: | For each Fixed Rate Payer Payment Date, the Fixed Rate set forth on Annex A hereto. |
| Fixed Rate Payer Period End Date: | The last day of each Interest Period. |
| Fixed Rate Payer Payment Date: | The Distribution Date immediately following each Fixed Rate Payer Period End Date. |
| Fixed Amount: | With respect to each Fixed Rate Payer Payment Date, an amount equal to the product of (i) the Fixed Rate, (ii) the Notional Amount as of the close of business on the immediately preceding Fixed Rate Payer Payment Date (taking into account any reduction in the Notional Amount on such preceding Fixed Rate Payer Payment Date) and (iii) the Day Count Fraction. |
| Day Count Fraction: | Actual/360. |
| Additional Fixed Amount Payment | If AIG-FP makes any payment to MLI hereunder in respect of a Writedown Amount and subsequent to making such payment there is a Writedown Reimbursement with respect to the Reference Obligation as to which AIG-FP had made such payment, MLI shall pay to AIG-FP the amount of interest which would accrue on such Writedown Amount (the "**Base Interest Component**"), assuming such interest accrued at the Supersenior Rate (as defined in the Khaleej Supersenior Transaction) during the period from and including the date that AIG-FP paid such amount to MLI to (but excluding) the date of such Writedown Reimbursement; provided that MLI shall not be required to make such payment to AIG-FP unless and to the extent that subsequent to the date on which AIG-FP made payment of such Writedown Amount to MLI, MLI received a Floating Amount Three Payment Amount under the Khaleej Supersenior Transaction in respect of such amount; provided further that to the extent that any such Floating Amount Three Payment Amount was deferred as provided in the Khaleej Supersenior Transaction and was subsequently paid to MLI thereunder together with interest thereon (the "**Additional Interest Component**") as provided in the Khaleej Supersenior Transaction, MLI shall, in addition to paying to AIG-FP the Base Interest Component, pay to AIG-FP the amount it received as the Additional Interest Component. |

**4. Additional Definitions:** For purposes only of this Transaction, the following terms have the meanings specified below:

"**Relevant Determination Principal Adjustment**" means a Relevant Determination Adjustment in respect of any Writedown Amount, Writedown Reimbursement Payment Amount, Principal Shortfall Amount or Principal Shortfall Reimbursement Payment Amount.

**5. No Exposure Required:** AIG-FP acknowledges and agrees that (i) MLI is not required to own any Reference Obligation, (ii) the obligation of AIG-FP to pay any amount hereunder is not contingent on whether or not MLI has suffered a loss or is exposed to the risk of loss on any Reference Obligation upon the occurrence of a Credit Event or the risk of loss with respect to a Reference Entity or a Reference Obligation generally, (iii) AIG-FP shall have no rights of subrogation under the Transaction with respect to any payment made by it hereunder, (iv) in the event that MLI owns any Reference Obligation at any time, it may in its sole discretion determine whether to retain, sell or otherwise dispose of such Reference Obligation, and (v) the Transaction documented hereunder is not intended to be and does not constitute a contract of surety, insurance, guarantee, assurance or indemnity and that the obligations of MLI and AIG-FP in respect thereof are not conditional or dependent upon or subject to MLI having any title, ownership or interest (whether legal, equitable or economic) in any Reference Obligation or MLI having suffered any loss in respect of any Reference Obligation.

**6. Tax Treatment:** AIG-FP and MLI agree to treat this Transaction as separate contingent put options issued by AIG-FP to MLI with respect to each Reference Obligation for all U.S. federal, state and local income and franchise tax purposes.

**7. Notice and Account Details:**

MLI:

Payment Details:

Deutsche Bank Trust Americas, New York, New York (ABA 021001033
FAO: Merrill Lynch International, London
Account No.: 00-882277
ABA No.: 021-001-033

Notice Details:

Copy to:

Scott Brown
Head of Credit Derivatives Trading New York
Tel: 212-449-9001
Fax: 212-449-3247

Copy To:

Paul Cartmill
4 World Financial Center
250 Vesey Street
New York, New York 10080
Tel: 212-449-1437
Fax: 212-449-6993
E-mail: paul_cartmill@ml.com

AIG-FP:

Payment Details:

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

Notice Details:

AIG Financial Products Corp.
50 Danbury Road
Wilton, CT 06897-4444
Attention: Chief Financial Officer

(with a copy to the General Counsel at the above address)

Facsimile No.: (203) 222-4780
Telephone No.: (203) 222-4700

8. **Collateral Provisions.**

(a) Notwithstanding anything to the contrary in the Credit Support Annex, for purposes of this Transaction only, the Exposure for MLI shall always be zero and for purposes of calculating the Exposure for AIG-FP on any Valuation Date, Exposure shall equal the product of (a) the Notional Amount and (b) the sum of (i) the applicable Independent Amount Percentage as of such date and (ii) the greater of (A) zero and (B) (x) the Market Value Adjustment Percentage *minus* (y) the Threshold Amount Percentage as of such date.

(b) The "**Independent Amount Percentage**" and the "**Threshold Amount Percentage**" on any Valuation Date shall be the percentage set forth in the Independent Amount Percentage table and the Threshold Amount Percentage table, as applicable, in each case as set forth on Schedule A hereto, and shall be based on the lower of the S&P and Moody's rating of American International Group, Inc. ("AIG") and the lower of the S&P and Moody's rating of this Transaction on such Valuation Date.

"**Market Value Adjustment Percentage**" means, for any Valuation Date or other date for which Exposure is calculated, a fraction (expressed as a percentage) the numerator of which is the MV Adjustment (whether positive or negative) as of such Valuation Date and the denominator of which is the Notional Amount as of such Valuation Date.

"**MV Adjustment**" means, for any Valuation Date or other date for which Exposure is calculated, and subject to Paragraph 5 in case of a dispute, the amount, if any, that would be payable to MLI by AIG-FP (expressed as a positive number) or by MLI to AIG-FP (expressed as a negative number) pursuant to Section 6(e)(ii)(2)(A) of this Agreement as if this Transaction were being terminated as of the relevant Valuation Time; provided that Market Quotation will be determined by the Valuation Agent using its estimates at mid-market of the amount that would be paid for Replacement Transactions (as that term is defined in the definition of "Market Quotation"); provided, however, that if the other party, in good faith, disagrees with Valuation Agent's determination, Seller and Buyer agree (i) that such determination 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.

9. **Additional Termination Events; Payments if Early Termination Date Designated.**

(a) Each of the following events shall be deemed an "Additional Termination Event" under the Agreement solely in respect of this Transaction, which shall be the sole Affected Transaction:

(i) The occurrence of an Event of Default or Termination Event (each as defined in the Khaleej Master Agreement) in respect of the Khaleej Supersenior Transaction, in which event MLI shall be the sole Affected Party.

(ii) An Optional Redemption, Tax Redemption, Mandatory Redemption or Auction Call Redemption shall occur pursuant to Article IX of the Indenture or the date on which the outstanding principal amount of the Notes shall be reduced to zero, in which event, MLI shall be the sole Affected Party.

(iii) If (A) MLI consents to any amendment of any Relevant Khaleej CDO Document or the Relevant Khaleej Swap Document (each, as defined in clause 10 below) in violation of clause 10 below, (B) MLI fails to act in accordance with the written direction of AIG-FP in respect of any Voting Rights to the extent and as provided in clause (10) below, (C) the Trustee fails to act in accordance with AIG-FP's direction or objection (in the case of an amendment of any Relevant Khaleej CDO Document or Relevant Khaleej Swap Document) to the extent AIG-FP has the right to direct or object as described in clause (10), or (D) if because MLI has not delivered (or caused the delivery of) any notice relating to a Voting Right as to which AIG-FP has the sole right to direct its exercise in sufficient time to enable AIG-FP to timely direct such exercise in accordance with clause 10 below, such event shall be an Additional Termination Event in respect of which MLI shall be the sole Affected Party.

(c) If this Transaction is terminated in connection with an Additional Termination Event under clauses (i) - (iii) above or if an Early Termination Date is designated for this Transaction or the Khaleej Master Agreement because of an Event of Default in respect of which MLI is the sole Defaulting Party or a Termination Event in respect of which MLI is the sole Affected Party, then, solely for purposes of determining amounts owed under Section 6(e) of the Agreement, the Market Quotation for this Transaction shall be deemed to be zero and neither party shall owe the other in respect of the termination of this Transaction other than any Unpaid Amounts and other amounts accrued though the Early Termination Date, which amounts shall, for the avoidance of doubt, include, without limitation, the Minimum Amount (as defined in the letter agreement between the parties dated the date hereof (the "**Structuring Fee Letter**") to the extent then unpaid and payable by MLI to AIG-FP. For the avoidance of doubt, AIG-FP shall not be prohibited from designating an Early Termination Date under any other Event of Default or Termination Event with respect to which it has the right under the Agreement.

(d) In the case of any Event of Default or Termination Event other than those described in the first sentence of clause (c), payments under Section 6(e) of the Agreement shall be made as set forth in the Agreement and not pursuant to clause (c) above.

10. **Notices; Voting Rights.**

(a) **Notices.** Provided no Voting Rights Suspension (as defined below) has then occurred, MLI agrees to deliver or arrange for the delivery to AIG-FP of all notices that MLI is entitled to receive as Swap Counterparty under the Indenture and the Relevant Khaleej Swap Documents (as defined below) and all notices MLI delivers to Khaleej under the Khaleej Master Confirmation; provided that AIG-FP shall not have the right to receive any such notices to the extent such notices relate solely to the Total Return Swap.

(b) **Voting.**

(i) Provided no Event of Default or Potential Event of Default with respect to which AIG-FP is or would be the Defaulting Party has occurred and is continuing and provided no Early Termination Date has been designated in respect of this Transaction (any of the foregoing, a "**Voting Rights Suspension**"), MLI agrees to exercise any rights it may have under the Indenture, the Collateral Management Agreement, or any other Transaction Agreement (other than the agreements relating to the Khaleej Total Return Swap) (collectively, the "**Relevant Khaleej CDO Documents**"), in each case to the extent it has such rights as the Swap Counterparty (the "**Voting Rights**") as directed by AIG-FP in writing; provided that notwithstanding the foregoing (A) with respect to the Retained Rights, MLI shall have the sole right to exercise such rights and shall not be required to consult with or take instruction from AIG-FP and (B) with respect to any Voting Rights related to an amendment of any Relevant Khaleej CDO Document, MLI shall not consent to any amendment to any Relevant Kaleej CDO Document unless both MLI and AIG-FP agree to do so and AIG-FP's consent is in writing. In addition, provided no Voting Rights Suspension has occurred, MLI shall not consent to any amendment of the Khaleej Supersenior Transaction, or the Khaleej Master Confirmation or the Khaleej Master Agreement (collectively, the "**Relevant Khaleej Swap Documents**") without at least ten Business Days' prior notice to AIG-FP and the prior written consent of AIG-FP. AIG-FP agrees that it shall not withhold its consent to any such amendment of any Relevant Khaleej CDO Document or Relevant Khaleej Swap Document unless such amendment could reasonably be expected to have a material adverse effect on the interests of AIG-FP hereunder or under the Indenture, as applicable. Notwithstanding the foregoing, and for the avoidance of doubt, AIG-FP shall have no right to consent to any amendment of the Total Return Swap (as defined in the Indenture) (including any provisions which related exclusively thereto in the Khaleej Master Agreement) and the Total Return Swap (and such provisions) shall not be a Relevant Khaleej Swap Document.

(ii) Notwithstanding the foregoing, MLI shall not be required to exercise any Voting Rights at AIG's direction, unless (i) MLI receives such direction in writing (which may be provided by facsimile or electronic mail) and such direction is given in sufficient time to enable MLI to take the requested action and (ii) to the extent that MLI would be required to expend any funds or

provide any assurances to any party in connection with MLI's exercise of such Voting Rights, AIG agrees to reimburse MLI for such expenses and provide MLI with whatever MLI reasonably requires to furnish such assurances.[1]

(iii) As used herein:

"**Retained Rights**" means the right to direct a Consolidation Redemption Event or a Swap Counterparty Tax Event (as each of those terms is defined in the Indenture).

This Confirmation may be executed in several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Confirmation and returning it to us.

Yours sincerely,

MERRILL LYNCH INTERNATIONAL

By: _____
Name:
Title:

Confirmed as of the date
first above written:

AIG FINANCIAL PRODUCTS CORP..

By: _____
Name:
Title:

ALAN FROST
MANAGING DIRECTOR

This Confirmation may be executed in several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Confirmation and returning it to us.

Yours sincerely,

MERRILL LYNCH INTERNATIONAL

By: Cyrus Korat

Name: CYRUS KORAT

Title: MANAGING DIRECTOR

Confirmed as of the date
first above written:

AIG FINANCIAL PRODUCTS CORP..

By: _____

Name:

Title:

SCHEDULE A

# THRESHOLD AMOUNT PERCENTAGE TABLE AND INDEPENDENT AMOUNT PERCENTAGE TABLE

| | | Threshold Amount Percentage AIG Rating[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Aaa/ AAA | Aa1/ AA+ | Aa2/ AA | Aa3/ AA- | A1/ A+ | A2/ A | A3/ A- | Baa1/ BBB+ or below |
| Transaction Rating[1] | Aaa/ AAA[2] | 12% | 8% | 8% | 6% | 4% | 2% | 0% | 0% |
| | Aa/ AA[2] | 8% | 8% | 8% | 6% | 3% | 0% | 0% | 0% |
| | A/A[2] | 7% | 6% | 6% | 3% | 0% | 0% | 0% | 0% |
| | Baa1/ BBB+ or below | 6% | 5% | 5% | 0% | 0% | 0% | 0% | 0% |

| | | Independent Amount Percentage AIG Rating[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Aaa/ AAA | Aa1/ AA+ | Aa2/ AA | Aa3/ AA- | A1/ A+ | A2/ A | A3/ A- | Baa1/ BBB+ or below |
| Transaction Rating[1] | Aaa/ AAA[2] | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 5% |
| | Aa/ AA[2] | 0% | 0% | 0% | 0% | 0% | 0% | 2% | 5% |
| | A/A[2] | 0% | 0% | 0% | 0% | 0% | 2% | 5% | 10% |
| | Baa1/ BBB+ or below | 0% | 0% | 0% | 0% | 2% | 5% | 10% | 25% |

1. The lower of the S&P Rating and the Moody's Rating.
2. The ratings category of Moody's and S&P, respectively.

SCHEDULE B

## INDEX OF DEFINED TERMS

"Additional Fixed Amount": has the meaning specified in Section 2 of the Master Confirmation.

"Aggregate Reference Portfolio Amortization Amount": has the meaning specified in Section 1.1 of the Indenture.

"Deliverable Obligation Payments": has the meaning specified in Section 1.1 of the Indenture.

"Deliverable Obligation Sales Proceeds": has the meaning specified in Section 1.1 of the Indenture.

"Issuer": has the meaning specified in Section 1.1 of the Indenture.

"Khaleej Total Return Swap": has the meaning given to the term "Total Return Swap" in the Section 1.1 of the Indenture.

"Letter of Execution": has the meaning specified in the Master Confirmation.

"Master Confirmation": means the master confirmation agreement, dated as of September 22, 2005, between MLI and Khaleej.

"Master Hedging Confirmation": has the meaning specified in Part 5(7) of the Schedule to Khaleej Master Agreement.

"Physical Settlement Amount": has the meaning specified in Section 6 of the Master Confirmation.

"Principal Proceeds": has the meaning specified in Section 1.1 of the Indenture.

"Principal Shortfall Amount": has the meaning specified in Section 10(c) of the Master Confirmation.

"Principal Shortfall Reimbursement Payment Amount": has the meaning specified in Section 10(c) of the Master Confirmation.

"Reference Registry": has the meaning specified in Section 10.6 of the Indenture.

"Supersenior Funded Amount": has the meaning given to the term "Funded Amount" in the Supersenior Swap.

"Transaction Agreement": has the meaning specified in Section 1.1 of the Indenture.

"Trustee": has the meaning specified in Section 1.1 of the Indenture.

"Writedown Amount": has the meaning specified in Section 10(c) of the Master Confirmation.

## 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 initial Fixed Rate Payer Payment Date and falling on or prior to the second anniversary of the initial Fixed Rate Payer Payment Date | 0.02% per annum |
| Each Fixed Rate Payer Payment Date occurring after the second anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the third anniversary of the initial Fixed Rate Payer Payment Date | 0.02% per annum |
| Each Fixed Rate Payer Payment Date occurring after the third anniversary of the initial Fixed Rate Payer Payment 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 and falling on or prior to the fifth anniversary of the initial Fixed Rate Payer Payment Date | 0.04% per annum |
| Each Fixed Rate Payer Payment Date occurring after the fifth anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the sixth anniversary of the initial Fixed Rate Payer Payment Date | 0.05% per annum |
| Each Fixed Rate Payer Payment Date occurring after the sixth anniversary of the initial Fixed Rate Payer Payment Date | 0.15% per annum |

EXECUTION COPY

September 22, 2005

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

Re: Khaleej II CDO, Ltd. – AIG-FP/MLI Super Senior Transaction

Dear Sir/Madam:

Reference is made to the Credit Derivative Transaction (the "**CDS Transaction**") entered into under the Confirmation dated as of September 22, 2005 (the "**CDS Confirmation**") between AIG Financial Products Corp. ("**AIG-FP**") and Merrill Lynch International ("**Counterparty**") in respect of the AIG-FP/MLI Super Senior Transaction. Capitalized terms that are not defined herein shall have the meanings assigned to such terms in the CDS Confirmation.

This letter agreement constitutes a "Confirmation" as referred to in the Agreement and supplements, forms part of, and is subject to, the 1992 ISDA Master Agreement, dated as of October 1, 1994, as amended and supplemented from time to time (the "**Agreement**"), between you and us. This Confirmation is subject to and incorporates the 2000 ISDA Definitions and the Annex thereto, as published by the International Swaps and Derivatives Association, Inc.

Counterparty agrees to pay to AIG-FP a structuring fee with respect to the CDS Transaction payable on each Fixed Rate Payer Payment Date (as defined in the CDS Confirmation) during the term of the CDS Transaction in an amount equal to the Structuring Fee (as defined below) for such CDS Transaction.

As used herein, "**Structuring Fee**" means:

On each Fixed Rate Payer Payment Date the product of (i) the Structuring Fee Rate as set forth in Annex A attached hereto, (ii) the aggregate of the Notional Amounts under the CDS Transaction on each day in the Fixed Rate Payer Calculation Period divided by the number of days in such Calculation Period and (iii) the actual number of days from and including the immediately preceding Fixed Rate Payer Payment Date (or in the case of the first Fixed Rate Payer Payment Date, the Effective Date of the CDS Transaction) to but excluding such Fixed Rate Payer Payment Date, divided by 360; and

On the Early Termination Date on which the CDS Transaction ceases to be in effect (such date the "**Required Payment Date**"), Counterparty agrees to pay to AIG-FP on such date, the positive difference (the "**Minimum Amount**") if any between (i) $1,959,750 and (ii) the sum of all amounts previously paid to AIG-FP hereunder ending on but excluding the Required Payment Date (or, in the case the Required Payment Date is a Fixed Rate Payer Payment Date, ending on and including the Required Payment Date).

For the avoidance of doubt, no amounts paid or payable under this letter agreement shall credit or satisfy any amount due under the CDS Transaction.

In addition to the foregoing, the parties agree that this letter agreement: (i) may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument; (ii) may be supplemented, modified or amended by written instrument signed on behalf of each of the parties hereto; (iii) shall be governed by, and construed in accordance with, the law of the State of New York; (iv) neither party may assign its rights or obligations hereunder without the prior written consent of the other parties hereto, which consent not to be unreasonably withheld; (v) constitutes the entire agreement among the parties hereto with respect to the matters covered hereby and supersedes all prior agreements and understandings among the parties; and (vi) shall terminate without any further action of the parties hereto upon the termination of the CDS Confirmation.

Very Truly Yours,

AIG FINANCIAL PRODUCTS CORP.

By: _____
Name: Alan Frost
Title: Managing Director
Date:

Acknowledged and Agreed as of the date first written below:

MERRILL LYNCH INTERNATIONAL, as Counterparty

By: _____
Name:
Title:
Date:

In addition to the foregoing, the parties agree that this letter agreement: (i) may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument; (ii) may be supplemented, modified or amended by written instrument signed on behalf of each of the parties hereto; (iii) shall be governed by, and construed in accordance with, the law of the State of New York; (iv) neither party may assign its rights or obligations hereunder without the prior written consent of the other parties hereto, which consent not to be unreasonably withheld; (v) constitutes the entire agreement among the parties hereto with respect to the matters covered hereby and supersedes all prior agreements and understandings among the parties; and (vi) shall terminate without any further action of the parties hereto upon the termination of the CDS Confirmation.

Very Truly Yours,

AIG FINANCIAL PRODUCTS CORP.

By: _____
Name:
Title:
Date:

Acknowledged and Agreed as of the date first written below:

MERRILL LYNCH INTERNATIONAL, as Counterparty

By: _____
Name: CYRUS KORAT
Title: MANAGING DIRECTOR
Date:

NYLIBS 858681.6

## ANNEX A

| STRUCTURING FEE 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 | 0.13% per annum |
| Each Fixed Rate Payer Payment Date occurring after the first anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the second anniversary of the initial Fixed Rate Payer Payment Date | 0.13% per annum |
| Each Fixed Rate Payer Payment Date occurring after the second anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the third anniversary of the initial Fixed Rate Payer Payment Date | 0.13% per annum |
| Each Fixed Rate Payer Payment Date occurring after the third anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the fourth anniversary of the initial Fixed Rate Payer Payment Date | 0.12% per annum |
| Each Fixed Rate Payer Payment Date occurring after the fourth anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the fifth anniversary of the initial Fixed Rate Payer Payment Date | 0.11% per annum |
| Each Fixed Rate Payer Payment Date occurring after the fifth anniversary of the initial Fixed Rate Payer Payment Date and falling on or prior to the sixth anniversary of the initial Fixed Rate Payer Payment Date | 0.10% per annum |
| Each Fixed Rate Payer Payment Date occurring after the sixth anniversary of the initial Fixed Rate Payer Payment Date | Zero |