Maiden Lane LLC

(A Special Purpose Vehicle Consolidated by the Federal Reserve Bank of New York)

Consolidated Financial Statements as of and for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report

Maiden Lane LLC

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FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control over Financial Reporting

To the Board of Directors of the
Federal Reserve Bank of New York:

March 14, 2013

The management of Maiden Lane LLC (ML LLC) is responsible for the preparation and fair presentation of the Consolidated Statements of Financial Condition as of December 31, 2012 and 2011, and the Consolidated Statements of Income and the Consolidated Statements of Cash Flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

The management of ML LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. ML LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. ML LLC's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of ML LLC's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that ML LLC's receipts and expenditures are being made only in accordance with authorizations of its management; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of ML LLC's assets that could have a material effect on its financial statements.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of ML LLC assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that ML LLC maintained effective internal control over financial reporting.

William C. Dudley
President

Christine M. Cumming
First Vice President

Edward F. Murphy
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INDEPENDENT AUDITORS' REPORT

To the Managing Member of
Maiden Lane LLC:

We have audited the accompanying consolidated financial statements of Maiden Lane LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC"), which are comprised of the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of operations, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We also have audited the LLC's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility

The LLC's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The LLC's management is also responsible for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the LLC's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and we conducted our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the LLC's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of the consolidated financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition of Internal Control Over Financial Reporting

The LLC's internal control over financial reporting is a process designed by, or under the supervision of, the LLC's principal executive and principal financial officers, or persons performing similar functions, and effected by the LLC's Managing Member to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The LLC's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the LLC; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the LLC are being made only in accordance with authorizations of the Managing Member; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the consolidated financial statements.

Inherent Limitations of Internal Control Over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maiden Lane LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 14, 2013

Maiden Lane LLC

Consolidated Statements of Financial Condition

As of December 31, 2012 and 2011
(Amounts in thousands, except par value and share data)

	2012	2011
Assets		
Cash and cash equivalents	$ 559,465	$ 454,669
Restricted cash	54,859	79,148
Investments, at fair value (cost of $1,050,479 and $9,003,325, respectively, and includes assets pledged of $230,906 and $551,763, respectively)	786,493	6,551,724
Swap contracts, at fair value	407,741	656,873
Principal and interest receivable	1,588	33,594
Receivable for investments sold	-	17,475
Other assets	752	11,562
Total assets	$ 1,810,898	$ 7,805,045
Liabilities and member's equity		
Senior Loan, at fair value	$ 1,396,179	$ 5,736,025
Subordinated Loan, at fair value	-	1,384,975
Swap contracts, at fair value	71,319	105,657
Cash collateral on swap contracts	341,231	553,556
Other liabilities and accrued expenses	2,169	24,832
Total liabilities	1,810,898	7,805,045
Member's equity ($10 par value, 1 share issued and outstanding)	-	-
Total liabilities and member's equity	$ 1,810,898	$ 7,805,045

The accompanying notes are an integral part of these consolidated financial statements.

Maiden Lane LLC

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011
(Amounts in thousands)

	2012	2011
Revenues		
Interest income	$ 32,600	$ 798,522
Realized (losses) gains on investments, swap contracts, and other derivatives, net	(1,469,543)	246,629
Unrealized gains on investments, swap contracts, and other derivatives, net	2,022,201	187,610
Other income	1,237	9,034
Total revenues	586,495	1,241,795
Expenses		
Interest expense	55,087	208,015
Professional fees and other expenses	12,136	42,889
Total expenses	67,223	250,904
Net operating income	519,272	990,891
Non-operating losses		
Unrealized losses on the Loans	(519,272)	(990,891)
Total non-operating losses	(519,272)	(990,891)
Net income	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Maiden Lane LLC

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(Amounts in thousands)

	2012	2011
Cash flows from operating activities		
Net income	$ -	$ -
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of discounts and premiums on investments	(54,673)	(217,229)
Realized losses (gains) on investments, swap contracts, and other derivatives, net	1,469,543	(246,629)
Unrealized gains on investments, swap contracts, and other derivatives, net	(2,022,201)	(187,610)
Unrealized losses on the Loans	519,272	990,891
(Decrease) increase in accrued and capitalized interest on the Loans	(990,345)	208,015
Decrease in principal and interest receivable	32,006	87,857
Decrease (increase) in other assets and receivable for investments sold	28,285	(3,579)
(Decrease) increase in other liabilities and accrued expenses	(22,663)	5,771
Net cash flow (used in) provided by operating activities	(1,040,776)	637,487
Cash flows from investing activities		
Payments for purchase of investments	(276,823)	(787,177)
Proceeds from principal paydowns on investments	344,617	3,173,444
Proceeds from sale of investments and settlements	6,395,867	17,148,579
Payments from (for) purchase of swap contracts and other derivatives	27,486	(47,353)
Proceeds from disposition of swap contracts and other derivatives	249,892	62,746
Periodic payments (for) from swap contracts and other derivatives, net	(153,683)	9,761
Decrease in restricted cash	24,289	1,876
Net cash flow provided by investing activities	6,611,645	19,561,876
Cash flows from financing activities		
Repayments of Senior Loan	(4,103,748)	(21,123,782)
Repayments of Subordinated Loan	(1,150,000)	-
Repayments of collateral received on swap contracts	(212,325)	(141,179)
Net cash flow used in financing activities	(5,466,073)	(21,264,961)
Net increase (decrease) in cash and cash equivalents	104,796	(1,065,598)
Beginning cash and cash equivalents	454,669	1,520,267
Ending cash and cash equivalents	$ 559,465	$ 454,669
Supplemental disclosures		
Non-cash operating and financing activities:		
Accrued and capitalized interest on the Loans	$ 55,087	$ 208,015
Cash paid during the year for:		
Interest	$ 1,045,432	$ -

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Nature of Business

Maiden Lane LLC (the "LLC"), a special purpose vehicle consolidated by the Federal Reserve Bank of New York ("FRBNY" or "Managing Member"), is a single member Delaware limited liability company that was formed to acquire approximately $30 billion of The Bear Stearns Companies Inc.'s ("Bear Stearns") assets in connection with and to facilitate the merger of Bear Stearns and JPMorgan Chase & Co. ("JPMC"). FRBNY is the sole and managing member of the LLC as well as the controlling party of the assets of the LLC, and will remain as such as long as FRBNY retains an economic interest in the LLC. Financing for the LLC was provided by FRBNY, as the senior lender (the "Senior Loan"), and by JPMC, as the subordinated lender (the "Subordinated Loan") (together the "Loans"). The Loans are collateralized by all the assets of the LLC through a pledge to State Street Bank and Trust ("State Street") as collateral agent.

Bear Stearns' assets purchased by the LLC largely consisted of mortgage-related debt securities, whole mortgage loans (held by two grantor trusts as discussed below), credit default and interest rate swap contracts, primarily through a total return swap agreement with JPMC (the "TRS"). Bear Stearns' assets were acquired and transferred to the LLC on June 26, 2008 with a purchase and effective valuation date of March 14, 2008.

Two grantor trusts were established to directly acquire the whole mortgage loans. One was formed to acquire a portfolio of commercial mortgage loans and one was formed to acquire a portfolio of residential mortgage loans (Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1 ["CRE Trust"] and Maiden Lane Asset-Backed Securities I Trust 2008-1, together the "Grantor Trusts"). The LLC owns the trust certificates representing all of the beneficial ownership interest in each of the Grantor Trusts. The Grantor Trusts are controlled by FRBNY as long as the LLC remains a certificate holder. The LLC is the sole certificate holder as of December 31, 2012. The trustee and master servicers for each Grantor Trust are nationally recognized financial institutions. The master servicers to the Grantor Trusts are responsible for remitting to the Grantor Trusts all principal and interest payments and any other amounts collected by the primary loan servicers on the underlying loans of each respective trust. Payments received by each Grantor Trust are passed on to the LLC as the sole beneficiary after deducting certain trust expenses, advances, servicing costs, and fees.

BlackRock Financial Management, Inc. (the "Investment Manager" or "BlackRock") manages the investment portfolio of the LLC under a multi-year contract with FRBNY that includes provisions governing termination of the contract. State Street provides administrative, collateral administration, and custodial services and has been appointed to serve as collateral agent under multi-year contracts with FRBNY that include provisions governing termination of the contracts.

The LLC does not have any employees and therefore does not bear any employee-related costs.

2. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP"), which require the Managing Member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant estimates include the fair value of investments, swap contracts and other derivatives, and the Loans. Actual results could differ from those estimates.

The consolidated financial statements include the accounts and operations of the LLC as well as the Grantor Trusts. Intercompany balances and transactions have been eliminated in consolidation.

The following is a summary of the significant accounting policies followed by the LLC:

A. Cash and Cash Equivalents and Restricted Cash

The LLC defines cash and cash equivalents as cash, money market funds, and other short-term, highly liquid investments with maturities of three months or less when acquired. Money market funds and other short-term investments are carried at fair value based on quoted prices in active markets for identical assets. All cash equivalents are classified as Level 1 under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 ("ASC 820"), *Fair Value Measurement*. Refer to Note 5 for more information.

The LLC invests available cash in US Treasury bills, Agency Discount Notes and Government Money Market Funds registered under the Investment Company Act of 1940. As of December 31, 2012, the LLC had approximately $0.1 billion in Government Money Market Funds. As of December 31, 2011, the LLC had approximately $0.1 billion in US Treasury bills and Agency Discount Notes and $0.4 billion in Government Money Market Funds.

Restricted cash principally represents investments in money market funds held as collateral for unfunded commitments to extend credit on commercial loans acquired by the Grantor Trusts. For more information on these commitments, refer to Note 7.

The Consolidated Statement of Financial Condition for the year ended December 31, 2011 reflects a $79.1 million restatement of restricted cash. Restricted cash of that amount had previously been classified within "Cash and cash equivalents" (but shown parenthetically on the Consolidated Statement of Financial Condition). In 2012, these funds are classified as "Restricted cash," a separate line item. The following 2011 amounts were also restated in the Consolidated Statement of Cash Flows: (a) "Net increase (decrease) in cash and cash equivalents" was restated from $(1,067,474) to $(1,065,598), (b) "Beginning cash and cash equivalents" was restated from $1,601,291 to $1,520,267, and (c) "Ending cash and cash equivalents" was restated from $533,817 to $454,669. This immaterial restatement had no impact on the Consolidated Statement of Income.

B. Investments and Swaps Contracts

The LLC's investments consist primarily of Federal agency and Government Sponsored Enterprise mortgage-backed securities ("GSE MBS"), non-agency residential mortgage-backed securities ("non-agency RMBS"), commercial and residential mortgage loans, and short-term investments with maturities of greater than three months and less than one year when acquired (primarily consisting of US Treasury bills, US Treasury notes, and Agency Discount Notes). The LLC's swap contracts consist primarily of credit default swaps ("CDS"). The LLC follows the guidance in FASB ASC Topic 320, *Investments – Debt and Equity Securities*, when accounting for investments in debt securities and FASB ASC Topic 815 ("ASC 815"), *Derivatives and Hedging*, when accounting for swap contracts and other derivative instruments.

Interest income on investments is recorded when earned and includes amortization of premiums, accretion of discounts, and paydown gains and losses on investments.

Investment and swap transactions are accounted for at trade date. Realized gains or losses on investments and swap transactions are determined on the identified cost basis.

From time to time, the LLC may receive proceeds from settlements related to actions involving portfolio investments. When such settlements are received, the LLC will record the amount as an adjustment to the cost basis of the investment, if the investment is still held by the LLC, or, if the investment is no longer held by the LLC, as a realized gain on the investment.

C. Valuation of Financial Assets and Liabilities

The LLC has elected the fair value option in accordance with FASB ASC Topic 825 ("ASC 825"), *Financial Instruments*, for investments and the Loans (including accrued and capitalized interest), all of which are recorded at fair value in accordance with ASC 820. The Managing Member believes that accounting for the investments and Loans at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. For more information on the valuation of investments and the Loans, refer to Note 5 and Note 6.

Swap contracts and other derivative instruments are recorded at fair value in accordance with ASC 820 and ASC 815. For more information on the valuation of swap contracts and other derivative instruments, refer to Note 5 and Note 6.

Fair Value Hierarchy

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the LLC's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the LLC's own estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

D. Accounting for Senior Loan and Subordinated Loan

The consolidated financial statements reflect the fair value of the Loans and related accrued and capitalized interest. The Loans are recorded as “Senior Loan, at fair value” and “Subordinated Loan, at fair value” in the Consolidated Statements of Financial Condition. Changes in fair value are recorded as “Unrealized losses on the Loans” in the Consolidated Statements of Income.

E. Variable Interest Entities

The identification of variable interest entities (“VIEs”) and determination whether to consolidate VIEs were assessed in accordance with FASB ASC Topic 810 (“ASC 810”), *Consolidation*, which requires a variable interest entity to be consolidated by its controlling financial interest holder.

The LLC consolidates a VIE if it has a controlling financial interest, which is defined as the power to direct the significant economic activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. To determine whether it is the controlling financial interest holder of a VIE, the LLC evaluates the VIE’s design, capital structure, and relationships with the variable interest holders. The LLC reconsiders whether it has a controlling financial interest in a VIE, as required by ASC 810, at each reporting date.

The LLC holds certain interests in VIEs through investments in non-agency RMBS, commercial mortgage-backed securities (“CMBS”), collateralized debt obligations (“CDOs”), collateralized loan obligations and swap contracts. VIEs generally finance the purchase of assets by issuing debt and equity instruments. In assessing the nature and extent of its financial interests in these VIEs, the LLC considered the nature and purpose of its involvement with these VIEs, which is primarily as investor, and in limited instances, as seller of protection through credit default swaps. The LLC has made a determination that there are no material VIEs that required consolidation into its consolidated financial statements as of December 31, 2012 and 2011. As of December 31, 2012, the LLC’s significant interests in non-consolidated VIEs consisted of a payable of approximately $22 million, which was recorded as a component of “Swap contracts, at fair value” in the Consolidated Statements of Financial Condition. The fair value and total maximum exposure to non-consolidated VIEs was $22 million and $436 million as of December 31, 2012 and 2011, respectively.

F. Professional Fees and Other Expenses

Professional fees and other expenses are primarily comprised of the fees charged by the Investment Manager and administrator as well as fees and expenses related to the servicing and disposition of residential and commercial loans held by the Grantor Trusts.

G. Income Taxes

The LLC is a single member limited liability company and was structured as a disregarded entity for U.S. Federal, state, and local income tax purposes. Accordingly, no provision for income taxes is made in the consolidated financial statements.

H. Foreign Currency Translation

Swap collateral received denominated in a foreign currency is translated into U.S. dollar amounts using the prevailing exchange rate as of the date of the consolidated financial statements. There is no gain or loss associated with this foreign denominated collateral as the asset and liability positions associated with it are offsetting.

I. Recently Issued Accounting Standards

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update requires additional disclosures for fair value measurements categorized as Level 3, including quantitative information about the unobservable inputs and assumptions used in the fair value measurement, a description of the valuation policies and procedures, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, disclosure of the amounts and reasons for all transfers in and out of Level 1 and Level 2 is required. This update is effective for the LLC for the year ended December 31, 2012, and the required disclosures are included in Note 5.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet* (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This update will require a reporting entity to present enhanced disclosures for financial instruments and derivative instruments that are offset or subject to master netting agreements or similar such agreements. This update is effective for the LLC for the year ending December 31, 2013, and is not expected to have a material effect on the LLC's consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This update clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASC 815. This update is effective for the LLC for the year ending December 31, 2013, and is not expected to have a material effect on the LLC's consolidated financial statements.

3. Senior Loan (including Contingent Interest) and Subordinated Loan

On June 26, 2008, FRBNY funded the Senior Loan of approximately $28.8 billion and JPMC funded the Subordinated Loan of approximately $1.15 billion to finance the initial acquisition of the LLC's assets. Each loan had a ten-year term maturing on June 26, 2018.

The Senior Loan bore interest at the primary credit rate in effect and is entitled to receive additional Contingent Interest (see Note 4) in amounts equal to any proceeds from the sale of the LLC's assets that are available for distribution pursuant to the order of priority described in Note 4. The Subordinated Loan bore interest at the primary credit rate plus 450 basis points. The primary credit rate is the rate charged by FRBNY for loans under its primary credit program. Interest on the Loans was capitalized quarterly and accrued daily based on the amount of principal and capitalized interest outstanding on the last day of the last month in each calendar quarter.

In June 2012, the LLC repaid in full the outstanding principal and interest (other than Contingent Interest) on the Senior Loan to FRBNY. In November 2012, the LLC repaid in full the outstanding principal and interest on the Subordinated Loan to JPMC. Consistent with the terms of the Security Agreement, future distributions remain subject to availability of funds in the LLC's accounts and the order of priority described in Note 4.

The following table presents a reconciliation of the Loans as of December 31, 2012 and 2011 (in thousands):

	Senior Loan [3]	Subordinated Loan [4]	Total
Fair value, December 31, 2010	$ 25,845,272	$ 1,200,604	$ 27,045,876
2011 Activity:			
Accrued and capitalized interest	137,628	70,387	208,015
Repayments [1]	(21,123,782)	-	(21,123,782)
Unrealized losses on the Loans	876,907	113,984	990,891
Fair value, December 31, 2011	5,736,025	1,384,975	7,121,000
2012 Activity:			
Accrued and capitalized interest	10,042	45,045	55,087
Repayments [2]	(4,869,160)	(1,430,020)	(6,299,180)
Unrealized losses on the Loans	519,272	-	519,272
Fair value, December 31, 2012	$ 1,396,179	$ -	$ 1,396,179

[1] Includes payments on the Senior Loan of $21,123,782 of principal.

[2] Includes payments on the Senior Loan of $4,103,748 of principal and $765,412 of interest and on the Subordinated Loan of $1,150,000 of principal and $280,020 of interest.

[3] The outstanding principal and accrued interest balances of the Senior Loan were $0 and $4,859,118 (principal of $4,103,748 and interest of $755,370) as of December 31, 2012 and 2011, respectively.

[4] The outstanding principal and accrued interest balances of the Subordinated Loan were $0 and $1,384,975 (principal of $1,150,000 and interest of $234,975) as of December 31, 2012 and 2011, respectively.

The weighted average interest rates on the Senior Loan and Subordinated Loan were 0.75 percent and 5.25 percent, respectively, for the years ended December 31, 2012 and 2011.

4. Distribution of Proceeds

In accordance with the Security Agreement, amounts available in the accounts of the LLC are distributed monthly in the following order of priority:

first, to pay any costs, fees, and expenses of the LLC then due and payable;

second, to pay any amounts owed to derivative counterparties under the related derivative contracts;

third, to repay the outstanding principal amount of the Senior Loan;

fourth, so long as the entire outstanding principal amount of the Senior Loan has been repaid in full, to pay unpaid interest outstanding on the Senior Loan;

fifth, so long as the entire outstanding principal amount of and all accrued and unpaid interest outstanding on the Senior Loan have been paid in full, to repay the outstanding principal amount of the Subordinated Loan;

sixth, so long as (i) the entire outstanding principal amount of and all accrued and unpaid interest on the Senior Loan have been paid in full and (ii) the entire outstanding principal amount of the Subordinated Loan has been repaid in full, to pay unpaid interest outstanding on the Subordinated Loan;

seventh, so long as the entire outstanding principal amount of and all accrued and unpaid interest on the Loans have been paid in full, and after termination and payment of any amounts owed to the counterparties under the related derivative contracts, to pay all available proceeds to FRBNY as holder of the Senior Loan (the "Contingent Interest").

5. Fair Value Measurements

The LLC measures all investments, swap contracts and other derivatives, and the Loans at fair value in accordance with ASC 820.

Determination of Fair Value

The LLC values its investments on the basis of last available bid prices or current market quotations provided by dealers or pricing services selected under the supervision of the Investment Manager. To determine the value of a particular investment, pricing services may use certain information with respect to market transactions in such investment or comparable investments, various relationships observed in the market between investments, quotations from dealers, and pricing metrics and calculated yield measures based on valuation methodologies commonly employed in the market for such investments. The fair value of swap agreements is provided by JPMC as calculation agent and is reviewed by the Investment Manager.

Market quotations may not represent fair value in certain instances in which the Investment Manager and the LLC believe that facts and circumstances applicable to an issuer, a seller or a purchaser, or the market for a particular investment cause such market quotations to not reflect the fair value of an investment. In such cases or when market quotations are unavailable, the Investment Manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from the reported performance of investments with similar characteristics as well as available market data to determine fair value.

Due to the uncertainty inherent in determining the fair value of investments, derivatives, and debt instruments that do not have a readily available fair value, the fair values of the LLC's investments, swap contracts, and the Loans may differ from the values that may ultimately be realized and paid.

Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases where there is limited trading activity for particular investments or where current market quotations are not available or reflective of the fair value of an instrument, the valuation is based on models that use inputs, estimates, and assumptions that market participants would use in pricing the investments. To the extent that such inputs, estimates, and assumptions are not observable, the investments are classified within Level 3 of the valuation hierarchy. For instance, in valuing certain debt securities and whole mortgage loans, the determination of fair value is based on proprietary valuation models when external price information is not available. Key inputs to the model may include market spreads or yield estimates for comparable instruments, performance data (i.e. prepayment rates, default rates, and loss severity), valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features.

For the swap agreements, all of which are categorized as Level 3 assets and liabilities, there are various valuation methodologies. In each case, the fair value of the instrument underlying the swap is a significant input used to derive the fair value of the swap. When there are broker or dealer prices available for the underlying instruments, the fair value of the swap is derived based on those prices. When the instrument underlying the swap is a market index (i.e. CMBS index), the closing market index price, which can also be expressed as a credit spread, is used to determine the fair value of the swap. In the remaining cases, the fair value of the underlying instrument is principally based on inputs and assumptions not observable in the market (i.e. discount rates, prepayment rates, default rates, and recovery rates). Key unobservable inputs are explained in more detail in the table below.

The fair value of the Loans is determined based on the fair value of the underlying assets held by the LLC and the allocation of the LLC's net operating income or loss, as presented in the reconciliation of the Loans in Note 3.

Inputs for Level 3 Assets and Liabilities

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair values of the LLC's Level 3 assets and liabilities* as of December 31, 2012 (in thousands, except for input values):

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values
Commercial mortgage loans	$ 466,006	Discounted cash flows	Discount rate	6% - 20%
			Property capitalization rate	6% - 10%
			Net operating income growth rate	3% - 7%
CDS [1]	$ 472,630	Discounted cash flows	Credit spreads [2]	100 bps - 6,451 bps
			Discount rate	0% - 47%
			Constant prepayment rate	0% - 20%
			Constant default rate	0% - 34%
			Loss severity	40% - 80%

[1] Swap assets and liabilities are presented net for the purposes of this table.
[2] Implied spread on closing market prices for index positions.

* The LLC's other Level 3 liabilities, the Loans, are not included in this section as their valuation inputs are described in detail in the section above titled *Valuation Methodologies for Level 3 Assets and Liabilities*.

Sensitivity of Level 3 Fair Value Measurements to Changes in Unobservable Inputs

The following provides a general description of the impact of a change in an unobservable input on the fair value measurement and the interrelationship of unobservable inputs.

I. Loans

In general, an increase in isolation in either the discount rate or the property capitalization rate, which is the ratio between the net operating income produced by an asset and its current fair value, would result in a decrease in the fair value measurement; while an increase in net operating income growth rate, in isolation, would result in an increase in the fair value measurement. For each of the relationships described above, the inverse would also generally apply.

II. Derivatives

For CDS with reference obligations on CMBS, an increase in credit spreads would generally result in a higher fair value measurement for protection buyers and a lower fair value measurement for protection sellers. The inverse would also generally apply to this relationship given a decrease in credit spreads.

For CDS with reference obligations on residential mortgage-backed securities ("RMBS") or other asset-backed securities, changes in the discount rate, constant prepayment rate, constant default rate, and loss severity would have an uncertain effect on the overall fair value measurement. This is because, in general, changes in these inputs could potentially affect other inputs used in determining the fair value measurement. For example, a change in the assumptions used for the constant default rate will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for constant prepayment rates. Additionally, changes in the fair value measurement based on variations in the inputs used generally cannot be extrapolated because the relationship between each input is not perfectly correlated.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

The following table presents the assets and liabilities recorded at fair value as of December 31, 2012 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy				
	Level 1 [2]	Level 2 [2]	Level 3	Netting [3]	Total fair value
Assets:					
Money market funds [1]	$ 132,821	$ -	$ -	$ -	$ 132,821
Investments					
Federal agency & GSE MBS	-	550	-	-	550
Non-agency RMBS	-	1,582	-	-	1,582
Commercial mortgage loans	-	223	466,006	-	466,229
Short-term investments	250,941	-	-	-	250,941
Other investments	-	12,534	54,657	-	67,191
Total investments	250,941	14,889	520,663	-	786,493
Swap contracts					
CDS	-	-	816,120	(408,379)	407,741
Total assets	$ 383,762	$ 14,889	$ 1,336,783	$ (408,379)	$ 1,327,055
Liabilities:					
Senior Loan	$ -	$ -	$ (1,396,179)	$ -	$ (1,396,179)
Swap contracts					
CDS	-	-	(343,490)	272,171	(71,319)
Total liabilities	$ -	$ -	$ (1,739,669)	$ 272,171	$ (1,467,498)

[1] Recorded as a component of "Cash and cash equivalents" and "Restricted cash" in the Consolidated Statements of Financial Condition.

[2] There were no transfers between Level 1 and Level 2 during the year ended December 31, 2012.

[3] The LLC has elected to net derivative receivables and payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.

The following table presents the assets and liabilities recorded at fair value as of December 31, 2011 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy				
	Level 1 [3]	Level 2 [3]	Level 3	Netting [4]	Total fair value
Assets:					
Money market funds [1]	$ 426,776	$ -	$ -	$ -	$ 426,776
Other short-term investments [1]	104,000	-	-	-	104,000
Investments					
Federal agency & GSE MBS	-	440,441	-	-	440,441
Non-agency RMBS	-	772,694	764,771	-	1,537,465
Commercial mortgage loans	-	1,463,174	1,397,487	-	2,860,661
Residential mortgage loans	-	-	378,477	-	378,477
Short-term investments [2]	701,753	-	-	-	701,753
Other investments [2]	19,086	288,063	325,778	-	632,927
Total investments	720,839	2,964,372	2,866,513	-	6,551,724
Swap contracts					
CDS	-	-	1,630,129	(973,256)	656,873
Total assets	$ 1,251,615	$ 2,964,372	$ 4,496,642	$ (973,256)	$ 7,739,373
Liabilities:					
Senior Loan	$ -	$ -	$ (5,736,025)	$ -	$ (5,736,025)
Subordinated Loan	-	-	(1,384,975)	-	(1,384,975)
Swap contracts					
CDS	-	-	(790,647)	684,990	(105,657)
Total liabilities	$ -	$ -	$ (7,911,647)	$ 684,990	$ (7,226,657)

1 Recorded as a component of “Cash and cash equivalents” and “Restricted cash” in the Consolidated Statements of Financial Condition.

2 Investments with a fair value of $701,753 as of December 31, 2011 were recategorized from “Other investments” to a new line item labeled “Short-term investments” to conform to the current year presentation.

3 There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2011.

4 The LLC has elected to net derivative receivables and payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2012, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2011	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in [3,4]	Gross transfers out [3,4]	Fair value at December 31, 2012	Change in unrealized gains (losses) related to financial instruments held at December 31, 2012
Investments							
Non-agency RMBS	$ 764,771	$ (835,796)	$ 71,025	$ -	$ -	$ -	$ -
Commercial mortgage loans	1,397,487	(1,187,126)	255,645	-	-	466,006	134,990
Residential mortgage loans [1]	378,477	(373,901)	(4,576)	-	-	-	(547)
Other investments	325,778	(334,741)	53,250	10,370	-	54,657	(2,079)
Total investments	$ 2,866,513	$ (2,731,564)	$ 375,344	$ 10,370	$ -	$ 520,663	$ 132,364
Net swap contracts [2]							
CDS	$ 839,482	$ (276,046)	$ (90,806)	$ -	$ -	$ 472,630	$ (93,473)
Loans payable							
Senior Loan	$ (5,736,025)	$ 4,859,118	$ (519,272)	$ -	$ -	$ (1,396,179)	$ (519,272)
Subordinated Loan	(1,384,975)	1,384,975	-	-	-	-	-
Total loans payable	$ (7,121,000)	$ 6,244,093	$ (519,272)	$ -	$ -	$ (1,396,179)	$ (519,272)

[1] At December 31, 2012, there were two residential mortgage loans with a fair value of $0 outstanding.
[2] Level 3 swap assets and liabilities are presented net for the purposes of this table.
[3] Other investments, with a December 31, 2011 fair value of $10,370, were transferred from Level 2 to Level 3 because they are valued at December 31, 2012 based on non-observable inputs (Level 3). These investments were valued in the prior year based on quoted prices for identical or similar assets in non-active markets or model-based techniques for which all significant inputs were observable (Level 2).
[4] The amount of transfers is based on fair values of the transferred assets at the beginning of the reporting period.

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown above for the year ended December 31, 2012 (in thousands):

	Purchases	Sales	Issuances	Settlements [3]	Purchases, sales, issuances, and settlements, net
Investments					
Non-agency RMBS	$ -	$ (774,656)	$ -	$ (61,140)	$ (835,796)
Commercial mortgage loans	-	(1,118,678)	-	(68,448)	(1,187,126)
Residential mortgage loans	-	(370,133)	-	(3,768)	(373,901)
Other investments	-	(279,711)	-	(55,030)	(334,741)
Total investments	$ -	$ (2,543,178)	$ -	$ (188,386)	$ (2,731,564)
Net swap contracts [1]					
CDS	$ -	$ (147,414)	$ -	$ (128,632)	$ (276,046)
Loans payable					
Senior Loan	$ (10,042) [2]	$ -	$ -	$ 4,869,160	$ 4,859,118
Subordinated Loan	(45,045) [2]	-	-	1,430,020	1,384,975
Total loans payable	$ (55,087)	$ -	$ -	$ 6,299,180	$ 6,244,093

[1] Level 3 swap assets and liabilities are presented net for the purposes of this table.
[2] Represents accrued and capitalized interest.
[3] Includes paydowns.

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during the period ended December 31, 2011, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2010	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in [2,3]	Gross transfers out [2,3]	Fair value at December 31, 2011	Change in unrealized gains (losses) related to financial instruments held at December 31, 2011
Investments							
Federal agency & GSE MBS	$ 29,878	$ (28,399)	$ (1,479)	$ -	$ -	$ -	$ -
Non-agency RMBS	694,051	(236,225)	78,782	445,370	(217,207)	764,771	(2,297)
Commercial mortgage loans	1,930,926	(625,550)	92,111	-	-	1,397,487	64,733
Residential mortgage loans	602,867	(175,261)	(49,129)	-	-	378,477	263,295
Other investments	218,679	(68,642)	(381)	210,441	(34,319)	325,778	4
Total investments	$ 3,476,401	$ (1,134,077)	$ 119,904	$ 655,811	$ (251,526)	$ 2,866,513	$ 325,735
Net swap contracts [1]							
CDS	$ 969,676	$ (235,298)	$ 105,104	$ -	$ -	$ 839,482	$ 83,127
Loans payable							
Senior Loan	$ (25,845,272)	$ 20,986,154	$ (876,907)	$ -	$ -	$ (5,736,025)	$ (876,907)
Subordinated Loan	(1,200,604)	(70,387)	(113,984)	-	-	(1,384,975)	(113,984)
Total loans payable	$ (27,045,876)	$ 20,915,767	$ (990,891)	$ -	$ -	$ (7,121,000)	$ (990,891)

[1] Level 3 swap assets and liabilities are presented net for the purposes of this table.

[2] Non-agency RMBS, with a December 31, 2010 fair value of $217,207, were transferred from Level 3 to Level 2 because they are valued at December 31, 2011 based on quoted prices for identical or similar assets in non-active markets (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3). There were also Non-agency RMBS and other investments that became less observable during the year ending December 31, 2011, which resulted in $445,370 and $210,441, respectively, in transfers from Level 2 to Level 3.

[3] The amount of transfers is based on fair values of the transferred assets at the beginning of the reporting period.

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown above for the year ended December 31, 2011 (in thousands):

	Purchases	Sales	Issuances	Settlements [3]	Purchases, sales, issuances, and settlements, net
Investments					
Federal agency & GSE MBS	$ -	$ (17,109)	$ -	$ (11,290)	$ (28,399)
Non-agency RMBS	-	(277)	-	(235,948)	(236,225)
Commercial mortgage loans	-	(557,103)	-	(68,447)	(625,550)
Residential mortgage loans	-	(97,323)	-	(77,938)	(175,261)
Other investments	1,594	(25,077)	-	(45,159)	(68,642)
Total investments	$ 1,594	$ (696,889)	$ -	$ (438,782)	$ (1,134,077)
Net swap contracts [1]					
CDS	$ -	$ (48,159)	$ -	$ (187,139)	$ (235,298)
Loans payable					
Senior Loan	$ (137,628) [2]	$ -	$ -	$ 21,123,782	$ 20,986,154
Subordinated Loan	(70,387) [2]	-	-	-	(70,387)
Total loans payable	$ (208,015)	$ -	$ -	$ 21,123,782	$ 20,915,767

[1] Level 3 swap assets and liabilities are presented net for the purposes of this table.
[2] Represents accrued and capitalized interest.
[3] Includes paydowns.

The following table presents total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the year ended December 31, 2012 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments			
Federal agency & GSE MBS	$ 11,750	$ (12,863)	$ (1,113)
Non-agency RMBS	(945,987)	1,206,521	260,534
Commercial mortgage loans [1]	(101,186)	393,526	292,340
Residential mortgage loans [1]	(326,104)	321,528	(4,576)
Short-term investments	8	1,603	1,611
Other investments	(182,632)	277,300	94,668
Total investments	(1,544,151)	2,187,615	643,464
Swap contracts, net			
CDS	74,608	(165,414)	(90,806)
Total investments and swap contracts	$ (1,469,543)	$ 2,022,201	$ 552,658
Loans			
Senior Loan	$ -	$ (519,272)	$ (519,272)
Subordinated Loan	-	-	-
Total loans	$ -	$ (519,272)	$ (519,272)

[1] Substantially all unrealized gains (losses) on the commercial and residential mortgage loans are attributable to changes in instrument-specific credit risk.

The following table presents total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the year ended December 31, 2011 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments			
Federal agency & GSE MBS	$ 1,221,466	$ (895,268)	$ 326,198
Non-agency RMBS	45,065	100,338	145,403
Commercial mortgage loans [1]	(367,773)	406,739	38,966
Residential mortgage loans [1]	(312,424)	263,295	(49,129)
Short-term investments [2]	(1,956)	(1,547)	(3,503)
Other investments [2]	(29,499)	77,908	48,409
Total investments	554,879	(48,535)	506,344
Swap contracts, net			
Interest rate swaps	(268,254)	130,626	(137,628)
CDS	10,687	94,417	105,104
Total swap contracts, net	(257,567)	225,043	(32,524)
Other derivatives [3]	(50,683)	11,102	(39,581)
Total investments, swap contracts, and other derivatives	$ 246,629	$ 187,610	$ 434,239
Loans			
Senior Loan	$ -	$ (876,907)	$ (876,907)
Subordinated Loan	-	(113,984)	(113,984)
Total loans	$ -	$ (990,891)	$ (990,891)

[1] Substantially all unrealized gains (losses) on the commercial and residential mortgage loans are attributable to changes in instrument-specific credit risk.

[2] "Short-term investments" were recategorized from "Other investments" to conform to the current year presentation.

[3] Includes realized and unrealized gains (losses) on futures.

6. Investment and Risk Profile

As of December 31, 2012, the LLC's portfolio consisted primarily of commercial mortgage loans, CDS, and short-term investments (with maturities of greater than three months and less than one year when acquired). The following is a description of the significant holdings at December 31, 2012 and the associated credit risk for each holding:

A. *Debt Securities*

The LLC has investments in short-term instruments with maturities of greater than three months and less than one year when acquired. As of December 31, 2012, the LLC had approximately $251 million in US Treasury bills.

Other investments are primarily comprised of CMBS and various other structured debt instruments.

At December 31, 2012, the ratings breakdown, by sector, of debt securities, which are recorded at fair value as a component of "Investments, at fair value" on the Consolidated Statements of Financial Condition, as a percentage of the $320 million aggregate fair value of debt securities in the portfolio was as follows:

	Ratings [1, 3]							
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / Agency	Not rated [4]	Total
Security Type [2]:								
Short-term investments	0.0%	0.0%	0.0%	0.0%	0.0%	78.4%	0.0%	78.4%
Non-agency RMBS	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.5%
Federal agency & GSE MBS	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.2%
Other investments	0.0%	0.0%	0.0%	2.6%	6.9%	0.0%	11.4%	21.0%
Total	0.0%	0.0%	0.0%	2.6%	7.4%	78.5%	11.4%	100.0%

[1] Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.
[2] This table excludes the LLC's commercial mortgage loans and swaps.
[3] Rows and columns may not total due to rounding.
[4] Not rated by a nationally recognized statistical rating organization as of December 31, 2012.

B. *Commercial Mortgage Loans*

Commercial mortgage loans are subject to a high degree of credit risk because of exposure to financial loss resulting from failure by a counterparty to meet its contractual obligations. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply and demand factors, construction trends, consumer behavior, regional economic conditions, interest rates, and other factors.

The performance profile for the commercial mortgage loans at December 31, 2012, was as follows (in thousands, except percentage data):

	Unpaid principal balance	Fair value	Fair value as a percentage of unpaid principal balance
Commercial mortgage loans:			
Performing loans	$ 175,669	$ 144,214	82.1%
Non-performing / non-accrual loans [1]	519,493	322,015	62.0%
Total	$ 695,162	$ 466,229	67.1%

[1] Non-performing / non-accrual loans include loans with payments past due greater than 90 days.

The following table summarizes the property types of the commercial mortgage loans held in the Grantor Trusts at December 31, 2012 (in thousands, except percentage data):

Property Type	Unpaid principal balances	Concentration of unpaid principal balances
Office [1]	$ 600,871	86.4%
Hospitality	86,441	12.4%
Other [2]	7,850	1.2%
Total	$ 695,162	100.0%

[1] One sponsor included in office represents approximately 86 percent of total unpaid principal balance of the commercial mortgage loan portfolio.

[2] No other individual property type comprises more than 5 percent of the total.

Commercial mortgage loans held by the CRE Trust are composed of different levels of subordination with respect to the underlying properties, and relative to each other. Senior mortgage loans are secured property loans evidenced by a first mortgage that is senior to any subordinate or mezzanine financing. Subordinate mortgage interests, sometimes known as B Notes, are loans evidenced by a junior note or a junior participation in a mortgage loan. Mezzanine loans are loans made to the direct or indirect owner of the property-owning entity. Mezzanine loans are not secured by a mortgage on the property but rather by a pledge of the mezzanine borrower’s direct or indirect ownership interest in the property-owning entity.

The following table summarizes the types of commercial mortgage loans held in the CRE Trust at December 31, 2012 (in thousands, except percentage data):

Loan type	Unpaid principal balances	Concentration of unpaid principal balances
Senior mortgage loans	$ 90,813	13.1%
Subordinate interests in mortgages	38,332	5.5%
Mezzanine loans	566,017	81.4%
Total	$ 695,162	100.0%

C. Derivative Instruments

Derivative contracts are instruments, such as swaps contracts, that derive their value from underlying assets, indices, reference rates, or a combination of these factors. The LLC portfolio is composed of derivative financial instruments included in the TRS. The LLC and JPMC entered into the TRS with reference obligations representing CDS primarily on RMBS and CMBS with various market participants, including JPMC. The LLC, through its Investment Manager, currently manages the CDS contracts within the TRS as a runoff portfolio and may unwind, amend, or novate reference obligations on an ongoing basis.

On an ongoing basis, per the terms of the TRS, the LLC pledges collateral for credit- or liquidity-related shortfalls based on 20 percent of the notional amount of sold CDS protection and 10 percent of the present value of future premiums on purchased CDS protection. Separately, the LLC and JPMC engage in bilateral posting of collateral to cover the net mark-to-market (“MTM”) variations in the swap portfolio. The LLC only nets the collateral received from JPMC from the bilateral MTM posting for the reference obligations for which JPMC is the counterparty.

The values of the LLC’s cash equivalents, purchased by the re-hypothecation of cash collateral associated with the TRS, were \$0.5 billion and \$0.8 billion as of December 31, 2012 and 2011, respectively. In addition, the LLC has pledged \$0.2 billion and \$0.6 billion of Federal agency and GSE MBS and US Treasury notes to JPMC as of December 31, 2012 and 2011, respectively.

The following risks are associated with the derivative instruments within the LLC as part of the TRS agreement with JPMC:

I. Market Risk

CDS are agreements that provide protection for the buyer against the loss of principal, and in some cases, interest on a bond or loan in case of a default by the issuer. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency, or failure to meet payment obligations when due. The buyer of the CDS pays a premium in return for payment protection upon the occurrence, if any, of a credit event. Upon the occurrence of a triggering credit event, the maximum potential amount of future payments the seller could be required to make under a CDS is equal to the notional amount of the contract. Such future payments could be reduced or offset by amounts recovered under recourse or by collateral provisions outlined in the contract, including seizure and liquidation of collateral pledged by the buyer. The LLC’s derivatives portfolio consists of purchased credit protection and sold credit protection with differing underlying referenced names that do not necessarily offset.

II. Credit Risk

Credit risk is the risk of financial loss resulting from failure by a counterparty to meet its contractual obligations to the LLC. This can be caused by factors directly related to the counterparty, such as business or management. Taking collateral is the most common way to mitigate such risk. The LLC takes financial collateral in the form of cash and marketable securities to cover JPMC counterparty risk as part of the TRS agreement with JPMC. The LLC however remains exposed to the credit risk of counterparties to the swaps, other than JPMC, that underlie the TRS.

The following table summarizes the notional amounts of derivative instruments by contract type outstanding as of December 31, 2012 and 2011 (in thousands, except contract data):

	Notional amounts [1] 2012	Notional amounts [1] 2011
Credit derivatives:		
CDS [2]	$ 1,755,156	$ 3,940,283

[1] Represents the sum of gross long and gross short notional derivative contracts. The change in notional amounts is representative of the volume of activity for the year ended December 31, 2012.

[2] There were 470 and 979 CDS contracts outstanding as of December 31, 2012 and 2011, respectively.

The following table summarizes the fair value of derivative instruments by contract type on a gross basis as of December 31, 2012 and 2011 (in thousands):

	2012 Gross derivative assets	2012 Gross derivative liabilities	2011 Gross derivative assets	2011 Gross derivative liabilities
Credit derivatives:				
CDS [1]	$ 816,120	$ (343,490)	$ 1,630,129	$ (790,647)
Counterparty netting	(272,171)	272,171	(684,990)	684,990
Cash collateral netting	(136,208)	-	(288,266)	-
Total	$ 407,741	$ (71,319)	$ 656,873	$ (105,657)

[1] CDS fair values as of December 31, 2012 for assets and liabilities includes interest receivables of $14,640 and payables of $9,013. CDS fair values as of December 31, 2011 for assets and liabilities includes interest receivables of $21,605 and payables of $13,164.

The following table summarizes certain information regarding protection sold through CDS as of December 31, 2012 (in thousands):

	Maximum potential payout / notional					
	Years to maturity					Fair value
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection sold:						
Investment grade (AAA to BBB-)	$ -	$ -	$ -	$ 51,970	$ 51,970	$ (5,440)
Non-investment grade (BB+ or lower)	-	-	-	438,402	438,402	(328,911)
Total credit protection sold	$ -	$ -	$ -	$ 490,372	$ 490,372	$ (334,351)

The following table summarizes certain information regarding protection sold through CDS as of December 31, 2011 (in thousands):

	Maximum potential payout / notional					
	Years to maturity					Fair value
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection sold:						
Investment grade (AAA to BBB-)	$ -	$ -	$ -	$ 92,000	$ 92,000	$ (14,376)
Non-investment grade (BB+ or lower)	150,000	100,000	-	903,655	1,153,655	(762,993)
Total credit protection sold	$ 150,000	$ 100,000	$ -	$ 995,655	$ 1,245,655	$ (777,369)

The following table summarizes certain information regarding protection bought through CDS as of December 31, 2012 (in thousands):

	Maximum potential recovery / notional					
	Years to maturity					Fair value
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection bought:						
Investment grade (AAA to BBB-)	$ -	$ -	$ 25,000	$ 125,239	$ 150,239	$ 27,032
Non-investment grade (BB+ or lower)	-	-	8,500	1,106,045	1,114,545	774,322
Total credit protection bought	$ -	$ -	$ 33,500	$ 1,231,284	$ 1,264,784	$ 801,354

The following table summarizes certain information regarding protection bought through CDS as of December 31, 2011 (in thousands):

	Maximum potential recovery / notional					
	Years to maturity					Fair value
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection bought:						
Investment grade (AAA to BBB-)	$ 5,000	$ -	$ 7,500	$ 157,739	$ 170,239	$ 46,132
Non-investment grade (BB+ or lower)	351,000	100,000	21,500	2,051,889	2,524,389	1,562,278
Total credit protection bought	$ 356,000	$ 100,000	$ 29,000	$ 2,209,628	$ 2,694,628	$ 1,608,410

III. Currency Risk

Currency risk is the risk of financial loss resulting from exposure to unanticipated changes in exchange rates between two currencies. Under the terms of the TRS, JPMC may post cash collateral in the form of either U.S. dollar or Euro denominated currencies to cover the net MTM variation in the swap portfolio. Starting in December 2012, JPMC began posting a portion of the collateral in Euro currency. This risk is mitigated by daily variation margin updates that capture the movement in the value of the swap portfolio in addition to any movement in exchange rates on the swap collateral.

7. Commitments and Contingencies

Certain commercial mortgage loans acquired by the CRE Trust have unfunded commitments according to the underlying loan agreements with the respective borrowers. The CRE Trust had unfunded commitments to extend credit of $54 million and $61 million as of December 31, 2012 and 2011, respectively. The CRE Trust is obligated to honor these commitments as and when they are drawn by the borrower, subject to the terms and conditions of the loan agreements. The fair value adjustment on the unfunded commitments is recorded as a component of "Investments, at fair value" in the Consolidated Statements of Financial Condition.

The collateral for the unfunded amount of the commitments, which is recorded as a component of "Restricted cash" in the Consolidated Statements of Financial Condition, is held in an escrow account by State Street, as custodian for the trustee of the CRE Trust. The balances in the escrow account were $55 million and $61 million, as of December 31, 2012 and 2011, respectively. The Trust and Master Servicing Agreement governing the CRE Trust requires that the amounts be held in escrow for all remaining unfunded commitments. There is an additional $18 million recorded in "Restricted cash" in the Consolidated Statements of Financial Condition at December 31, 2011 that represents funds held for obligations of the CRE Trust under existing commercial loan agreements. This cash is held in an account at the master servicer.

The LLC and the Grantor Trusts pay the reasonable out-of-pocket costs and expenses of its service providers incurred in connection with its duties under the respective agreements and agree to indemnify their service providers for any losses, claims, damages, liabilities, and related expenses, etc., which may arise out of the respective agreements unless they result from certain types of actions by the service providers. The indemnity, which is provided solely by the LLC or each of the Grantor Trusts, as applicable, survives termination of the respective agreements. The LLC and Grantor Trusts have not had any significant prior claims and have not had any losses pursuant to these contracts and expect the risk of loss to be remote.

During 2012, the CRE Trust received a settlement with respect to an action it commenced in June 2009 seeking to recover on guarantees related to certain commercial mezzanine loans held by the CRE Trust. Prior to the settlement, the senior lenders initiated their own action seeking to enforce the same guaranty, and seeking a declaratory judgment that they and not the mezzanine lenders are entitled to the proceeds of the guaranty. The lower court issued a judgment in favor of the mezzanine lenders, but the senior lenders appealed the judgment. The appellate court reversed the decision of the lower court and held that the intercreditor agreement was ambiguous and remanded the matter back to the lower court for further proceedings. If the senior lenders are ultimately successful, the CRE Trust will need to return the amount it received in the settlement, approximately $22.5 million, but will not have any other exposure. Any such return of the settlement, if it were to occur, would be recorded as a realized loss on investment to offset against a previously recorded realized gain.

8. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2012. Subsequent events were evaluated through March 14, 2013, which is the date the LLC issued the consolidated financial statements.