TO: Robert E. Lewis

CC: Joseph J. Cassano
Douglas L. Poling

FROM: William A. Shirley

RE: Transaction Requiring Approval – Credit Risk Committee – Credit Derivative with Merrill Lynch Capital Services, L.P. ("Merrill") in respect of the Lakeside II CDO, Ltd. (the "CDO")

DATE: March 12, 2004

Please see the attached Credit Approval Form and Executive Summary describing a proposed credit derivative transaction under which AIG-FP provides credit protection to Merrill in respect of the senior most Aaa/AAA/AAA class of securities issued by Lakeside II CDO, Ltd. in an ABS CDO transaction. This class of securities will represent USD 1.170 billion of the USD 1.5 billion of securities issued by the CDO. Merrill is seeking a credit derivative in respect of all of the securities of this class that it purchases, which may be all or only a part of the USD 1.170 billion total. As described in the attached Executive Summary, pursuant to the credit derivative, AIG-FP is effectively proposing to provide protection for the second 78% of losses arising in respect of the portfolio held by the CDO for an expected term of 8 years (6 year expected average life). AIG-FP also anticipates entering into an amortizing interest rate swap with the CDO.

Credit Risk Committee approval is requested for the transaction as the notional amount of the credit derivative exceeds the USD 50 million limit for a single issuer and the acquisition of the underlying securities, if required pursuant to the terms of the credit derivative transaction, will exceed the 30% maximum investment as a percentage of issue for a AAA rated asset-backed security.

AIG-FP is likely to be awarded the mandate for this transaction by Merrill if we can give our commitment to participate as soon as possible.

Please let me know if you require any additional information.

W.A.S.

{FILENAME \p}

CREDIT RISK COMMITTEE
STANDARD APPROVAL FORM

OBLIGOR	
OBLIGOR NAME	Merrill Lynch Capital Services, L.P. / Lakeside II CDO, Ltd.
AIG NUMBER	
OBLIGOR STREET ADDRESS	
CITY / STATE / ZIP	
COUNTRY	USA / Cayman Islands
OVERVIEW OF TRANSACTION / FACILITY	
PRODUCT / PRODUCT TYPE:	Credit Derivative
NOMINAL PRINCIPAL AMOUNT:	Up to USD 1.170 billion
TENOR:	8 years expected final (6 expected average life)
AGGREGATE EXPOSURE TO OBLIGOR GROUP:	Current Group MTM Exposure: N/A Current Group Potential Exposure: N/A New Transaction Potential Exposure: USD 164 million
GUARANTOR (if any):	
COLLATERAL (if any):	
OTHER CHARACTERISTICS:	See Executive Summary

OBLIGOR RATINGS					
	DESCRIPTION OF RATED OBLIGATION	FOR OBLIGOR	FOR PARENT	FOR GUARANTOR	FOR ENHANCEMENT
AIG OBLIGOR / CROSS BORDER RISK RATING:	Senior Debt Rating	1			
MOODY'S:	Senior Debt Rating	Aaa			
S&P:	Senior Debt Rating	AAA			
OTHER:					

SUBMITTER'S INFORMATION			
SUBMITTED BY:	Alan Frost	DATE:	March 12, 2004
COMPANY:	AIG Financial Products Corp.	PHONE:	(203) 221-4825
DIVISION:		FAX:	(203) 222-4780

CONCURRENCE	
CONCURRENCE BY REQUESTOR'S CREDIT AND/OR BUSINESS HEAD:	*SIGNATURE*

DO NOT WRITE IN THE SPACE BELOW (CRM ONLY)

DATE: ____________ **APPROVED:** ________ **YES** ________ **NO**

________ **YES** ________ **NO**

Howard I. Smith

Robert E. Lewis

CRC Member (Group A)

CRM Executive (Group B)

Executive (Group C)

DOCUMENTED BY: ____________

FACILITY #: ____________

CONDITION(S):

{FILENAME \p}

EXECUTIVE SUMMARY

Date: March 12, 2004

AIG Entity: AIG Financial Products Corp.

Prepared by: Alan Frost/Gary Gorton

Counterparty: Merrill Lynch Capital Services, L.P. ("Merrill") in respect of the Lakeside II CDO Transaction

Purpose: Credit Risk Committee approval is requested for the transaction as the notional amount of the credit derivative exceeds the USD 50 million limit for a single issuer and the acquisition of the underlying securities, if required pursuant to the terms of the credit derivative transaction, will exceed the 30% maximum investment as a percentage of issue for a Aaa/AAA/AAA rated asset-backed security.

Transaction Summary: Pursuant to the credit derivative transaction, AIG-FP will be writing credit protection to Merrill on the senior-most Aaa/AAA/AAA class of Notes (the "Class A1 Notes") issued in an ABS CDO transaction structured through an issuer called Lakeside II CDO, Ltd. (the "CDO"), a special purpose Cayman Islands vehicle. The Class A1 Notes will be LIBOR-based floaters, rated Aaa/AAA/AAA at issuance, and will have an expected final maturity of 8 years and an expected average life of 6 years. The Class A1 Notes will represent USD 1.170 billion of the USD 1.5 billion of securities issued by the CDO. Merrill is seeking a credit derivative in respect of all of the Class A1 Notes that it purchases, which may be all or only a part of the USD 1.170 billion total. The credit protection obligation in respect of the Class A1 Notes will be triggered only upon a payment default by the CDO in respect of such class of Notes. Pursuant to the credit derivative, AIG-FP is effectively proposing to provide protection for the second 78% of losses arising in respect of the portfolio held by the CDO for the expected term of 8 years (6 year expected average life).

In addition, AIG-FP is being requested to enter into an interest rate swap with the CDO. The interest rate swap will be an amortizing USD denominated fixed/floating swap with an initial notional amount of approximately USD 300 million, an average life of approximately 6.2 years, and an expected final maturity of 8 years.

Description of the CDO Structure: The CDO will fund the purchase of the collateral securities by issuing debt securities with the following capital structure:

Tranche	Size (USD)	Rating (Moody's/S&P/Fitch)	Percentage of Cap. Str.	Percentage Buffer
Class A1 Notes	1170.0mm	Aaa/AAA/AAA	78.00%	22.00%
Class A2 Notes	277.5mm	Aaa/NR/AAA	18.50%	3.50%
Class B Notes	15.8mm	A3/NR/A-	1.05%	2.45%
Class C Notes	15.8mm	Baa2/NR/BBB	1.05%	1.40%
Equity	20.9mm	NR/NR/NR	1.40%	-
Total	**1500.0mm**		**100.00%**	

As the collateral securities return principal to the CDO, such principal collections will be used to pay down the Notes in sequential order. Additionally, upon the occurrence of certain specified trigger events tied to a credit degradation in the underlying collateral, including the over-collateralization tests, all available cash flow, after paying interest on the Class A1, A2, and B Notes, will be applied towards paying down the principal of the Class A1 Notes only. Thus, the Class A1 Notes are the most senior from a loss perspective and are principal protected by 22.0% subordination, including a subordinate Aaa/AAA tranche (the Class A2 Notes), which is 18.50% of the capital structure.

Description of Credit Derivative Transaction: AIG-FP will enter into a credit derivative transaction with Merrill in respect of the Class A1 Notes pursuant to which AIG-FP agrees to purchase any such Notes held by Merrill, up to the USD 1.170 billion total principal amount outstanding. The obligation to perform under this transaction will be conditioned upon the occurrence of a Credit Event that will be limited solely to a Failure to Pay in respect of the Class A1 Notes. Publicly Available Information must support the declaration of a Credit Event, and the Settlement Method will be physical settlement, which would entail delivery to AIG-FP of all of the Class A1 Notes held by Merrill against payment by AIG-FP of the principal amount of such Notes (up to USD 1.170 billion).

Description of Swap: The CDO will enter into a swap with AIG-FP to hedge the interest rate mismatch between its assets and liabilities. A portion of the collateral securities will be fixed coupon bonds. The majority of the Notes will be LIBOR-based floaters. The CDO will enter into a USD amortizing interest rate swap with AIG-FP, which is designed to hedge this mismatch under both expected and stressed collateral performance scenarios (based on stress tests determined by the rating agencies.) All payments to AIG-FP under the swap, other than termination payments resulting from circumstances beyond the control of the CDO (such as AIG-FP's default and certain tax related events), are secured by the assets of the CDO and senior in priority to all payments of interest and principal on the Notes. The CDO may also enter into an interest cap transaction with AIG-FP for hedging purposes.

Description of CDO Assets and Liabilities: To date, 17.3% of the portfolio for the CDO has been purchased (see Annex A). The securities that comprise the portion of the portfolio that has been purchased may be classified according to the following Structured Asset Classifications:

Structured Asset Classification	Amount	% of Existing Portfolio (USD 259.473 mm)
RMBS Home Equity	10,285,000	3.96%
RMBS A	24,615,000	9.49%
RMBS B/C	133,902,450	51.61%
Structured Product CDO	90,670,610	34.94%
Total	**259,473,060**	**100.00%**

The CDO will consist of a static portfolio of collateral securities ("Collateral Securities"), which will comprise a variety of asset-backed securities (ABS) and CDOs. Since only a small portion the portfolio has been purchased, for purposes of this memorandum we assumed the worst case for the portfolio based upon the parameters set forth below. Furthermore, during the ramp up period, our consent will be required for each Collateral Security that is added to the portfolio. The portfolio is expected to be purchased substantially by the time of closing.

Each Collateral Security purchased for the portfolio must be rated no lower than the single A category by either S&P or Moody's (or both agencies if rated by both) when purchased, and at least 45% of the portfolio must be rated in the AAA category, with no more than 10% in the single A category. There must be a minimum of 110 obligors in the portfolio, and for such purposes different classes of securities issued by the same obligor are considered to be one obligor. Collateral Securities that are CDOs will have a maximum concentration of 40% of the portfolio, with a maximum of 25% of the portfolio in AA-rated CDOs and no A-rated CDOs. Consequently, ABSs will constitute at least 60% of the portfolio.

In addition, there are several other restrictions on the Collateral Securities. For CDOs, a maximum of 3% may be corporate credit obligations, and these must be AAA-rated CLOs. A maximum of 10% may be CDOs of trust preferred securities. The maximum weighted average life of the portfolio of Collateral Securities must be no greater than 7.5 years. No single Collateral Security may have an average life of greater than 12 years; only 20% of the Collateral Securities may have an average life greater than 10 years; and only 40% of the Collateral Securities may have an average life greater than 8.5 years.

Targeted Diversity Score/WARF	19 / 25 max
Collateral Items rated < Aaa	55% max
Collateral Items rated < Aa3	90% max
Collateral Items rated < A3	0%
Obligor Concentration of 1.75 – 2.00%	8 obligors max
Obligor Concentration of 1.50 – 1.75%	8 obligors max
Obligor Concentration of 1.25 – 1.50%	9 obligors max
Obligor Concentration of 1.00 – 1.25%	8 obligors max
Obligor Concentration of 0.75 – 1.00%	12 obligors max
Obligor Concentration of 0.50 – 0.75%	28 obligors max
Obligor Concentration of ≤ 0.50%	27 obligors max
Number of Obligors	110 minimum
Overall portfolio WAL	7.5 years max
Obligors with WALs > 12 years	0%
Obligors with WALs of > 10 years	20% max
Obligors with WALs of > 8.5 years	40% max
CDO Securities	40 % max
CDO Securities rated < Aaa	25 % max
CDO Securities rated < Aa3	0 %
Synthetic Corporate CDOs	10% max
Synthetic Corporate CDOs rated < Aaa	0%
Synthetic Corporate CDOs concentration	1% max
CDO Securities rated < Aa3	0 %

Risk Factors: The primary risk factor for the credit derivative transaction is that the CDO suffers defaults on the underlying portfolio of securities held by the CDO, leading to a payment default under the Class A1 Notes, and that, following the acquisition of such Notes pursuant to the credit derivative transaction, there is a loss of principal. The risk that the Class A1 Notes suffer such a default or experience a loss of principal is analyzed below. It should be noted, however, that the senior priority and subordination support of the Aaa/AAA/AAA rated Class A1 Notes (including the Aaa/AAA rated Class A2 Notes), suggest that the risk of a payment default or principal loss on the Class A1 Notes is extremely remote.

The primary risk factor on the swap is that the portfolio of collateral securities deteriorates so substantially that the CDO cannot support its obligations under the swap. Because of AIG-FP's senior position to the Notes, non-performance by the CDO under the swap would imply that both the Class A1 and A2 Notes had lost their entire principal as well as all future interest payments. Given the Aaa/AAA/AAA rating of the Class A1 Notes, this risk is extremely remote. Furthermore, as AIG-FP is receiving a fixed rate payment under the swap, AIG-FP will have exposure to the CDO under the swap only in lower interest rate environments.

Analysis of the Risk: The AIG-FP internal credit risk model was used to analyze the risk in terms of Worst Case Value-at-Risk ("Worst Case VaR"). We applied a number of conservative assumptions in the risk analysis. Because only a small potion of the portfolio of Collateral Securities has been purchased to date, we constructed a base portfolio using the worst case assumptions of the criteria from which the portfolio must be constructed, as listed above. Additionally, the analysis assumes the lower of the external ratings between Moody's and S&P for any Collateral Security added to the portfolio. Because the underlying credits are not corporate names, we further stressed the lowest of the initial ratings by 20% for ABSs, 40% for ABS CDOs and 60% for CLOs, e.g., an ABS CDO tranche rated AAA is downgraded to AA 40% of the time. The assumed recovery rates are also conservative. We assumed 20% recovery on all Collateral Securities.

The 99.85% Worst Case VaR for the portfolio is 8.68%, which is consistent with the risk being super senior risk because the first loss piece absorbed by the junior components of the capital structure is 22% of the portfolio.

Furthermore, this analysis ignores the positive effect of trigger events relating to the credit degradation of the portfolio, which require early amortization of the Class A-1 Notes to the extent that these events occur.

The base portfolio described above assumes that the maturity of each Collateral Security is the security's expected life. The table below shows the sensitivity of the Worst Case VaR number to this assumption.

Scenario	Worst Case VaR (%)
Base Case	8.68%
Expected Life plus 1 year	9.40%
Expected Life plus 2 years	10.20%
Expected Life minus 1 year	7.85%

These results are consistent with the risk of AIG-FP's position being super AAA risk.

Recommendation: Based on the risk mitigation features of the trade outlined above, AIG-FP recommends that the Credit Risk Committee approve the transaction.

ANNEX A

No.	Name	Size (mm)	WAL	Asset Type
1	HEMT 2004-1 A3	8,000,000	5.00	RESI B&C
2	ARSI 2004-W1 AV4	2,000,000	5.69	RESI B&C
3	CWL 2004-SD1 A2	950,450	2.58	RESI B&C
4	CBASS 2004-CB1 AV3	4,000,000	6.36	RESI B&C
5	MABS 2003-NC1 A3	4,000,000	4.51	RESI B&C
6	HEAT 04-2 A4	15,000,000	6.30	RESI B&C
7	BSABS 2004-AC1 A2	10,270,000	3.87	RESI A
8	BSABS 04-HE3 IA2	8,000,000	5.63	RESI B&C
9	TMTS 2004-2SL A2	8,000,000	2.05	RESI B&C
10	ABFC 04-AHL1	11,800,000	6.23	RESI B&C
11	BSABS 2004-HE1 M1	4,000,000	5.10	RESI B&C
12	AABST 2004-1 M1	4,000,000	5.60	RESI B&C
13	RAMP 2004-RS1 MII1	2,000,000	5.90	RESI B&C
14	MSAC 2004-SD1 M1	2,517,000	5.61	RESI B&C
15	TRUMN 2004-1 M1	7,135,000	7.10	RESI B&C
16	RAMP 2004-RS2 MII1	7,500,000	5.37	RESI B&C
17	BSABS 2004-AC1 M1	4,000,000	3.87	RESI A
18	SASC 2004-S1 M1	5,285,000	5.78	HEL
19	ACE 04-HS1 M1	3,500,000	5.50	RESI B&C
20	BSABS 04-HE3 M1	6,500,000	4.53	RESI B&C
21	RFSC 04-RP1 M1	4,000,000	5.59	RESI B&C
22	CBASS 2004-CB2 M1	5,000,000	4.65	RESI B&C
23	RAMP 2004-RS1 MII2	2,000,000	5.87	RESI B&C
24	CWL 2004-SD1 M2	3,000,000	5.19	RESI B&C
25	RAMP 2004-RS2 MII2	6,000,000	5.34	RESI B&C
26	SASC 2004-S1 M2	5,000,000	4.78	HEL
27	ACE 2004-HS1 M2	7,500,000	5.40	RESI B&C
28	HEAT 04-2 M2	7,500,000	4.90	RESI B&C
29	TRAIN 3A A2	2,750,000	9.09	ABS CDO
30	SOLST 2003-3A A2	5,000,000	8.88	ABS CDO
31	INDE5 5A A2B	2,000,000	7.70	ABS CDO
32	PRETSL IX A2	9,000,000	9.50	ABS CDO
33	INDE4 4A A3	3,462,951	4.53	ABS CDO
34	INDE3 3A B	1,000,000	10.43	ABS CDO
35	INDE4 4A B	3,957,659	4.62	ABS CDO
36	PTNM 2001-1A A2	4,000,000	6.81	ABS CDO
37	ACABS 2002-1A B	4,000,000	8.76	ABS CDO
38	INDE5 5A C	2,000,000	7.69	ABS CDO
39	ACABS 2002-1A B	5,000,000	8.47	ABS CDO
40	SCF 4A B	10,000,000	7.02	ABS CDO
41	ACABS 2002-1A B	5,000,000	8.47	ABS CDO
42	KNOWL 04-1 B	6,000,000	8.10	ABS CDO
43	MULB 2A A2	13,500,000	9.48	ABS CDO
44	GLCR 2004-1A B	10,000,000	8.02	ABS CDO
45	DESCT 2003-1A D	4,000,000	6.80	ABS CDO
46	CSFB 04-AR2 VI A3	6,000,000	5.80	RESI A
47	CHASE 2004-S3 2A3	4,345,000	11.99	RESI A