

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, 2010 and 2009,
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

March 22, 2011

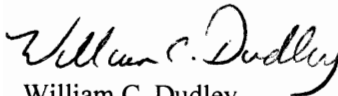
To the Board of Directors of the
Federal Reserve Bank of New York:

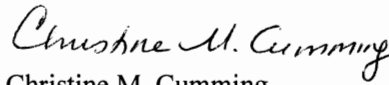
The management of the Maiden Lane LLC (ML LLC) is responsible for the preparation and fair presentation of the Consolidated Statements of Financial Condition, Consolidated Statements of Income, and Consolidated Statements of Cash Flows as of December 31, 2010 (the Financial Statements). The Financial Statements have been prepared in conformity with accounting principles generally accepted 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.

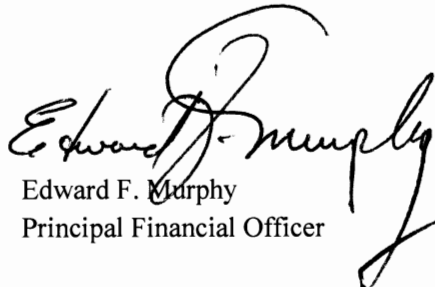
The management of the ML LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with GAAP. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

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 the ML LLC assessed its internal control over financial reporting reflected in the Financial Statements, 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 the ML LLC maintained effective internal control over financial reporting as it relates to the Financial Statements.


William C. Dudley
President


Christine M. Cumming
First Vice President


Edward F. Murphy
Principal Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Managing Member of
Maiden Lane LLC:

We have audited the accompanying consolidated statements of financial condition of Maiden Lane LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) and subsidiaries (the "LLC") as of December 31, 2010 and 2009, and the related consolidated statements of income and cash flows for the years ended December 31, 2010 and 2009. We also have audited the LLC's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report of Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the LLC's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 financial statements for external purposes in accordance with generally accepted accounting principles. 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 financial statements in accordance with generally accepted accounting principles, 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 of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the consolidated financial statements.

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 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.

In our opinion, such financial statements 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) and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended December 31, 2010 and 2009 and in conformity 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, 2010, 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 22, 2011

Maiden Lane LLC

Consolidated Statements of Financial Condition

As of December 31, 2010 and 2009

(Amounts in thousands, except par value and per share data)

	2010	2009
Assets		
Cash and cash equivalents (includes restricted cash of \$81,024 and \$158,145, respectively)	\$ 1,601,291	\$ 1,242,312
Investments, at fair value (cost of \$27,766,954 and \$31,683,912, respectively, and includes assets pledged of \$1,042,612 and \$1,477,563, respectively)	25,363,888	25,573,328
Swap contracts, at fair value	851,035	1,127,182
Principal and interest receivable	121,451	137,202
Receivable for investments sold	-	26,288
Other assets	23,465	34,000
Total assets	<u>\$ 27,961,130</u>	<u>\$ 28,140,312</u>
Liabilities and Member's Equity		
Senior Loan, at fair value	\$ 25,845,272	\$ 27,002,694
Subordinated Loan, at fair value	1,200,604	-
Swap contracts, at fair value	201,458	142,615
Cash collateral on swap contracts	694,735	979,847
Other liabilities and accrued expenses	19,061	15,156
Total liabilities	<u>27,961,130</u>	<u>28,140,312</u>
Member's equity (\$10 par value, 1 share issued and outstanding)	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 27,961,130</u>	<u>\$ 28,140,312</u>

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, 2010 and 2009
(Amounts in thousands)

	2010	2009
Revenues		
Interest income	\$ 1,131,713	\$ 1,474,328
Realized gains (losses) on investments, swap contracts, and other derivatives, net	(872,647)	108,839
Unrealized gains (losses) on investments, swap contracts, and other derivatives, net	3,443,312	(211,044)
Other income	1,402	1,366
Total revenues	<u>3,703,780</u>	<u>1,373,489</u>
Expenses		
Interest expense	271,080	206,215
Professional fees and other expenses	68,596	54,607
Total expenses	<u>339,676</u>	<u>260,822</u>
Net operating income	<u>3,364,104</u>	<u>1,112,667</u>
Non-operating losses		
Unrealized gains (losses) on the Loans	(3,364,104)	(1,112,667)
Total non-operating losses	<u>(3,364,104)</u>	<u>(1,112,667)</u>
Net income	<u>\$ -</u>	<u>\$ -</u>

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, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts and premiums on investments	(276,300)	(470,000)
Realized (gains) losses on investments, swaps and other derivatives, net	872,647	(108,839)
Unrealized (gains) losses on investments, swaps and other derivatives, net	(3,443,312)	211,044
Unrealized (gains) losses on the Loans	3,364,104	1,112,667
Increase in accrued and capitalized interest on the Loans	271,080	206,215
(Increase) decrease in principal and interest receivable	42,039	(4,701)
Decrease in other assets and receivable for investments sold	9,172	116,759
Increase in other liabilities and accrued expenses	3,905	4,279
Net cash flow provided by operating activities	<u>843,335</u>	<u>1,067,424</u>
Cash flows from investing activities		
Payments for purchase of investments	(7,328,926)	(11,285,778)
Proceeds from principal paydowns on investments	5,789,128	4,001,490
Proceeds from sale of investments	4,858,075	4,799,328
Payments for purchase of swap contracts	(507)	(86,615)
Proceeds from disposition of swap contracts	74,988	1,525,810
Net cash flow provided by (used in) investing activities	<u>3,392,758</u>	<u>(1,045,765)</u>
Cash flows from financing activities		
Repayments of Senior Loan	(3,592,002)	-
Proceeds from (repayments of) collateral received on swap contracts	(285,112)	(1,310,835)
Net cash flow used in financing activities	<u>(3,877,114)</u>	<u>(1,310,835)</u>
Net increase (decrease) in cash and cash equivalents	358,979	(1,289,176)
Beginning cash and cash equivalents	1,242,312	2,531,488
Ending cash and cash equivalents	<u>\$ 1,601,291</u>	<u>\$ 1,242,312</u>
Supplemental non-cash operating and financing activities:		
Accrued and capitalized interest on the Loans	<u>\$ 271,080</u>	<u>\$ 206,215</u>
Supplemental non-cash investing activities:		
TBA commitment transactions	<u>\$ -</u>	<u>\$ 2,368,738</u>

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

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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 Bear Stearns’ assets in connection with and to facilitate the merger of The Bear Stearns Companies Inc. (“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.

The 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”). The 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, 2010. 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, liabilities, income, and expenses during the reporting period. Significant estimates include the fair value of investments, swap contracts, 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.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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

A. *Cash and Cash Equivalents*

The LLC defines investments in money market funds and other highly liquid investments with original maturities of three months or less, when acquired, as cash equivalents. Money market funds are carried at fair value based on quoted prices in active markets. Other short-term investments included in cash equivalents are carried at amortized cost, which approximates fair value.

As of April 2010, the LLC invested available cash in US T-Bills, Agency Discount Notes and Government Money Market Funds registered under the Investment Company Act of 1940. These funds are unaffiliated with the Investment Manager. As of December 31, 2010 the LLC had approximately \$1.4 billion in US T-Bills and Agency Discount Notes and \$0.2 billion in money market funds.

The LLC previously invested available cash in the BlackRock Liquidity Funds TempFund (“TempFund”) and the State Street Global Advisors Money Market Fund (“SSGA Fund”), both of which are money market funds registered under the Investment Company Act of 1940. The TempFund is managed by BlackRock Institutional Management Corporation, an affiliate of the Investment Manager. The Investment Manager had agreed to waive any fees or expenses that would otherwise be allocated to the LLC by virtue of the LLC being an investor in the TempFund. At December 31, 2009, the LLC had approximately \$1 billion invested in the TempFund. The SSGA Fund is managed by State Street Global Advisors, an affiliate of State Street. At December 31, 2009, the LLC had approximately \$0.2 billion invested in the SSGA Fund.

Restricted cash principally represents 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.

B. *Investments*

The LLC’s investments consist primarily of Federal agency and Government Sponsored Enterprise mortgage-backed securities (“GSE MBS”), non-agency residential mortgage-backed securities (“RMBS”), commercial and residential mortgage loans, and derivatives and associated hedges. The LLC follows the guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 320 *Investments – Debt and Equity Securities* when accounting for investments in debt securities.

Investment transactions are accounted for at trade date. Interest income is recorded when earned and includes amortization of premiums, accretion of discounts, and paydown gains and losses on investments. Realized gains or losses on investment transactions are determined on the identified cost basis.

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 FASB ASC Topic 820 (ASC 820) *Fair Value Measurements & Disclosures*. 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 FASB ASC Topic 815 (ASC 815) *Derivatives and Hedging*. For more information on the valuation of swap contracts and other derivative instruments, refer to Note 5 and Note 6.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Fair Value Hierarchy

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 methodology 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 gains (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, 2010, the LLC's significant interests in non-consolidated VIEs consisted of approximately \$477 million of investments, at fair value and a payable of approximately \$72 million, which was recorded as a component of "Swap contracts, at fair value" in the Consolidated Statement of Financial Condition. The fair value and

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

total maximum exposure to non-consolidated VIEs was \$549 million and \$448 million as of December 31, 2010 and 2009, respectively.

F. Professional Fees and Other Expenses

Professional fees and other expenses are primarily comprised of the fees charged by the Investment Manager, administrator, and fees and expenses related to the servicing 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. Recently Issued Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140* (codified in ASC 860). The new standard revises the criteria for recognizing transfers of financial assets as sales and clarifies that the transferor must consider all arrangements when determining if the transferor has surrendered control. The adoption of this accounting guidance was effective for the LLC for the year beginning on January 1, 2010, and did not have a material effect on the LLC's consolidated financial statements.

In June 2009, the FASB issued SFAS 167, *Amendments to FASB Interpretation No. 46(R)*, (codified in ASC 810), which expands the scope of Interpretation 46(R), *Consolidation of Variable Interest Entities* and changes the approach for determining whether an entity has a controlling interest in a VIE by making a qualitative assessment of its financial interests. Additional disclosures are required for a variable interest in a VIE. The adoption of this accounting guidance was effective for the LLC for the year beginning on January 1, 2010, and earlier adoption was prohibited. The adoption of this accounting guidance did not have a material effect on the LLC's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (Topic 820). New requirements for disclosure of information about transfers among the hierarchy's classification and the level of disaggregation of classes of assets were effective for the LLC for the year beginning on January 1, 2010, and the required disclosures are included in Note 5. Other requirements, including the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements are effective for the LLC in 2011 and are not expected to have a material effect on the LLC's consolidated financial statements.

3. Senior Loan 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 has a ten year term and matures on June 26, 2018. FRBNY may extend the date of final maturity of the Senior Loan to any later date and, without the consent of JPMC, may extend the date of final maturity of the Subordinated Loan to any later date, provided that such extension of the Subordinated Loan does not extend the Subordinated Loan beyond the date of maturity of the Senior Loan and there remains outstanding obligations due on the Senior Loan beyond the contingent interest.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The Senior Loan bears interest at the primary credit rate in effect and is entitled to receive additional contingent interest 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 bears 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 is capitalized quarterly and accrues daily based on the amount of principal and capitalized interest outstanding on the last day of the last month in each calendar quarter.

Consistent with the terms of the Security Agreement, repayment of the Senior Loan commenced in July 2010 and will be made monthly, subject to availability of funds in the LLC's accounts unless otherwise directed by FRBNY pursuant to the order of priority described in Note 4.

The following table presents a reconciliation of the Loans as of December 31, 2010 and 2009 (in thousands):

	Senior Loan ¹	Subordinated Loan ²	Total
Fair value, January 1, 2009	\$ 25,683,812	\$ -	\$ 25,683,812
<i>2009 Activity:</i>			
Accrued and capitalized interest	145,708	60,507	206,215
Unrealized (gains) / losses on the Loans	1,173,174	(60,507)	1,112,667
Fair value, December 31, 2009	<u>\$ 27,002,694</u>	<u>\$ -</u>	<u>\$ 27,002,694</u>
<i>2010 Activity:</i>			
Accrued and capitalized interest	204,684	66,396	271,080
Repayments	(3,592,002)		(3,592,002)
Unrealized (gains) / losses on the Loans	2,229,896	1,134,208	3,364,104
Fair value, December 31, 2010	<u>\$ 25,845,272</u>	<u>\$ 1,200,604</u>	<u>\$ 27,045,876</u>

¹ The outstanding principal and accrued interest balance of the Senior Loan were \$25,845,272 (principal of \$25,227,530 and interest of \$617,742) and \$29,232,590 (principal of \$28,819,532 and interest of \$413,058) as of December 31, 2010 and 2009, respectively.

² The outstanding principal and accrued interest balance of the Subordinated Loan were \$1,314,588 (principal of \$1,150,000 and interest of \$164,588) and \$1,248,192 (principal of \$1,150,000 and interest of \$98,192) as of December 31, 2010 and 2009, respectively.

The weighted average interest rates on the Senior Loan and Subordinated Loan for the year ended December 31, 2010 were 0.72 percent and 5.22 percent, respectively. The weighted average interest rates on the Senior Loan and Subordinated Loan for the year ended December 31, 2009 were 0.50 percent and 5.00 percent, respectively.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

4. Distribution of Proceeds

In accordance with the Security Agreement, amounts available in the accounts of the LLC as of the last business day of each month, upon the sole discretion of FRBNY, shall be distributed on the 10th business day following each month-end or such other date as may be specified by FRBNY 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.

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. Financial futures contracts traded on exchanges are valued at their last sale price. The fair value of swap agreements is provided by JPMC as calculation agent, subject to review 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, the Investment Manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from the reported performance of bonds with similar characteristics as well as available market data to determine fair value.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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 (loss), as presented in the reconciliation of the Loans in Note 3.

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, other derivatives, 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 activity for particular investments or where current market quotations are not reflective of the fair value of an instrument, the valuation is based on model-based techniques 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, data for each credit rating, valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The following table presents the assets and liabilities recorded at fair value as of December 31, 2010 by the fair value hierarchy (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Netting³</u>	<u>Total fair value</u>
Assets:					
Money market funds ¹	\$ 165,768	\$ -	\$ -	\$ -	\$ 165,768
Other short-term investments ¹	1,411,998	-	-	-	1,411,998
Investments					
Federal agency & GSE MBS	-	16,812,145	29,878	-	16,842,023
Non-agency RMBS	-	1,177,381	694,051	-	1,871,432
Commercial mortgage loans	-	3,198,843	1,930,926	-	5,129,769
Residential mortgage loans	-	-	602,867	-	602,867
Other investments	-	699,118	218,679	-	917,797
Total investments	-	21,887,487	3,476,401	-	25,363,888
Swap contracts					
IRS	-	8,679	-	(8,679)	-
CDS	-	-	2,317,163	(1,466,128)	851,035
Total swap contracts	-	8,679	2,317,163	(1,474,807)	851,035
Other derivatives ²					
Total assets	-	4,188	-	-	4,188
	<u>\$ 1,577,766</u>	<u>\$ 21,900,354</u>	<u>\$ 5,793,564</u>	<u>\$ (1,474,807)</u>	<u>\$ 27,796,877</u>
Liabilities:					
Senior Loan	\$ -	\$ -	\$ (25,845,272)	\$ -	\$ (25,845,272)
Subordinated Loan	-	-	(1,200,604)	-	(1,200,604)
Swap contracts					
IRS	-	(228,866)	-	214,554	(14,312)
CDS	-	-	(1,347,487)	1,160,341	(187,146)
Total swap contracts	-	(228,866)	(1,347,487)	1,374,895	(201,458)
Other derivatives ²					
Total liabilities	(2,343)	-	-	-	(2,343)
	<u>\$ (2,343)</u>	<u>\$ (228,866)</u>	<u>\$ (28,393,363)</u>	<u>\$ 1,374,895</u>	<u>\$ (27,249,677)</u>

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

² Represents futures and options, which are recorded in "Other assets" and "Other liabilities and accrued expenses" on the Consolidated Statements of Financial Condition.

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.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The following table presents the assets and liabilities recorded at fair value as of December 31, 2009 by the fair value hierarchy (in thousands):

	Fair value hierarchy			Netting ³	Total fair value
	Level 1	Level 2	Level 3		
Assets:					
Money market funds ¹	\$ 1,163,499	\$ -	\$ -	\$ -	\$ 1,163,499
Investments					
Federal agency & GSE MBS	-	18,124,056	24,484	-	18,148,540
Non-agency RMBS	-	874,370	1,035,048	-	1,909,418
Commercial mortgage loans	-	-	4,024,973	-	4,024,973
Residential mortgage loans	-	-	583,343	-	583,343
Other investments	31,116	736,406	139,532	-	907,054
Total investments	31,116	19,734,832	5,807,380	-	25,573,328
Swap contracts	-	4,636	3,272,402	(2,149,856)	1,127,182
Other derivatives ²	19,838	-	-	-	19,838
Total assets	<u>\$ 1,214,453</u>	<u>\$ 19,739,468</u>	<u>\$ 9,079,782</u>	<u>\$ (2,149,856)</u>	<u>\$ 27,883,847</u>
Liabilities:					
Senior Loan	\$ -	\$ -	\$ (27,002,694)	\$ -	\$ (27,002,694)
Subordinated Loan	-	-	-	-	-
Swap contracts	-	(194,633)	(1,816,428)	1,868,446	(142,615)
Total liabilities	<u>\$ -</u>	<u>\$ (194,633)</u>	<u>\$ (28,819,122)</u>	<u>\$ 1,868,446</u>	<u>\$ (27,145,309)</u>

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

² Represents futures and options on futures, which are recorded in "Other assets" on the Consolidated Statements of Financial Condition.

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.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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, 2010, including realized and unrealized gains (losses) (in thousands):

	Fair value at January 1, 2010	Net purchases, sales, paydowns, and settlements	Net realized / unrealized gains (losses)	Net transfers in or (out) ^{3,4}	Fair value at December 31, 2010	Change in unrealized gains (losses) related to financial instruments held at December 31, 2010
Investments						
Federal agency & GSE MBS	\$ 24,484	\$ (33,813)	\$ 1,544	\$ 37,663	\$ 29,878	\$ 1,544
Non-agency RMBS	1,035,048	(320,952)	245,042	(265,087)	694,051	143,983
Commercial mortgage loans	4,024,973	(335,085)	680,893	(2,439,855)	1,930,926	542,169
Residential mortgage loans	583,343	(91,820)	111,344	-	602,867	197,240
Other investments	139,532	(31,352)	89,611	20,888	218,679	37,204
Total investments	\$ 5,807,380	\$ (813,022)	\$ 1,128,434	\$ (2,646,391)	\$ 3,476,401	\$ 922,140
Net swap contracts¹						
CDS	1,455,974	(325,163)	(161,135)	-	969,676	(137,105)
Loans payable						
Senior Loan	\$ (27,002,694)	\$ 3,387,318 ²	\$ (2,229,896)	\$ -	\$ (25,845,272)	\$ (2,229,896)
Subordinated Loan	-	(66,396) ²	(1,134,208)	-	(1,200,604)	(1,134,208)
Total loans payable	\$ (27,002,694)	\$ 3,320,922	\$ (3,364,104)	\$ -	\$ (27,045,876)	\$ (3,364,104)

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

² Includes accrued and capitalized interest of \$204,684 for the Senior loan and \$66,396 for the Subordinate loan.

³ Commercial mortgage loans, with a December 31, 2009 fair value of \$2,439,855, were transferred from Level 3 to Level 2 because they are valued at December 31, 2010 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 no other significant transfers between Levels during the year ended December 31, 2010.

⁴ The amount of transfers is based on fair values of the transferred assets at the beginning of the reporting period.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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, 2009, including realized and unrealized gains (losses) (in thousands):

	Fair value at January 1, 2009	Net purchases, sales, paydowns, and settlements	Net realized / unrealized gains (losses)	Net transfers in or (out)	Fair value at December 31, 2009	Change in unrealized gains (losses) related to financial instruments held at December 31, 2009
Investments						
Federal agency & GSE MBS	\$ 894,794	\$ (246,618)	\$ (293)	\$ (623,399)	\$ 24,484	\$ -
Non-agency RMBS	1,076,753	(93,852)	(17,621)	69,768	1,035,048	(18,185)
Commercial mortgage loans	5,552,831	(304,453)	(1,223,405)	-	4,024,973	(1,176,752)
Residential mortgage loans	937,010	(86,083)	(267,584)	-	583,343	(219,439)
Other investments	484,719	(253,140)	2,358	(94,405)	139,532	3,797
Total investments	\$ 8,946,107	\$ (984,146) ³	\$ (1,506,545)	\$ (648,036)	\$ 5,807,380	\$ (1,410,579)
Net swap contracts ¹	\$ 2,453,774	\$ (904,886)	\$ 93,524	\$ (186,438)	\$ 1,455,974	\$ 212,152
Loans payable						
Senior Loan	\$ (25,683,812)	\$ (145,708) ²	\$ (1,173,174)	\$ -	\$ (27,002,694)	\$ (1,173,174)
Subordinated Loan	-	(60,507) ²	60,507	-	-	60,507
Total loans payable	\$ (25,683,812)	\$ (206,215)	\$ (1,112,667)	\$ -	\$ (27,002,694)	\$ (1,112,667)

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

² Represents accrued and capitalized interest.

³ Investments with a fair value of \$153,159 as of December 31, 2009 were recategorized from "Other investments" to "Non Agency RMBS" to conform to the current year presentation.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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, 2010 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
	<u>(losses)</u>	<u>(losses)</u>	<u>(losses)</u>
Investments			
Federal agency & GSE MBS	\$ 291,262	\$ 320,410	\$ 611,672
Non-agency RMBS	105,201	549,474	654,675
Commercial mortgage loans ¹	(878,927)	2,318,808	1,439,881
Residential mortgage loans ¹	(85,896)	197,240	111,344
Other investments	48,591	285,670	334,261
Total investments	<u>\$ (519,769)</u>	<u>\$ 3,671,602</u>	<u>\$ 3,151,833</u>
Swap contracts, net			
IRS	\$ (186,817)	\$ (57,452)	\$ (244,269)
CDS	36,656	(197,791)	(161,135)
Total swap contracts, net	<u>\$ (150,161)</u>	<u>\$ (255,243)</u>	<u>\$ (405,404)</u>
Other derivatives ²	(202,717)	26,953	(175,764)
Total investments, swap contracts, and other derivatives	<u><u>\$ (872,647)</u></u>	<u><u>\$ 3,443,312</u></u>	<u><u>\$ 2,570,665</u></u>
Loans			
Senior Loan	\$ -	\$ (2,229,896)	\$ (2,229,896)
Subordinated Loan	-	(1,134,208)	(1,134,208)
Total loans	<u><u>\$ -</u></u>	<u><u>\$ (3,364,104)</u></u>	<u><u>\$ (3,364,104)</u></u>

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

² Includes realized and unrealized gains (losses) on futures. The LLC's variation margin payable balance for open futures contracts was \$2,343 as of December 31, 2010 and is recorded as a component of "Other assets" in the Consolidated Statements of Financial Condition.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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, 2009 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments			
Federal agency & GSE MBS	\$ 321,645	\$ 521,494	\$ 843,139
Non-agency RMBS	182,890	(353,044)	(170,154)
Commercial mortgage loans	(46,653)	(1,176,752)	(1,223,405)
Residential mortgage loans	(48,145)	(219,439)	(267,584)
Other investments	92	740,588	740,680
Total investments	409,829	(487,153)	(77,324)
Swap contracts, net	(118,628)	212,152	93,524
Other derivatives ¹	(182,362)	63,957	(118,405)
Total investments, swap contracts, and other derivatives	<u>\$ 108,839</u>	<u>\$ (211,044)</u>	<u>\$ (102,205)</u>
Loans			
Senior Loan	\$ -	\$ (1,173,174)	\$ (1,173,174)
Subordinated Loan	-	60,507	60,507
Total loans	<u>\$ -</u>	<u>\$ (1,112,667)</u>	<u>\$ (1,112,667)</u>

¹ Includes realized and unrealized gains (losses) on futures. The LLC's variation margin receivable balance for open futures contracts was \$4,626 as of December 31, 2009 and is recorded as a component of "Other assets" in the Consolidated Statements of Financial Condition.

6. Investment and Risk Profile

The LLC's investment portfolio consists primarily of Federal agency and GSE MBS, non-agency RMBS, commercial and residential mortgage loans, and derivatives and associated hedges. Following is a description of the significant holdings at December 31, 2010 and the associated credit risk for each holding:

A. Debt Securities

The LLC has investments in Federal agency and GSE MBS, which represent fractional ownership interests in RMBS issued by Federal agencies and GSEs. The yield characteristics of these securities may differ from traditional debt securities. One such major difference is that all or a principal part of the obligations may be prepaid at any time because the underlying mortgages may be prepaid at any time. A portion of the LLC's investments include interest only ("IO") or principal only ("PO") security classes. The IO class receives the interest cash flows from the underlying mortgages, while the PO class receives the principal cash flows. The yield to maturity on these securities is sensitive to the rate of principal repayments (including prepayments) on the related underlying mortgage assets. The principal prepayments may have a material effect on yield to maturity. If the underlying mortgage assets experience greater than anticipated pre-payments of principal, the LLC may not fully recoup its initial investment in IO classes.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The yield to maturity on the PO classes may be impacted by delinquencies or defaults on the underlying mortgage assets. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower's equity in the mortgaged property and the individual financial circumstances of the borrower. Changes in economic conditions, including delinquencies and defaults on the underlying mortgages, can affect the value, income, and liquidity of the LLC's positions.

The LLC's non-agency RMBS investment portfolio is subject to varying levels of credit, interest rate, general market, and concentration risk. Credit-related risk on non-agency RMBS arises from losses due to delinquencies and defaults by borrowers on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the non-agency RMBS were issued. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower.

The rate of interest payable on certain non-agency RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to the LLC on such non-agency RMBS is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher interest rate.

The fair value of any particular non-agency RMBS asset may be subject to substantial variation. The entire market or particular instruments traded on a market may decline in value, even if projected cash flow or other factors improve, because the prices of such instruments are subject to numerous other factors that have little or no correlation to the performance of a particular instrument. Adverse developments in the non-agency RMBS market could have a considerable effect on the LLC because of its investment concentration in non-agency RMBS.

As of December 31, 2010, approximately 38.3 percent and 12.3 percent of the properties collateralizing the non-agency RMBS held by the LLC were located in California and Florida, respectively, based on the geographic location data available for the underlying loans by aggregate unpaid principal balance.

Other investments are primarily comprised of CMBS and CDOs.

Maiden Lane LLC

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For the years ended December 31, 2010 and 2009

At December 31, 2010, 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 \$19.6 billion aggregate fair value of debt securities in the portfolio was as follows:

Security Type ² :	Ratings ^{1,4}						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower ⁵	Govt / Agency	
Federal agency & GSE MBS	0.0%	0.0%	0.0%	0.0%	0.0%	85.8%	85.8%
Non-agency RMBS	0.3%	0.4%	0.2%	0.2%	8.4%	0.0%	9.5%
Other investments ³	0.6%	0.9%	0.2%	1.5%	1.4%	0.0%	4.7%
Total	1.0%	1.3%	0.4%	1.7%	9.8%	85.8%	100.0%

¹ Lowest of all ratings is used for the purposes of this table for securities rated by two or more nationally recognized statistical rating organizations.

² This table excludes the LLC’s commercial and residential mortgage loans, swaps, and other derivative contracts.

³ Includes all sectors that, individually, represent less than 5 percent of aggregate fair value of debt securities.

⁴ Rows and columns may not total due to rounding.

⁵ BB+ and lower includes debt securities that were not rated as of December 31, 2010.

B. Commercial and Residential Mortgage Loans

Commercial and residential mortgage loans are subject to a high degree of credit risk because of exposure to loss from loan defaults. 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.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The performance profile for the commercial and residential mortgage loans at December 31, 2010, was as follows (in thousands):

	Unpaid principal balance	Fair value	Fair value as a percentage of unpaid principal balance
Performing loans:			
Commercial	\$ 6,454,442	\$ 4,965,365	76.9%
Residential	787,959	439,820	55.8%
Subtotal	<u>7,242,401</u>	<u>5,405,185</u>	74.6%
Non-performing / Non-accrual loans ¹			
Commercial	314,704	164,404	52.2%
Residential	491,195	163,047	33.2%
Subtotal	<u>805,899</u>	<u>327,451</u>	40.6%
Total loans			
Commercial	6,769,146	5,129,769	75.8%
Residential	1,279,154	602,867	47.1%
Total	<u>\$ 8,048,300</u>	<u>\$ 5,732,636</u>	71.2%

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

The following table summarizes the state in which residential mortgage loans are collateralized and the property types of the commercial mortgage loans held in the Grantor Trusts at December 31, 2010:

	<u>Concentration of unpaid principal balances</u>	
	<u>Residential</u>	<u>Commercial ²</u>
By State		
California	36.7%	
Florida	8.9%	
Other ¹	54.4%	
	<u>100.0%</u>	
By Property Type		
Hospitality		81.8%
Office		11.0%
Other ¹		7.2%
		<u>100.0%</u>

¹ No other individual state or property type comprises more than 5 percent of the total.

² One borrower included in hospitality represents approximately 55% of total unpaid principal balance of the commercial mortgage loan portfolio.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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, 2010.

Loan type	Unpaid principal balances	Concentration of unpaid principal balances
Senior mortgage loans	\$ 3,886,416	57.4%
Subordinate interests in mortgages	63,191	0.9%
Mezzanine loans	2,819,539	41.7%
Total	<u>\$ 6,769,146</u>	<u>100.0%</u>

C. Derivative Instruments

Derivative contracts are instruments, such as futures or swaps contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. The LLC portfolio includes various derivative financial instruments, primarily consisting of the TRS. The LLC and JPMC entered into the TRS with reference obligations representing credit default swaps ("CDS") primarily on RMBS and CMBS and interest rate swaps ("IRS") 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 where JPMC is the counterparty. The values of the LLC's cash equivalents and investments, purchased by the re-hypothecation of cash collateral associated with the TRS, were \$0.8 billion and \$0, respectively, as of December 31, 2010 and \$0.8 billion and \$0.5 billion, respectively, as of December 31, 2009. In addition, the LLC has pledged \$1.0 billion and \$1.5 billion of Federal agency and GSE MBS to JPMC as of December 31, 2010 and 2009, respectively.

The LLC enters into additional derivative contracts consisting of futures and IRS to economically hedge its exposure to interest rates. For 2010, there were 29 trades executed as IRS. All derivatives are recorded at fair value in accordance with ASC 815. None of the derivatives held in the LLC are designated as hedging instruments for accounting purposes. As such, all changes in fair value are presented as a component of "Total operating income (loss)" in the Consolidated Statements of Income.

Maiden Lane LLC

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

I. Market Risk

Interest Rate Swaps and Futures

IRS obligate two parties to exchange one or more payments typically calculated with reference to fixed or periodically reset rates of interest applied to a specified notional principal amount. Notional principal is the amount to which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

Futures contracts are agreements to buy and sell financial instruments for a set price on a future date. Initial margin deposits are made upon entering into futures contracts in the form of cash or securities. During the period that a futures contract is open, changes in the value of the contract are recorded as unrealized gains or losses by revaluing the contracts on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are paid or received, depending upon whether unrealized gains or losses result. When the contract is closed, the LLC will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the LLC's cost basis in the contract. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates and the underlying hedged assets. The LLC is also at risk of not being able to enter into a closing transaction for the futures contract because of an illiquid secondary market. The LLC had pledged cash collateral related to futures contracts of \$18 million and \$40 million as of December 31, 2010 and 2009, respectively.

Credit Default Swaps

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 with underlying referenced names not correlated to offset its exposure to sold credit protection.

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 as well as the over-the-counter derivatives activities outside of the TRS.

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For the years ended December 31, 2010 and 2009

The following table summarizes the notional amounts of derivative instruments by contract type outstanding as of December 31, 2010 and 2009 (in thousands) and the change in notional amounts is representative of the volume of activity for the year ended December 31, 2010:

	Notional amounts ^{1,2}	
	2010	2009
Interest rate contracts:		
IRSs	\$ 4,129,500	\$ 3,184,500
Futures and options ³	18,411	70,289
Credit derivatives:		
CDS	5,855,824	7,323,150
Total	<u>\$ 10,003,735</u>	<u>\$ 10,577,939</u>

¹ Represents the sum of gross long and gross short notional derivative contracts.

² There were 1,400 and 1,764 CDS and IRS contracts outstanding as of December 31, 2010 and 2009, respectively.

³ Options and futures relate to contract obligations and not gross notional amounts.

The following table summarizes the fair value of derivative instruments by contract type on a gross basis as of December 31, 2010 and 2009 (in thousands):

	2010		2009	
	Gross derivative assets	Gross derivative liabilities	Gross derivative assets	Gross derivative liabilities
Interest rate contracts:				
IRSs	\$ 8,679	\$ 228,866	\$ 4,636	\$ 194,633
Futures and options	4,188	2,343	19,838	-
Credit derivatives:				
CDS ¹	2,317,163	1,347,487	3,272,402	1,816,428
Counterparty netting	(1,374,895)	(1,374,895)	(1,868,446)	(1,868,446)
Cash collateral netting	(99,912)	-	(281,410)	-
Total	<u>\$ 855,223</u>	<u>\$ 203,801</u>	<u>\$ 1,147,020</u>	<u>\$ 142,615</u>

¹ CDS fair values as of December 31, 2010 for assets and liabilities includes interest receivables of \$38,765 and payables of \$27,862. CDS fair values as of December 31, 2009 for assets and liabilities includes interest receivables of \$59,086 and payables of \$21,468.

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The following table summarizes certain information regarding protection sold through CDS as of December 31, 2010 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential payout / notional					Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	
Credit protection sold:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ 120,000	\$ 120,000	\$ (22,806)
Non-investment grade (BB+ or lower)	10,000	250,000	-	1,564,461	1,824,461	(1,283,963)
Total credit protection sold	\$ 10,000	\$ 250,000	\$ -	\$ 1,684,461	\$ 1,944,461	\$ (1,306,769)

The following table summarizes certain information regarding protection sold through CDS as of December 31, 2009 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential payout / notional					Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	
Credit protection sold:						
Investment grade (AAA to BBB-)	\$ 40,000	\$ 140,000	\$ 5,000	\$ 165,304	\$ 350,304	\$ (154,444)
Non-investment grade (BB+ or lower)	5,000	20,000	120,000	1,953,492	2,098,492	(1,639,284)
Total credit protection sold	\$ 45,000	\$ 160,000	\$ 125,000	\$ 2,118,796	\$ 2,448,796	\$ (1,793,728)

The following table summarizes certain information regarding protection bought through CDS as of December 31, 2010 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential recovery / notional					Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	
Credit protection bought:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ 263,329	\$ 263,329	\$ 76,167
Non-investment grade (BB+ or lower)	38,000	501,000	5,000	3,104,034	3,648,034	2,189,375
Total credit protection bought	\$ 38,000	\$ 501,000	\$ 5,000	\$ 3,367,363	\$ 3,911,363	\$ 2,265,542

Maiden Lane LLC

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

The following table summarizes certain information regarding protection bought through CDS as of December 31, 2009 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential recovery / notional				Total	Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years		
Credit protection bought:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ 702,482	\$ 702,482	\$ 403,643
Non-investment grade (BB+ or lower)	55,000	394,000	215,000	3,507,872	4,171,872	2,808,441
Total credit protection bought	\$ 55,000	\$ 394,000	\$ 215,000	\$ 4,210,354	\$ 4,874,354	\$ 3,212,084

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 \$72 million and \$157 million as of December 31, 2010 and 2009, 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 "Cash and cash equivalents" (including 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 \$72 million and \$158 million, as of December 31, 2010 and 2009, 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 \$9 million recorded in "Cash and cash equivalents" (including restricted cash) at December 31, 2010 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 has not had any losses pursuant to these contracts and expects the risk of loss to be remote.

8. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2010. Subsequent events were evaluated through March 22, 2011, which is the date the LLC issued the consolidated financial statements.