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, 2011 and 2010, and Independent Auditors' Report

Maiden Lane LLC

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Management's Report on Internal Control over Financial Reporting

March 20, 2012

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 as of December 31, 2011 and 2010, 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 accounting principals 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. The 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. The 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 the 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 the ML LLC's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the 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 the ML LLC assessed its internal control over financial reporting based upon the criteria established in the *"Internal Control – Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the ML LLC maintained effective internal control over financial reporting.

William C. Dudley	Christine M. Cumming	Edward F. Murphy
William C. Dudley	Christine M. Cumming	Edward F. Murphy
President	First Vice President	Principal Financial Officer

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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, 2011 and 2010, and the related Consolidated Statements of Income, and Cash Flows for the years then ended. We also have audited the LLC's internal control over financial reporting as of December 31, 2011, 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 assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on the LLC's internal control over financial reporting based on our audits.

We conducted our audits 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 audits 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, as well as 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 Consolidated 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 Consolidated 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended 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, 2011, 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 20, 2012

Maiden Lane LLC

Consolidated Statements of Financial Condition

As of December 31, 2011 and 2010
(Amounts in thousands, except par value and share data)

	2011	2010
Assets		
Cash and cash equivalents (includes restricted cash of $79,148 and $81,024, respectively)	$ 533,817	$ 1,601,291
Investments, at fair value (cost of $9,003,325 and $27,766,954, respectively, and includes assets pledged of $551,763 and $1,042,612, respectively)	6,551,724	25,363,888
Swap contracts, at fair value	656,873	851,035
Principal and interest receivable	33,594	121,451
Receivable for investments sold	17,475	-
Other assets	11,562	23,465
Total assets	$ 7,805,045	$ 27,961,130
Liabilities and Member's Equity		
Senior Loan, at fair value	$ 5,736,025	$ 25,845,272
Subordinated Loan, at fair value	1,384,975	1,200,604
Swap contracts, at fair value	105,657	201,458
Cash collateral on swap contracts	553,556	694,735
Other liabilities and accrued expenses	24,832	19,061
Total liabilities	7,805,045	27,961,130
Member's equity ($10 par value, 1 share issued and outstanding)	-	-
Total liabilities and member's equity	$ 7,805,045	$ 27,961,130

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, 2011 and 2010
(Amounts in thousands)

	2011	2010
Revenues		
Interest income	$ 798,522	$ 1,131,713
Realized gains (losses) on investments, swap contracts, and other derivatives, net	246,629	(872,647)
Unrealized gains on investments, swap contracts, and other derivatives, net	187,610	3,443,312
Other income	9,034	1,402
Total revenues	1,241,795	3,703,780
Expenses		
Interest expense	208,015	271,080
Professional fees and other expenses	42,889	68,596
Total expenses	250,904	339,676
Net operating income	990,891	3,364,104
Non-operating losses		
Unrealized losses on the Loans	(990,891)	(3,364,104)
Total non-operating losses	(990,891)	(3,364,104)
Net income	$ -	$ -

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

Maiden Lane LLC

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
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	(217,229)	(276,300)
Realized (gains) losses on investments, swap contracts, and other derivatives, net	(246,629)	872,647
Unrealized gains on investments, swap contracts, and other derivatives, net	(187,610)	(3,443,312)
Unrealized losses on the Loans	990,891	3,364,104
Increase in accrued and capitalized interest on the Loans	208,015	271,080
Decrease in principal and interest receivable	87,857	42,039
(Increase) decrease in other assets and receivable for investments sold	(3,579)	9,172
Increase in other liabilities and accrued expenses	5,771	3,905
Net cash flow provided by operating activities	637,487	843,335
Cash flows from investing activities		
Payments for purchase of investments	(787,177)	(7,904,304)
Proceeds from principal paydowns on investments	3,173,444	6,660,212
Proceeds from sale of investments	17,148,579	4,886,267
Payments for purchase of swap contracts, and other derivatives	(47,353)	(52,659)
Proceeds from disposition of swap contracts, and other derivatives	62,746	261,122
Periodic payments from (for) swap contracts, and other derivatives, net	9,761	(457,880)
Net cash flow provided by investing activities	19,560,000	3,392,758
Cash flows from financing activities		
Repayments of Senior Loan	(21,123,782)	(3,592,002)
Repayments of collateral received on swap contracts	(141,179)	(285,112)
Net cash flow used in financing activities	(21,264,961)	(3,877,114)
Net (decrease) increase in cash and cash equivalents	(1,067,474)	358,979
Beginning cash and cash equivalents	1,601,291	1,242,312
Ending cash and cash equivalents	$ 533,817	$ 1,601,291
Supplemental non-cash operating and financing activities:		
Accrued and capitalized interest on the Loans	$ 208,015	$ 271,080

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

1. Organization and Nature of Business

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

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

Two grantor trusts were established to directly acquire the whole mortgage loans. One was formed to acquire a portfolio of commercial mortgage loans and one was formed to acquire a portfolio of residential mortgage loans (Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1 ["CRE Trust"] and Maiden Lane Asset-Backed Securities I Trust 2008-1, together the "Grantor Trusts"). The LLC owns the trust certificates representing all of the beneficial ownership interest in each of the Grantor Trusts. The Grantor Trusts are controlled by FRBNY as long as the LLC remains a certificate holder. The LLC is the sole certificate holder as of December 31, 2011. The trustee and master servicers for each Grantor Trust are nationally recognized financial institutions. The master servicers to the Grantor Trusts are responsible for remitting to the Grantor Trusts all principal and interest payments and any other amounts collected by the primary loan servicers on the underlying loans of each respective trust. Payments received by each Grantor Trust are passed on to the LLC as the sole beneficiary after deducting certain trust expenses, advances, servicing costs, and fees.

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

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

2. Summary of Significant Accounting Policies

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

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

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

A. Cash and Cash Equivalents

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

The LLC invests available cash in US Treasury bills, Agency Discount Notes and Government Money Market Funds registered under the Investment Company Act of 1940. As of December 31, 2011 the LLC had approximately $0.1 billion in US Treasury bills and Agency Discount Notes and $0.4 billion in Government Money Market Funds. As of December 31, 2010 the LLC had approximately $1.4 billion in US Treasury bills and Agency Discount Notes and $0.2 billion in Government Money Market Funds.

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 ("non-agency RMBS"), commercial and residential mortgage loans, and derivatives and associated hedges. The LLC follows the guidance in FASB 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 ASC 820. The Managing Member believes that accounting for the investments and Loans at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. For more information on the valuation of investments and the Loans, refer to Note 5 and Note 6.

Swap contracts and other derivative instruments are recorded at fair value in accordance with ASC 820 and 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.

Fair Value Hierarchy

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

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

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

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

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

D. Accounting for Senior Loan and Subordinated Loan

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

E. Variable Interest Entities

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

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

The LLC holds certain interests in VIEs through investments in non-agency RMBS, commercial mortgage-backed securities ("CMBS"), collateralized debt obligations ("CDOs"), collateralized loan obligations and swap contracts. VIEs generally finance the purchase of assets by issuing debt and equity instruments. In assessing the nature and extent of its financial interests in these VIEs, the LLC considered the nature and purpose of its involvement with these VIEs, which is primarily as investor, and in limited instances, as seller of protection through credit default swaps. The LLC has made a determination that there are no material VIEs that required consolidation into its consolidated financial statements as of December 31, 2011 and 2010. As of December 31, 2011, the LLC's significant interests in non-consolidated VIEs consisted of approximately $400 million of investments, at fair value and a payable of approximately $36 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 $436 million and $549 million as of December 31, 2011 and 2010, respectively.

F. Professional Fees and Other Expenses

Professional fees and other expenses are primarily comprised of the fees charged by the Investment Manager and administrator as well as fees and expenses related to the servicing 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. Immaterial Restatement

Subsequent to the issuance of the LLC's 2010 consolidated financial statements, it was determined that certain investing activities had been incorrectly netted within the Consolidated Statement of Cash Flows for the year ended December 31, 2010. As a result, lines within the "Cash flows from investing activities" section have been restated and the line "Periodic payments from (for) swap contracts, and other derivatives, net" has been added. The following table displays all changes to the Consolidated Statement of Cash Flows for the year ended December 31, 2010 (in thousands):

	As Reported	As Restated
Cash flows from investing activities		
Payments for purchase of investments	$ (7,328,926)	$ (7,904,304)
Proceeds from principal paydowns on investments	5,789,128	6,660,212
Proceeds from sale of investments	4,858,075	4,886,267
Payments for purchase of swap contracts, and other derivatives	(507)	(52,659)
Proceeds from disposition of swap contracts, and other derivatives	74,988	261,122
Periodic payments from (for) swap contracts, and other derivatives, net	-	(457,880)
Net cash flow provided by investing activities	$ 3,392,758	$ 3,392,758

I. Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements*. 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 required disclosures include the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements, which were effective for the LLC for the year beginning on January 1, 2011 and are included in Note 5.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update will result in common fair value measurement and disclosure requirements for GAAP and International Financial Reporting Standards. In addition, this update requires additional disclosures for fair value measurements categorized as Level 3, including quantitative information about the unobservable inputs and assumptions used in the fair value measurement, a description of the valuation policies and procedures, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, disclosure of the amounts and reasons for all transfers in and out of Level 1 and Level 2 will be required. The adoption of this update is effective for the LLC for the year ending December 31, 2012, and is not expected to have a material effect on the LLC's consolidated financial statements.

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

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.

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, 2011 and 2010 (in thousands):

	Senior Loan [1]	Subordinated Loan [2]	Total
Fair value, January 1, 2010	$ 27,002,694	$ -	$ 27,002,694
2010 Activity:			
Accrued and capitalized interest	204,684	66,396	271,080
Repayments	(3,592,002)	-	(3,592,002)
Unrealized losses on the Loans	2,229,896	1,134,208	3,364,104
Fair value, December 31, 2010	25,845,272	1,200,604	27,045,876
2011 Activity:			
Accrued and capitalized interest	137,628	70,387	208,015
Repayments	(21,123,782)	-	(21,123,782)
Unrealized losses on the Loans	876,907	113,984	990,891
Fair value, December 31, 2011	$ 5,736,025	$ 1,384,975	$ 7,121,000

[1] The outstanding principal and accrued interest balances of the Senior Loan were $4,859,118 (principal of $4,103,748 and interest of $755,370) and $25,845,272 (principal of $25,227,530 and interest of $617,742) as of December 31, 2011 and 2010, respectively.

[2] The outstanding principal and accrued interest balances of the Subordinated Loan were $1,384,975 (principal of $1,150,000 and interest of $234,975) and $1,314,588 (principal of $1,150,000 and interest of $164,588) as of December 31, 2011 and 2010, respectively.

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

4. Distribution of Proceeds

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

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

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

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

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

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

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

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

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.

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

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 trading 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.

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

	Fair value hierarchy				
	Level 1	Level 2	Level 3	Netting [2]	Total fair value
Assets:					
Money market funds [1]	$ 426,776	$ -	$ -	$ -	$ 426,776
Other short-term investments [1]	104,000	-	-	-	104,000
Investments					
Federal agency & GSE MBS	-	440,441	-	-	440,441
Non-agency RMBS	-	772,694	764,771	-	1,537,465
Commercial mortgage loans	-	1,463,174	1,397,487	-	2,860,661
Residential mortgage loans	-	-	378,477	-	378,477
Other investments	720,839	288,063	325,778	-	1,334,680
Total investments	720,839	2,964,372	2,866,513	-	6,551,724
Swap contracts					
CDS	-	-	1,630,129	(973,256)	656,873
Total assets	$ 1,251,615	$ 2,964,372	$ 4,496,642	$ (973,256)	$ 7,739,373
Liabilities:					
Senior Loan	$ -	$ -	$ (5,736,025)	$ -	$ (5,736,025)
Subordinated Loan	-	-	(1,384,975)	-	(1,384,975)
Swap contracts					
CDS	-	-	(790,647)	684,990	(105,657)
Total liabilities	$ -	$ -	$ (7,911,647)	$ 684,990	$ (7,226,657)

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

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

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

	Fair value hierarchy				
	Level 1	Level 2	Level 3	Netting [3]	Total fair value
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]	-	4,188	-	-	4,188
Total assets	$ 1,577,766	$ 21,900,354	$ 5,793,564	$ (1,474,807)	$ 27,796,877
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]	(2,343)	-	-	-	(2,343)
Total liabilities	$ (2,343)	$ (228,866)	$ (28,393,363)	$ 1,374,895	$ (27,249,677)

[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" in 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.

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, 2011, including net realized and unrealized gains (losses) (in thousands):

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

1 Level 3 swap assets and liabilities are presented net for the purposes of this table.
2 Non-agency RMBS, with a December 31, 2010 fair value of $217,207, were transferred from Level 3 to Level 2 because they are valued at December 31, 2011 based on quoted prices for identical or similar assets in non-active markets (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3). There were also Non-agency RMBS and other investments that became less observable during the year ending December 31, 2011, which resulted in $445,370 and $210,441, respectively, in transfers from Level 2 to Level 3. There were no other significant transfers between Levels during the year ended December 31, 2011.
3 The amount of transfers is based on fair values of the transferred assets at the beginning of the reporting period.

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

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

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

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during the period ended December 31, 2010, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2009	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in [3]	Gross transfers out [2,3]	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	$ 62,147	$ (24,484)	$ 29,878	$ 1,544
Non-agency RMBS	1,035,048	(320,952)	245,042	144,375	(409,462)	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	30,301	(9,413)	218,679	37,204
Total investments	$ 5,807,380	$ (813,022)	$ 1,128,434	$ 236,823	$ (2,883,214)	$ 3,476,401	$ 922,140
Net swap contracts [1]							
CDS	$ 1,455,974	$ (325,163)	$ (161,135)	$ -	$ -	$ 969,676	$ (137,105)
Loans payable							
Senior Loan	$ (27,002,694)	$ 3,387,318	$ (2,229,896)	$ -	$ -	$ (25,845,272)	$ (2,229,896)
Subordinated Loan	-	(66,396)	(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] 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.

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

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown above for the year ended December 31, 2010 (in thousands)*:

	Purchases	Sales	Issuances	Settlements [3]	Purchases, sales, issuances, and settlements, net
Investments					
Federal agency & GSE MBS	$ -	$ -	$ -	$ (33,813)	$ (33,813)
Non-agency RMBS	198	(2,253)	-	(318,897)	(320,952)
Commercial mortgage loans	-	(268,691)	-	(66,394)	(335,085)
Residential mortgage loans	-	-	-	(91,820)	(91,820)
Other investments	16,258	(2,247)	-	(45,363)	(31,352)
Total investments	$ 16,456	$ (273,191)	$ -	$ (556,287)	$ (813,022)
Net swap contracts [1]					
CDS	$ -	$ (19,351)	$ -	$ (305,812)	$ (325,163)
Loans payable					
Senior Loan	$ (204,684) [2]	$ -	$ -	$ 3,592,002	$ 3,387,318
Subordinated Loan	(66,396) [2]	-	-	-	(66,396)
Total loans payable	$ (271,080)	$ -	$ -	$ 3,592,002	$ 3,320,922

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

* The LLC chose to include the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements as of December 31, 2010, though not specifically required, so as to provide a more consistent presentation to the format seen above for the Level 3 fair value measurements as of December 31, 2011.

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

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments			
Federal agency & GSE MBS	$ 1,221,466	$ (895,268)	$ 326,198
Non-agency RMBS	45,065	100,338	145,403
Commercial mortgage loans [1]	(367,773)	406,739	38,966
Residential mortgage loans [1]	(312,424)	263,295	(49,129)
Other investments	(31,455)	76,361	44,906
Total investments	554,879	(48,535)	506,344
Swap contracts, net			
IRS	(268,254)	130,626	(137,628)
CDS	10,687	94,417	105,104
Total swap contracts, net	(257,567)	225,043	(32,524)
Other derivatives [2]	(50,683)	11,102	(39,581)
Total investments, swap contracts, and other derivatives	$ 246,629	$ 187,610	$ 434,239
Loans			
Senior Loan	$ -	$ (876,907)	$ (876,907)
Subordinated Loan	-	(113,984)	(113,984)
Total loans	$ -	$ (990,891)	$ (990,891)

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

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

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)
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	(519,769)	3,671,602	3,151,833
Swap contracts, net			
IRS	(186,817)	(57,452)	(244,269)
CDS	36,656	(197,791)	(161,135)
Total swap contracts, net	(150,161)	(255,243)	(405,404)
Other derivatives [2]	(202,717)	26,953	(175,764)
Total investments, swap contracts, and other derivatives	$ (872,647)	$ 3,443,312	$ 2,570,665
Loans			
Senior Loan	$ -	$ (2,229,896)	$ (2,229,896)
Subordinated Loan	-	(1,134,208)	(1,134,208)
Total loans	$ -	$ (3,364,104)	$ (3,364,104)

[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 liabilities and accured expenses" 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, 2011 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 residential mortgage-backed securities 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.

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. 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 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, 2011, approximately 37.9 percent and 12.5 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.

As of December 31, 2011, other investments were primarily comprised of short-term investments (consisting mainly of US Treasury notes and Agency Discount Notes) and CDOs. As of December 31, 2010, other investments were primarily comprised of CDOs and CMBS.

At December 31, 2011, 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 $3.3 billion aggregate fair value of debt securities in the portfolio was as follows:

	Ratings [1, 4]						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower [5]	Gov't / Agency	Total
Security Type [2]:							
Federal agency & GSE MBS	-	-	-	-	-	13.3%	13.3%
Non-agency RMBS	0.3%	0.6%	0.7%	0.6%	44.2%	-	46.4%
Other investments [3]	2.6%	1.9%	1.2%	6.1%	6.8%	21.8%	40.3%
Total	2.9%	2.4%	1.9%	6.7%	51.0%	35.1%	100.0%

[1] Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

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

[3] Includes $701,753 thousand of short-term investments and $379,982 thousand of CDOs.

[4] Rows and columns may not total due to rounding.

[5] BB+ and lower includes debt securities that were not rated by a nationally recognized statistical rating organization as of December 31, 2011 .

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.

The performance profile for the commercial and residential mortgage loans at December 31, 2011, was as follows (in thousands, except percentage data):

	Unpaid principal balance	Fair value	Fair value as a percentage of unpaid principal balance
Performing loans:			
Commercial	$ 3,705,105	$ 2,789,455	75.3%
Residential	617,441	335,802	54.4%
Subtotal	4,322,546	3,125,257	72.3%
Non-performing / Non-accrual loans [1]:			
Commercial	125,979	71,206	56.5%
Residential	119,400	42,675	35.7%
Subtotal	245,379	113,881	46.4%
Total loans:			
Commercial	3,831,084	2,860,661	74.7%
Residential	736,841	378,477	51.4%
Total	$ 4,567,925	$ 3,239,138	70.9%

[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, 2011:

	Concentration of unpaid principal balances	
	Residential	Commercial [2]
By State		
California	37.6%	
Florida	7.5%	
Other [1]	54.9%	
	100.0%	
By Property Type		
Hospitality		74.7%
Office		18.0%
Other [1]		7.3%
		100.0%

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

[2] One borrower included in hospitality represents approximately 43% of total unpaid principal balance of the commercial mortgage loan portfolio.

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, 2011 (in thousands, except percentage data):

Loan type	Unpaid principal balances	Concentration of unpaid principal balances
Senior mortgage loans	$ 2,694,921	70.3%
Subordinate interests in mortgages	74,268	2.0%
Mezzanine loans	1,061,895	27.7%
Total	$ 3,831,084	100.0%

As discussed in Note 8, subsequent to December 31, 2011, the total unpaid principal balance was reduced by $1.6 billion due to the sale of commercial mortgage loans held in the CRE Trust.

C. Derivative Instruments

Derivative contracts are instruments, such as futures and options 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 residential mortgage-backed securities 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, purchased by the re-hypothecation of cash collateral associated with the TRS, were $0.8 billion and $0.8 billion as of December 31, 2011 and 2010, respectively. In addition, the LLC has pledged $0.6 billion and $1.0 billion of Federal agency and GSE MBS and US Treasury notes to JPMC as of December 31, 2011 and 2010, respectively.

The LLC enters into additional derivative contracts consisting of futures and IRS to economically hedge its exposure to interest rates. For 2011, there were 144 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" in the Consolidated Statements of Income.

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 as of December 31, 2010. There was no cash collateral pledged as of December 31, 2011.

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

The following table summarizes the notional amounts of derivative instruments by contract type outstanding as of December 31, 2011 and 2010 (in thousands):

	Notional amounts [1]	
	2011	2010
Interest rate contracts:		
IRS [2]	$ -	$ 4,129,500
Futures and options [3]	-	18
Credit derivatives:		
CDS [4]	3,940,283	5,855,824
Total	$ 3,940,283	$ 9,985,342

[1] Represents the sum of gross long and gross short notional derivative contracts. The change in notional amounts is representative of the volume of activity for the year ended December 31, 2011.

[2] There were no IRS contracts outstanding as of December 31, 2011 and 39 IRS contracts outstanding as of December 31, 2010.

[3] Options and futures relate to contract equivalents and not gross notional amounts. The reported notional amount of futures and options as of December 31, 2010 has been corrected (previously reported as $18,411).

[4] There were 979 and 1,361 CDS contracts outstanding as of December 31, 2011 and 2010, respectively.

The following table summarizes the fair value of derivative instruments by contract type on a gross basis as of December 31, 2011 and 2010 (in thousands):

	2011		2010	
	Gross derivative assets	Gross derivative liabilities	Gross derivative assets	Gross derivative liabilities
Interest rate contracts:				
IRSs	$ -	$ -	$ 8,679	$ (228,866)
Futures and options	-	-	4,188	(2,343)
Credit derivatives:				
CDS [1]	1,630,129	(790,647)	2,317,163	(1,347,487)
Counterparty netting	(684,990)	684,990	(1,374,895)	1,374,895
Cash collateral netting	(288,266)	-	(99,912)	-
Total	$ 656,873	$ (105,657)	$ 855,223	$ (203,801)

[1] CDS fair values as of December 31, 2011 for assets and liabilities includes interest receivables of $21,605 and payables of $13,164. CDS fair values as of December 31, 2010 for assets and liabilities includes interest receivables of $38,765 and payables of $27,862.

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

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

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

	Maximum potential payout / notional					Fair value
	Years to maturity					
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection sold:						
Investment grade (AAA to BBB-)	$ -	$ -	$ -	$ 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 bought through CDS as of December 31, 2011 (in thousands):

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

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

	Maximum potential recovery / notional					
	Years to maturity					Fair value
Credit Ratings of the Reference Obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Asset / (liability)
Credit protection bought:						
Investment grade (AAA to BBB-)	$ -	$ -	$ -	$ 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

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 $61 million and $72 million as of December 31, 2011 and 2010, 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 $61 million and $72 million, as of December 31, 2011 and 2010, respectively. The Trust and Master Servicing Agreement governing the CRE Trust requires that the amounts be held in escrow for all remaining unfunded commitments. There is an additional $18 million recorded in “Cash and cash equivalents” (including restricted cash) at December 31, 2011 that represents funds held for obligations of the CRE Trust under existing commercial loan agreements. This cash is held in an account at the master servicer.

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

8. Subsequent Events

Subsequent to December 31, 2011, the LLC, through a series of competitive bidding processes, sold or entered into an agreement to sell its interest in a senior commercial mortgage loan and has sold the majority of its mezzanine loan participation interests, with an aggregated unpaid principal balance of $1.6 billion as of December 31, 2011.

There were no other subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2011. Subsequent events were evaluated through March 20, 2012, which is the date the LLC issued the consolidated financial statements.