

# ***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, 2013 and 2012, 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 14, 2014

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

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, 2013 and 2012, and the Consolidated Statements of Income and 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 (1992)* 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



Michael Strine  
Principal Financial Officer

## 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, 2013 and 2012, and the related consolidated statements of income and cash flows for the years ended December 31, 2013 and 2012, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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). 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. 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, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control. Accordingly, we express no such opinion. 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.

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

## Opinion

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, 2013 and 2012, 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.

Deloitte & Touche LLP

March 14, 2014

## Maiden Lane LLC

### Consolidated Statements of Financial Condition

As of December 31, 2013 and 2012

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

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 486,934	\$ 559,465
Restricted cash	40,206	54,859
Investments, at fair value (cost of \$1,122,293 and \$1,050,479, respectively, and includes assets pledged of \$123,738 and \$230,906, respectively)	1,046,737	786,493
Swap contracts, at fair value	158,133	407,741
Principal and interest receivable	347	1,588
Other assets	83	752
Total assets	<u>\$ 1,732,440</u>	<u>\$ 1,810,898</u>
<b>Liabilities and member's equity</b>		
Senior Loan, at fair value	\$ 1,575,050	\$ 1,396,179
Swap contracts, at fair value	73,439	71,319
Cash collateral on swap contracts	82,292	341,231
Other liabilities and accrued expenses	1,659	2,169
Total liabilities	<u>1,732,440</u>	<u>1,810,898</u>
Member's equity (\$10 par value, 1 share issued and outstanding)	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 1,732,440</u>	<u>\$ 1,810,898</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, 2013 and 2012

(Amounts in thousands)

	2013	2012
<b>Revenues</b>		
Interest income	\$ 462	\$ 32,600
Realized gains (losses) on investments and swap contracts, net	130,405	(1,469,543)
Unrealized gains on investments and swap contracts, net	52,792	2,022,201
Other income	1,250	1,237
Total revenues	<u>184,909</u>	<u>586,495</u>
<b>Expenses</b>		
Interest expense	-	55,087
Professional fees and other expenses	6,038	12,136
Total expenses	<u>6,038</u>	<u>67,223</u>
Net operating income	<u>178,871</u>	<u>519,272</u>
<b>Non-operating losses</b>		
Unrealized losses on the Senior Loan	(178,871)	(519,272)
Total non-operating losses	<u>(178,871)</u>	<u>(519,272)</u>
<b>Net income</b>	<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, 2013 and 2012

(Amounts in thousands)

	2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash used in operating activities:		
Accretion and amortization of discounts and premiums on investments	(4,870)	(54,673)
Realized (gains) losses on investments and swap contracts, net	(130,405)	1,469,543
Unrealized gains on investments and swap contracts, net	(52,792)	(2,022,201)
Unrealized losses on the Senior Loan	178,871	519,272
Decrease in accrued and capitalized interest on the Loans	-	(990,345)
Decrease in principal and interest receivable	1,241	32,006
Decrease in other assets	669	28,285
Decrease in other liabilities and accrued expenses	(510)	(22,663)
Net cash flow used in operating activities	<u>(7,796)</u>	<u>(1,040,776)</u>
<b>Cash flows from investing activities</b>		
Payments for purchase of investments	(564,610)	(276,823)
Proceeds from principal paydowns on investments	6,504	344,617
Proceeds from sale and maturities of investments and settlements	538,949	6,395,867
Payments (for) from purchase of swap contracts	(10,447)	27,486
Proceeds from disposition of swap contracts	294,547	249,892
Periodic payments for swap contracts, net	(85,392)	(153,683)
Decrease in restricted cash	14,653	24,289
Net cash flow provided by investing activities	<u>194,204</u>	<u>6,611,645</u>
<b>Cash flows from financing activities</b>		
Repayments of Senior Loan	-	(4,103,748)
Repayments of Subordinated Loan	-	(1,150,000)
Repayments of collateral received on swap contracts	(258,939)	(212,325)
Net cash flow used in financing activities	<u>(258,939)</u>	<u>(5,466,073)</u>
Net (decrease) increase in cash and cash equivalents	(72,531)	104,796
Beginning cash and cash equivalents	559,465	454,669
Ending cash and cash equivalents	<u>\$ 486,934</u>	<u>\$ 559,465</u>
<b>Supplemental disclosures</b>		
Non-cash operating and financing activities:		
Accrued and capitalized interest on the Loans	\$ -	\$ 55,087
Cash paid during the year for:		
Interest	\$ -	\$ 1,045,432

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, 2013 and 2012

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### 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 [“Residential Trust”], together the “Grantor Trusts”). The Residential Trust terminated in December 2013, in accordance with its terms, as a result of the liquidation of its last asset.

The LLC owns the trust certificates representing all of the beneficial ownership interest in the CRE Trust. The CRE Trust is controlled by FRBNY as long as the LLC remains a certificate holder. The LLC is the sole certificate holder as of December 31, 2013. The trustee and master servicer for the CRE Trust are nationally recognized financial institutions. The master servicer to the CRE Trust is responsible for remitting to the CRE Trust all principal and interest payments and any other amounts collected by the primary loan servicers on the underlying loans of the trust. Payments received by the CRE Trust are passed on to the LLC as the sole beneficiary after deducting certain trust expenses, advances, servicing costs, and fees. Prior to its termination, the Residential Trust was owned and operated in the same manner as described above for the CRE Trust. Following termination, the LLC will surrender all of its certificates in the Residential Trust and receive one final distribution of the remaining amounts due to it as beneficiary.

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.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### 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 the Senior Loan. 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 Government Money Market Funds registered under the Investment Company Act of 1940. As of December 31, 2013 and 2012, the LLC had approximately \$375 million and \$133 million, respectively, 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 CRE Trust. For more information on these commitments, refer to Note 7.

#### B. Investments and Swaps Contracts

The LLC’s investments consist primarily of short-term investments with maturities of greater than three months and less than one year when acquired (primarily consisting of US Treasury bills) and commercial mortgage loans. The LLC’s swap contracts consist 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.

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 as a realized gain on the investment if the investment is no longer held by the LLC.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### *C. Valuation of Financial Assets and Liabilities*

The LLC has elected the fair value option in accordance with FASB ASC Topic 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 are recorded at fair value in accordance with ASC 820 and ASC 815. For more information on the valuation of swap contracts, 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 Senior Loan is recorded as "Senior Loan, at fair value" in the Consolidated Statements of Financial Condition and changes in its fair value are recorded as "Unrealized losses on the Senior Loan" in the Consolidated Statements of Income. The Subordinated Loan does not appear in the Consolidated Statements of Financial Condition or the Consolidated Statements of Income as it was repaid in full plus accrued interest during the year ended December 31, 2012 and did not have any unrealized gains or losses attributed to it in 2012 prior to its repayment.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### *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 VIE 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 residential mortgage-backed securities (“non-agency RMBS”), commercial mortgage-backed securities (“CMBS”), collateralized debt 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, 2013 and 2012. As of December 31, 2013, the LLC’s significant interests in non-consolidated VIEs consisted of a payable of approximately \$18 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 \$18 million as of December 31, 2013 and \$22 million as of December 31, 2012.

### *F. Professional Fees and Other Expenses*

Professional fees and other expenses are primarily comprised of the fees charged by the Investment Manager, administrator, and independent auditors 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.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### *I. Recently Issued Accounting Standards*

In December 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-11, *Balance Sheet* (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This update requires 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. 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. These updates are effective for the LLC for the year ended December 31, 2013, and the required disclosures are included in Note 6.

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

The following table presents a reconciliation of the Loans as of December 31, 2013 and 2012 (in thousands):

	<u>Senior Loan</u>	<u>Subordinated Loan</u>	<u>Total</u>
Fair value, December 31, 2011	\$ 5,736,025	\$ 1,384,975	\$ 7,121,000
<i>2012 Activity:</i>			
Accrued and capitalized interest	10,042	45,045	55,087
Payments <sup>1</sup>	(4,869,160)	(1,430,020)	(6,299,180)
Unrealized losses on the Loans	<u>519,272</u>	<u>-</u>	<u>519,272</u>
Fair value, December 31, 2012 <sup>2</sup>	1,396,179	-	1,396,179
<i>2013 Activity:</i>			
Unrealized losses on the Loans	<u>178,871</u>	<u>-</u>	<u>178,871</u>
Fair value, December 31, 2013 <sup>2</sup>	<u>\$ 1,575,050</u>	<u>\$ -</u>	<u>\$ 1,575,050</u>

<sup>1</sup> Includes payments on the Senior Loan of \$4,103,748 of principal and \$765,412 of accrued interest and on the Subordinated Loan of \$1,150,000 of principal and \$280,020 of accrued interest.

<sup>2</sup> The outstanding principal and accrued interest balances on the Senior Loan and the Subordinated Loan were \$0 and \$0, respectively, as of December 31, 2013 and 2012. The remaining fair value represents the undistributed Contingent Interest on the Senior Loan.

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

#### 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;

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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*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 the Loans at fair value in accordance with ASC 820.

#### Determination of Fair Value

The LLC values its investments and cash equivalents 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 Senior Loan may differ from the values that may ultimately be realized and paid.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### 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 Senior Loan 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.



# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 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, 2013 (in thousands, except for input values):

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average <sup>3</sup>
Commercial mortgage loans	\$ 506,589	Discounted cash flows	Discount rate	4% - 13%	12%
			Property capitalization rate	7%	7%
			Net operating income growth rate	3% - 5%	4%
CDS <sup>1</sup>	\$ 151,696	Discounted cash flows	Credit spreads <sup>2</sup>	2,259 bps - 8,870 bps	6,299 bps
			Discount rate	5% - 25%	15%
			Constant prepayment rate	0% - 17%	3%
			Constant default rate	0% - 30%	6%
			Loss severity	40% - 95%	54%

<sup>1</sup> Swap assets and liabilities are presented net for the purposes of this table.

<sup>2</sup> Implied spread on closing market prices for index positions.

<sup>3</sup> Weighted averages are calculated based on the fair value of the respective instruments.

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	Weighted average <sup>3</sup>
Commercial mortgage loans	\$ 466,006	Discounted cash flows	Discount rate	6% - 20%	14%
			Property capitalization rate	6% - 10%	7%
			Net operating income growth rate	3% - 7%	3%
CDS <sup>1</sup>	\$ 472,630	Discounted cash flows	Credit spreads <sup>2</sup>	100 bps - 6,451 bps	4,995 bps
			Discount rate	0% - 47%	15%
			Constant prepayment rate	0% - 20%	1%
			Constant default rate	0% - 34%	7%
			Loss severity	40% - 80%	49%

<sup>1</sup> Swap assets and liabilities are presented net for the purposes of this table.

<sup>2</sup> Implied spread on closing market prices for index positions.

<sup>3</sup> Weighted averages are calculated based on the fair value of the respective instruments.

The fair value of the Senior Loan is based upon the fair value of the net assets held by the LLC and, as such, its significant unobservable inputs generally include those same inputs used to value the Level 3 instruments listed above.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### 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. Mortgage 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.

#### III. Senior Loan

In general, any movement in the unobservable inputs described above that results in an increase to the fair value measurement of the net assets held by the LLC would also result in an increase in the fair value measurement of the Senior Loan. The inverse would also generally apply to this relationship.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

The following table presents the assets and liabilities recorded at fair value as of December 31, 2013 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			Netting <sup>3</sup>	Total fair value
	Level 1 <sup>2</sup>	Level 2 <sup>2</sup>	Level 3		
Assets:					
Money market funds <sup>1</sup>	\$ 374,716	\$ -	\$ -	\$ -	\$ 374,716
Investments					
Short-term investments	529,808	-	-	-	529,808
Commercial mortgage loans	-	-	506,589	-	506,589
Non-agency RMBS	-	2,239	6,171	-	8,410
Other investments	-	6	1,924	-	1,930
Total investments	529,808	2,245	514,684	-	1,046,737
Swap contracts					
CDS	-	-	344,715	(186,582)	158,133
Total assets	\$ 904,524	\$ 2,245	\$ 859,399	\$ (186,582)	\$ 1,579,586
Liabilities:					
Senior Loan	\$ -	\$ -	\$ (1,575,050)	\$ -	\$ (1,575,050)
Swap contracts					
CDS	-	-	(193,019)	119,580	(73,439)
Total liabilities	\$ -	\$ -	\$ (1,768,069)	\$ 119,580	\$ (1,648,489)

<sup>1</sup> Recorded as a component of "Cash and cash equivalents" and "Restricted cash" in the Consolidated Statements of Financial Condition.

<sup>2</sup> There were no transfers between Level 1 and Level 2 during the year ended December 31, 2013.

<sup>3</sup> 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, 2013 and 2012

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

<sup>1</sup> Recorded as a component of "Cash and cash equivalents" and "Restricted cash" in the Consolidated Statements of Financial Condition.

<sup>2</sup> There were no transfers between Level 1 and Level 2 during the year ended December 31, 2012.

<sup>3</sup> 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, 2013 and 2012

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, 2013, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2012	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in <sup>3,4</sup>	Gross transfers out	Fair value at December 31, 2013	Change in unrealized gains (losses) related to financial instruments held at December 31, 2013
<b>Investments</b>							
Commercial mortgage loans	\$ 466,006	\$ (163,442)	\$ 204,025	\$ -	\$ -	\$ 506,589	\$ 183,227
Non-agency RMBS	-	4,437	175	1,559	-	6,171	175
Residential mortgage loans <sup>1</sup>	-	(132)	132	-	-	-	-
Other investments	54,657	(72,595)	17,497	2,365	-	1,924	(4,000)
Total investments	<u>\$ 520,663</u>	<u>\$ (231,732)</u>	<u>\$ 221,829</u>	<u>\$ 3,924</u>	<u>\$ -</u>	<u>\$ 514,684</u>	<u>\$ 179,402</u>
<b>Net swap contracts <sup>2</sup></b>							
CDS	<u>\$ 472,630</u>	<u>\$ (267,913)</u>	<u>\$ (53,021)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,696</u>	<u>\$ (52,813)</u>
<b>Loans payable</b>							
Senior Loan	<u>\$ (1,396,179)</u>	<u>\$ -</u>	<u>\$ (178,871)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,575,050)</u>	<u>\$ (178,871)</u>

<sup>1</sup> At December 31, 2013, there were no residential mortgage loans outstanding.

<sup>2</sup> Level 3 swap assets and liabilities are presented net for the purposes of this table.

<sup>3</sup> Non-agency RMBS and other investments, with December 31, 2012 fair values of \$1,559 and \$2,365, respectively, were transferred from Level 2 to Level 3 because they are valued at December 31, 2013 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).

<sup>4</sup> The amount of transfers is based on the 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, 2013 (in thousands):

	Purchases	Sales	Issuances	Settlements <sup>2</sup>	Purchases, sales, issuances, and settlements, net
<b>Investments</b>					
Commercial mortgage loans	\$ -	\$ (88,350)	\$ -	\$ (75,092)	\$ (163,442)
Non-agency RMBS	4,274	-	-	163	4,437
Residential mortgage loans	-	-	-	(132)	(132)
Other investments	3,003	(78,657)	-	3,059	(72,595)
Total investments	<u>\$ 7,277</u>	<u>\$ (167,007)</u>	<u>\$ -</u>	<u>\$ (72,002)</u>	<u>\$ (231,732)</u>
<b>Net swap contracts <sup>1</sup></b>					
CDS	<u>\$ -</u>	<u>\$ (152,884)</u>	<u>\$ -</u>	<u>\$ (115,029)</u>	<u>\$ (267,913)</u>
<b>Loans payable</b>					
Senior Loan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

<sup>2</sup> Includes paydowns.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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

<sup>1</sup> At December 31, 2012, there were two residential mortgage loans with a fair value of \$0 outstanding.

<sup>2</sup> Level 3 swap assets and liabilities are presented net for the purposes of this table.

<sup>3</sup> 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).

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

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

<sup>2</sup> Represents accrued and capitalized interest.

<sup>3</sup> Includes paydowns.

## Maiden Lane LLC

### Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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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, 2013 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments			
Short-term investments	\$ 3	\$ 22	\$ 25
Commercial mortgage loans <sup>1</sup>	28,058	175,958	204,016
Non-agency RMBS	9,926	1,263	11,189
Federal agency & GSE MBS	(467)	367	(100)
Residential mortgage loans <sup>1</sup>	(647)	779	132
Other investments	10,915	10,041	20,956
Total investments	47,788	188,430	236,218
Swap contracts, net			
CDS	82,617	(135,638)	(53,021)
Total investments and swap contracts	<u>\$ 130,405</u>	<u>\$ 52,792</u>	<u>\$ 183,197</u>
Loans			
Senior Loan	<u>\$ -</u>	<u>\$ (178,871)</u>	<u>\$ (178,871)</u>

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

## Maiden Lane LLC

### Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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

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



# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### 6. Investment and Risk Profile

As of December 31, 2013, the LLC's portfolio consisted primarily of short-term investments (with maturities of greater than three months and less than one year when acquired), commercial mortgage loans, and CDS. The following is a description of the significant holdings at December 31, 2013 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, 2013, the LLC's short-term instruments consisted of approximately \$530 million in US Treasury bills.

#### 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, 2013, 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	\$ 28,176	\$ 28,062	99.6%
Non-performing / non-accrual loans <sup>1</sup>	511,643	478,527	93.5%
Total	<u>\$ 539,819</u>	<u>\$ 506,589</u>	93.8%

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

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. As of December 31, 2013, the CRE Trust had unpaid principal balances of approximately \$12 million in senior mortgage loans and \$528 million in mezzanine loans.

As of December 31, 2013, the property types of commercial mortgage loans were concentrated in the office sector with one sponsor representing all of the total unpaid principal balance.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### *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 CMBS and RMBS with various market participants, including JPMC.

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 \$149 million and \$477 million as of December 31, 2013 and 2012, respectively. In addition, the LLC has pledged \$124 million and \$231 million of US Treasury notes to JPMC as of December 31, 2013 and 2012, 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.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

The LLC has entered into an International Swaps and Derivatives Association, Inc. (ISDA) master netting agreement with JPMC in connection with the TRS. This agreement provides the LLC with the right to liquidate securities held as collateral and to offset receivables and payables with JPMC in the event of default. This agreement also establishes the method for determining the net amount of receivables and payables that the LLC is entitled to receive from and required to pay to the counterparties to the swaps that underlie the TRS based upon the relevant fair value of the CDS.

For the derivative balances reported in the Consolidated Statements of Financial Condition, the LLC offsets its asset and liability positions held with the same counterparty. In addition, the LLC offsets the cash collateral held with JPMC against any net liabilities of JPMC with the LLC under the TRS. As of December 31, 2013 and 2012, there were no amounts subject to an enforceable master netting agreement that were not offset in the Consolidated Statements of Financial Condition.

The following table summarizes the fair value and notional amounts of derivative instruments by contract type on a gross basis as of December 31, 2013 and 2012 (in thousands, except contract data):

	2013			2012		
	Gross derivative assets	Gross derivative liabilities	Notional Amounts <sup>3</sup>	Gross derivative assets	Gross derivative liabilities	Notional Amounts <sup>3</sup>
Credit derivatives:						
CDS <sup>1,2</sup>	\$ 344,715	\$ (193,019)	\$ 898,773	\$ 816,120	\$ (343,490)	\$ 1,755,156
Amounts offset in the Consolidated Statements of Financial Condition:						
Counterparty netting	(119,580)	119,580		(272,171)	272,171	
Cash collateral netting	(67,002)	-		(136,208)	-	
Net amounts in the Consolidated Statements of Financial Condition	<u>\$ 158,133</u>	<u>\$ (73,439)</u>		<u>\$ 407,741</u>	<u>\$ (71,319)</u>	

<sup>1</sup> CDS fair values as of December 31, 2013 for assets and liabilities include interest receivables of \$15,251 and payables of \$1,974. CDS fair values as of December 31, 2012 for assets and liabilities include interest receivables of \$14,640 and payables of \$9,013.

<sup>2</sup> There were 269 and 470 CDS contracts outstanding as of December 31, 2013 and 2012, respectively.

<sup>3</sup> 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, 2013.

The following table summarizes certain information regarding protection sold through CDS as of December 31, 2013 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential payout / notional					Fair value Asset / (liability)
	Years to maturity				Total	
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years		
Credit protection sold:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ 12,500	\$ 12,500	\$ (3,342)
Non-investment grade (BB+ or lower)	-	-	-	293,333	293,333	(187,606)
Total credit protection sold	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 305,833</u>	<u>\$ 305,833</u>	<u>\$ (190,948)</u>

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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

<u>Credit Ratings of the Reference Obligation</u>	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-)	\$ -	\$ -	\$ -	\$ 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 bought through CDS as of December 31, 2013 (in thousands):

<u>Credit Ratings of the Reference Obligation</u>	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-)	\$ -	\$ -	\$ 5,000	\$ 50,989	\$ 55,989	\$ 2,290
Non-investment grade (BB+ or lower)	-	-	8,500	528,451	536,951	327,077
Total credit protection bought	\$ -	\$ -	\$ 13,500	\$ 579,440	\$ 592,940	\$ 329,367

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

<u>Credit Ratings of the Reference Obligation</u>	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-)	\$ -	\$ -	\$ 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

### 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 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.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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### 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 \$39 million and \$54 million as of December 31, 2013 and 2012, 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 \$40 million and \$55 million, as of December 31, 2013 and 2012, respectively. The Trust and Master Servicing Agreement governing the CRE Trust requires that the amounts be held in escrow for all remaining unfunded commitments.

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, 2013. Subsequent events were evaluated through March 14, 2014, which is the date that the consolidated financial statements were available to be issued.