Maiden Lane LLC

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

Consolidated Financial Statements for theYear Ended December 31, 2009, and for the Period March 14, 2008 to December 31, 2008, 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

April 21, 2010

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

The management of the Maiden Lane LLC ("ML LLC") is responsible for the preparation and fair presentation of the Consolidated Statements of Financial Condition, Consolidated Statements of Income, and Consolidated Statements of Cash Flows as of December 31, 2009 (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 the ML LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with GAAP. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

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

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

William C. Dudley	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, 2009 and 2008, and the related consolidated statements of income and cash flows for the year ended December 31, 2009 and for the period March 14, 2008 to December 31, 2008. We also have audited the LLC's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report of Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the LLC's internal control over financial reporting based on our audits.

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

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

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

In our opinion, such 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, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009 and for the period March 14, 2008 to December 31, 2008 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, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

April 21, 2010

Maiden Lane LLC

Consolidated Statements of Financial Condition
As of December 31, 2009 and 2008
(Amounts in thousands, except par value and per share data)

	2009	2008
Assets		
Cash and cash equivalents (includes restricted cash of $158,145 and $265,693, respectively)	$ 1,242,312	$ 2,531,488
Investments, at fair value (cost of $31,683,912 and $30,922,347, respectively, and includes assets pledged of $1,477,563 and $3,487,259, respectively)	25,573,328	25,340,301
Swap contracts, at fair value	1,127,182	2,453,774
Principal and interest receivable	137,202	132,501
Receivable for investments sold	26,288	28,337
Other assets	34,000	148,710
Total assets	$ 28,140,312	$ 30,635,111
Liabilities and Member's Equity		
Senior Loan, at fair value	$ 27,002,694	$ 25,683,812
Subordinated Loan, at fair value	-	-
Swap contracts, at fair value	142,615	-
Cash collateral on swap contracts	979,847	2,571,684
Payable for investments purchased	-	2,368,738
Other liabilities and accrued expenses	15,156	10,877
Total liabilities	28,140,312	30,635,111
Member's equity ($10 par value, 1 share issued and outstanding)	-	-
Total liabilities and member's equity	$ 28,140,312	$ 30,635,111

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

Maiden Lane LLC

Consolidated Statements of Income

For the year ended December 31, 2009 and the period March 14, 2008 to December 31, 2008
(Amounts in thousands)

	2009	2008
Revenues		
Interest income	$ 1,474,328	$ 1,560,868
Realized gains on investments, swap contracts, and other derivatives, net	108,839	36,626
Unrealized losses on investments, swap contracts, and other derivatives, net	(211,044)	(5,534,489)
Other income	1,366	-
Total revenues (losses)	1,373,489	(3,936,995)
Expenses		
Interest expense	206,215	599,626
Professional fees	54,607	54,134
Total expenses	260,822	653,760
Net operating income (loss)	1,112,667	(4,590,755)
Non-operating income		
Unrealized gains (losses) on the Loans	(1,112,667)	4,590,755
Total non-operating income (loss)	(1,112,667)	4,590,755
Net income	$ -	$ -

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

Maiden Lane LLC

Consolidated Statements of Cash Flows

For the year ended December 31, 2009 and the period March 14, 2008 to December 31, 2008
(Amounts in thousands)

	2009	2008
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	(470,000)	(454,286)
Realized gains on investments, swaps and other derivatives	(108,839)	(36,626)
Unrealized losses on investments, swaps and other derivatives	211,044	5,432,476
Unrealized (gains) losses on the Loans	1,112,667	(4,590,755)
Increase in accrued and capitalized interest on the Loans	206,215	305,035
Increase in principal and interest receivable	(4,701)	(132,501)
(Increase) decrease in other assets and receivable for investments sold	116,759	(177,047)
Increase in other liabilities and accrued expenses	4,279	10,877
Net cash flow provided by operating activities	1,067,424	357,173
Cash flows from investing activities		
Payments for purchase of investments	(11,285,778)	(38,212,188)
Proceeds from principal paydowns on investments	4,001,490	1,693,869
Proceeds from sale of investments	4,799,328	8,520,160
Payments for purchase of swap contracts	(86,615)	(3,331,956)
Proceeds from disposition of swap contracts	1,525,810	963,214
Net cash flow used in investing activities	(1,045,765)	(30,366,901)
Cash flows from financing activities		
Proceeds from the Loans	-	29,969,532
Proceeds from (repayments of) collateral received on swap contracts	(1,310,835)	2,571,684
Net cash flow provided by (used in) financing activities	(1,310,835)	32,541,216
Net increase (decrease) in cash and cash equivalents	(1,289,176)	2,531,488
Beginning cash and cash equivalents	2,531,488	-
Ending cash and cash equivalents	$ 1,242,312	$ 2,531,488
Supplemental non-cash operating and financing activities:		
Accrued and capitalized interest on the Loans	$ 206,215	$ 305,035
Supplemental non-cash investing activities:		
TBA commitment transactions	$ 2,368,738	$ -

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 Bear Stearns' assets in connection with and to facilitate the merger of The Bear Stearns Companies Inc. ("Bear Stearns") and JPMorgan Chase & Co. ("JPMC"). FRBNY is the sole and managing member of the LLC as well as the controlling party of the assets of the LLC, and will remain as such as long as FRBNY retains an economic interest in the LLC. Financing for the LLC was provided by FRBNY, as the senior lender (the "Senior Loan"), and by JPMC, as the subordinated lender (the "Subordinated Loan") (together the "Loans"). The Loans are collateralized by all the assets of the LLC through a pledge to State Street Bank and Trust ("State Street") as collateral agent.

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

Due to the extended settlement dates, interest was charged on the cost of securities purchased or credited for cash flows on the purchased securities that occurred after March 14, 2008 through the date the securities were either paid for or received by the LLC. The cost of carry of $249 million paid by the LLC to JPMC in connection with the acquisition of the assets was recorded as a component of "Interest expense" in the Consolidated Statements of Income for the period March 14, 2008 to December 31, 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 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 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. 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.

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

2. Summary of Significant Accounting Policies

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

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

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

A. Cash and Cash Equivalents

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

The LLC invests available cash in the BlackRock Liquidity Funds TempFund ("TempFund") and the State Street Global Advisors Money Market Fund ("SSGA Fund"), both of which are money market funds registered under the Investment Company Act of 1940. The TempFund is managed by BlackRock Institutional Management Corporation, an affiliate of the Investment Manager. The Investment Manager has agreed to waive any fees or expenses that would otherwise be allocated to the LLC by virtue of the LLC being an investor in the TempFund. At December 31, 2009 and 2008, the LLC had approximately $1 billion and $2 billion, respectively, invested in the TempFund. The SSGA Fund is managed by State Street Global Advisors, an affiliate of State Street. At both December 31, 2009 and 2008, the LLC had approximately $0.2 billion invested in the SSGA Fund.

Restricted cash 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 debt securities and whole mortgage loans. Debt securities are designated as available-for-sale under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320 (ASC 320) *Investments – Debt and Equity Securities* (previously Statement of Financial Accounting Standard ("SFAS") 115) and whole mortgage loans are designated as held-for-sale under FASB ASC Topic 310 (ASC 310) *Receivables* (previously SFAS 114).

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 elected the fair value option under FASB ASC Topic 825 (ASC 825) *Financial Instruments* (previously SFAS 159) for investments and the Loans (including accrued and capitalized interest), all of which are recorded at fair value in accordance with FASB ASC Topic 820 (ASC 820) *Fair Value Measurements & Disclosures* (previously SFAS 157). The Managing Member believes that accounting for the 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.

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* (previously SFAS 133). For more information on the valuation of swap contracts and other derivative instruments, refer to Note 5 and Note 6.

D. Accounting for Senior Loan and Subordinated Loan

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

E. Variable Interest Entities

The determination and consolidation of variable interest entities ("VIEs") is assessed in accordance with FASB ASC Topic 810 (ASC 810) *Consolidation* (previously FASB Interpretation Number 46R), which requires the variable interest entity to be consolidated by its primary beneficiary.

The LLC consolidates a VIE if it is the primary beneficiary because it will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. In making this determination, the LLC evaluates the VIE's design, capital structure, and the relationships with the variable interest holders. The LLC reconsiders whether it is the primary beneficiary of a VIE when certain events occur, as required by ASC 810.

The LLC holds certain interests in VIEs for which the LLC has determined that it is not the primary beneficiary. In these instances, the LLC has not consolidated the VIEs into its consolidated financial statements. The LLC's involvement with these VIEs is primarily as investor, and in limited instances, as seller of protection through credit default swaps. As of December 31, 2009, the LLC's significant interests in non-consolidated VIEs consisted of approximately $311 million of investments, at fair value, and a payable of approximately $127 million, which is recorded as a component of "Swap contracts, at fair value" in the Consolidated Statements of Financial Condition. Total maximum exposure to non-consolidated VIEs was $448 million as of December 31, 2009. The fair value and total maximum exposure of significant interests in non-consolidated VIEs was approximately $690 million as of December 31, 2008.

F. Professional Fees

Professional fees are primarily comprised of the fees charged by the Investment Manager, State Street, attorneys, and independent auditors. Organization and closing costs of $21 million, associated with the formation of the LLC and the cost of acquisition of the portfolio, were expensed when incurred in 2008.

G. Income Taxes

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

H. Recently Issued Accounting Standards

In February 2008, FASB issued FASB Staff Position ("FSP") SFAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (codified in FASB Topic 860 (ASC 860), *Transfers and Servicing*). ASC 860 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met. The provisions of ASC 860, which are effective for the LLC's consolidated financial statements for the year ended December 31, 2009, have not had a material effect on the LLC's consolidated financial statements.

In March 2008, FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133,* (codified in ASC 815), which requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the LLC's consolidated financial position, financial performance and cash flows. The provisions of ASC 815 are effective for the LLC's consolidated financial statements for the year ended December 31, 2009 and the required disclosures are reflected in Note 6.

In April 2009, FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are Not Orderly*, (codified in ASC 820), which provides additional guidance for estimating fair value when the value and level of market activity for an asset or liability have significantly decreased. The standard also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of ASC 820, which are effective for the LLC's consolidated financial statements for the year ended December 31, 2009, were considered in determining the valuation of assets and liabilities that are measured at fair value and have not had a material effect on the LLC's consolidated financial statements.

In May 2009, FASB issued SFAS 165, *Subsequent Events*, (codified in FASB Topic 855 (ASC 855) *Subsequent Events)*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The LLC adopted ASC 855 for the year ended December 31, 2009 and the required disclosures are reflected in Note 8.

In June 2009, FASB issued SFAS 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140* (codified in ASC 860). The new guidance modifies existing guidance to eliminate the scope exception for qualifying special purpose entities and clarifies that the transferor must consider all arrangements of the transfer of financial assets when determining if the transferor has surrendered control. These provisions of ASC 860 are effective for the LLC's consolidated financial statements for the year beginning on January 1, 2010, and earlier adoption is prohibited. The provisions of ASC 860 are not expected to have a material effect on the LLC's consolidated financial statements.

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

In June 2009, FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles"* (codified in FASB Topic 105 (ASC 105) *Generally Accepted Accounting Principles)*, which establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. ASC 105 is effective for financial statements issued for periods ending after September 15, 2009. As a result, both the ASC and the legacy standards are referenced in the LLC's consolidated financial statements and footnotes.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (ASC 820) – *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures related to fair value measurements. This update is effective for the LLC's consolidated financial statements for the year beginning on January 1, 2010 and early adoption is prohibited. The adoption of this update 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.

Repayment of the Loans will begin solely at the discretion of FRBNY and will be made pursuant to the order of priority described in Note 4 except that repayment of the Senior Loan may begin prior to the second anniversary of the closing date of the Loans only if the Subordinated Loan is first paid in full.

The table below presents a reconciliation of the Loans as of December 31, 2009 and 2008 (in thousands):

	Senior Loan [1]	Subordinated Loan [2]	Total
Beginning principal balance, March 14, 2008	$ -	$ -	$ -
2008 Activity:			
Funding, June 26, 2008	28,819,532	1,150,000	29,969,532
Accrued and capitalized interest	267,350	37,685	305,035
Unrealized (gains) / losses on the Loans	(3,403,070)	(1,187,685)	(4,590,755)
Fair value, December 31, 2008	25,683,812	-	25,683,812
2009 Activity:			
Accrued and capitalized interest	145,708	60,507	206,215
Unrealized (gains) / losses on the Loans	1,173,174	(60,507)	1,112,667
Fair value, December 31, 2009	$ 27,002,694	$ -	$ 27,002,694

[1] The outstanding principal and accrued interest balance of the Senior Loan was $29,232,590 and $29,086,882 as of December 31, 2009 and 2008, respectively.

[2] The outstanding principal and accrued interest balance of the Subordinated Loan was $1,248,192 and $1,187,685 as of December 31, 2009 and 2008, respectively.

The weighted average interest rates on the Senior Loan and Subordinated Loan for the year ended December 31, 2009 were 0.50 percent and 5.00 percent, respectively. The weighted average interest rates on the Senior Loan and Subordinated Loan for the period from June 26, 2008 through December 31, 2008 were 1.80 percent and 6.29 percent, respectively.

4. Distribution of Proceeds

Subject to the conditions described in Note 3 with respect to the repayment of the Loans prior to the second anniversary of the closing date of the Loans, in accordance with the Security Agreement, amounts available in the accounts of the LLC as of the last business day of each month, upon the sole discretion of FRBNY, shall be distributed on the 10th business day following each month-end or such other date as may be specified by FRBNY in the following order of priority:

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

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

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

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

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

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

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

5. Fair Value Measurements

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

<u>*Fair Value Hierarchy*</u>

ASC 820 establishes a three-level fair value hierarchy that distinguishes between market participant assumptions developed using market data obtained from independent sources (observable inputs) and the LLC's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The three levels established by ASC 820 are described below:

- 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 inputs from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the LLC's own estimates of assumptions that market participants would use in pricing the asset and liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

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

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

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

Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases where there is limited activity for particular investments or where current market quotations are not believed to reflect the fair value of a security, valuation is based on inputs from model-based techniques that use estimates of assumptions that market participants would use in pricing the investments. To the extent that such estimates of 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 spread data for each credit rating, collateral type, collateral value, and other relevant contractual features.

Certain assets relating to the prior year have been renamed to conform to the current-year presentation in the LLC's consolidated financial statements. Non-agency collateralized mortgage obligations ("CMOs") have been renamed non-agency residential mortgage-backed securities ("non-agency RMBS"). Agency CMOs and TBA commitments have been included and are recorded as a component of the Federal agency and government-sponsored enterprise mortgage-backed securities ("Federal agency and GSE MBS") asset category.

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

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

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

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

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

The following table presents the assets and liabilities recorded at fair value as of December 31, 2008 by the fair value hierarchy (in thousands):

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Money market funds [1]	$ 2,530,655	$ -	$ -	$ 2,530,655
Investments				
Federal agency & GSE MBS	-	14,759,963	894,794	15,654,757
Non-agency RMBS	-	759,051	1,076,753	1,835,804
Commercial mortgage loans	-	-	5,552,831	5,552,831
Residential mortgage loans	-	-	937,010	937,010
Other investments	-	875,180	484,719	1,359,899
Total investments	-	16,394,194	8,946,107	25,340,301
Swap contracts	-	-	2,453,774	2,453,774
Total assets	$ 2,530,655	$ 16,394,194	$ 11,399,881	$ 30,324,730
Liabilities:				
Senior Loan	$ -	$ -	$ (25,683,812)	$ (25,683,812)
Subordinated Loan	-	-	-	-
Total liabilities	$ -	$ -	$ (25,683,812)	$ (25,683,812)

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

The table below presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2009, including realized and unrealized gains (losses) (in thousands):

	Fair Value at January 1, 2009	Net Purchases, Sales, Paydowns, and Settlements	Net Realized / Unrealized Gains (Losses)	Net Transfers In or (Out)	Fair Value at December 31, 2009	Net Unrealized Gains (Losses)
Investments						
Federal agency & GSE MBS	$ 894,794	$ (246,618)	$ (293)	$ (623,399)	$ 24,484	$ -
Non-agency RMBS	1,076,753	(93,852)	(17,621)	69,768	1,035,048	(18,185)
Commercial mortgage loans	5,552,831	(304,453)	(1,223,405)	-	4,024,973	(1,176,752)
Residential mortgage loans	937,010	(86,083)	(267,584)	-	583,343	(219,439)
Other investments	484,719	(253,140)	2,358	(94,405)	139,532	3,797
Total investments	$ 8,946,107	$ (984,146) [3]	$ (1,506,545)	$ (648,036)	$ 5,807,380	$ (1,410,579)
Net swap contracts [1]	$ 2,453,774	$ (904,886)	$ 93,524	$ (186,438)	$ 1,455,974	$ 212,152
Loans payable						
Senior Loan	$ (25,683,812)	$ (145,708) [2]	$ (1,173,174)	$ -	$ (27,002,694)	$ (1,173,174)
Subordinated Loan	-	(60,507) [2]	60,507	-	-	60,507
Total loans payable	$ (25,683,812)	$ (206,215)	$ (1,112,667)	$ -	$ (27,002,694)	$ (1,112,667)

[1] Level 3 swap assets and liabilities are presented net for the purposes of this table.
[2] Represents accrued and capitalized interest.
[3] Investments with a fair value of $153,159 as of December 31, 2009 were re categorized from "Other investments" to "Non Agency RMBS" to conform to the current year presentation.

The table below presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during the period ended December 31, 2008, including realized and unrealized gains (losses) (in thousands):

	Net Purchases, Sales, Paydowns, and Settlements	Net Realized / Unrealized Gains (Losses)	Net Transfers In or (Out)	Fair Value at December 31, 2008	Net Unrealized Gains (Losses)
Investments					
Federal agency & GSE MBS	$ 891,126	$ 3,668	$ -	$ 894,794	$ 3,668
Non-agency RMBS	2,062,074	(985,321)	-	1,076,753	(985,321)
Commercial mortgage loans	7,682,513	(2,129,682)	-	5,552,831	(2,129,682)
Residential mortgage loans	1,500,416	(563,406)	-	937,010	(563,406)
Other investments	1,067,283	(582,564)	-	484,719	(582,564)
Total investments	$ 13,203,412	$ (4,257,305)	$ -	$ 8,946,107	$ (4,257,305)
Swap contracts	$ 2,368,742	$ 85,032	$ -	$ 2,453,774	$ 155,038
Loans					
Senior Loan	$ (29,086,882) [1]	$ 3,403,070	$ -	$ (25,683,812)	$ 3,403,070
Subordinated Loan	(1,187,685) [2]	1,187,685	-	-	1,187,685
Total loans	$ (30,274,567)	$ 4,590,755	$ -	$ (25,683,812)	$ 4,590,755

[1] Includes $267,350 of accrued and capitalized interest.
[2] Includes $37,685 of accrued and capitalized interest.

Total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the year ended December 31, 2009 were as follows (in thousands):

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

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

Total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the period March 14, 2008 to December 31, 2008 were as follows (in thousands):

	Total Realized Gains (Losses)	Fair Value Changes Unrealized Gains (Losses)	Total Realized / Unrealized Gains (Losses)
Investments			
Federal agency & GSE MBS	$ (165,446)	$ 50,265	$ (115,181)
Non-agency RMBS	(4,169)	(1,502,976)	(1,507,145)
Commercial mortgage loans	42,677	(2,129,682)	(2,087,005)
Residential mortgage loans	(3,407)	(563,406)	(566,813)
Other investments	214,328	(1,441,715)	(1,227,387)
Total investments	83,983	(5,587,514)	(5,503,531)
Swap contracts	(70,006)	155,038	85,032
Other derivatives [1]	22,649	(102,013)	(79,364)
Total investments, swap contracts and other derivatives	$ 36,626	$ (5,534,489)	$ (5,497,863)
Loans			
Senior Loan	$ -	$ 3,403,070	$ 3,403,070
Subordinated Loan	-	1,187,685	1,187,685
Total loans	$ -	$ 4,590,755	$ 4,590,755

[1] Represents realized gains and unrealized losses on futures. The LLC's variation margin receivable balance for open futures contracts was $4,200 as of December 31, 2008 and is recorded as a component of "Other assets" in the Consolidated Statements of Financial Condition.

6. Investment and Risk Profile

The LLC's investment portfolio consists primarily of Federal agency and GSE MBS, non-agency RMBS, commercial and residential mortgage loans, and derivatives. A description of the significant holdings and the associated credit and market risks for each holding follows.

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 investments in non-agency RMBS expose the LLC 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 are issued. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower.

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

As of December 31, 2009, approximately 51 percent of the properties collateralizing the non-agency RMBS held by the LLC were located in California and Florida, based on the geographic location data available for the underlying loans by aggregate unpaid principal balance.

Other investments are primarily comprised of commercial mortgage-backed securities ("CMBS") and collateralized debt obligations ("CDOs").

At December 31, 2009, 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 $21.0 billion aggregate fair value of debt securities in the portfolio was as follows:

	Ratings [1]						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Government / Agency	Total
Security Type [2]:							
Federal agency & GSE MBS	0.0%	0.0%	0.0%	0.0%	0.0%	86.6%	86.6%
Non-agency RMBS	0.5%	0.5%	0.8%	0.3%	7.0%	0.0%	9.1%
Other investments [3]	1.2%	0.6%	0.5%	0.7%	1.2%	0.1%	4.3%
Total	1.7%	1.1%	1.3%	1.0%	8.2%	86.7%	100.0%

[1] Lowest of all ratings is used for the purposes of this table for securities rated by two or more nationally recognized statistical rating organizations.
[2] This table excludes the LLC's commercial and residential mortgage loans, swaps, and other derivative contracts.
[3] Includes all sectors that, individually, represent less than 5% of aggregate fair value of debt securities.

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, 2009, was as follows (in thousands):

	Remaining Principal Amount Outstanding	Fair Value	Fair Value as Percentage of Remaining Principal
Performing loans:			
Commercial	$ 7,036,877	$ 3,878,659	55.1%
Residential	747,114	378,231	50.6%
Subtotal	7,783,991	4,256,890	54.7%
Non-performing / Nonaccrual loans [1]			
Commercial	1,081,043	146,314	13.5%
Residential	738,501	205,112	27.8%
Subtotal	1,819,544	351,426	19.3%
Total loans			
Commercial	8,117,920	4,024,973	49.6%
Residential	1,485,615	583,343	39.3%
Total	$ 9,603,535	$ 4,608,316	48.0%

[1] In 2009 the LLC changed its classification of Non performing / Nonaccrual loans to include loans with payments past due greater than 90 days or when the LLC has doubts about the future performance of the loan assets. The prior year presentation disclosed all loans greater than 60 days past due. This change in presentation was made to conform with industry standards and did not have a material effect on the LLC's consolidated financial statements.

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 LLC at December 31, 2009:

	Concentration of Unpaid Principal Balances	
	Residential	Commercial [2]
By State		
California	36.4%	
Florida	9.1%	
Other [1]	54.5%	
	100.0%	
By Property		
Hospitality		82.8%
Office		9.1%
Other [1]		8.1%
		100.0%

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

[2] One borrower represents approximately 50% of total unpaid principal balance of the commercial mortgage loan portfolio.

C. Derivative Instruments

Derivative contracts are instruments, such as futures or swaps contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. The LLC portfolio consists of various derivative financial instruments, primarily consisting of a TRS with JPMC. The LLC and JPMC entered into the TRS with reference obligations representing single-named credit default swaps ("CDS") primarily on asset-backed securities 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% of the notional amount of sold CDS protection and 10% of the present value of future premiums on purchased CDS protection. Separately, the LLC and JPMC engage in bilateral posting of collateral to cover the net mark-to-market ("MTM") variations in the swap portfolio. The LLC only nets the collateral received from JPMC from the bilateral MTM posting for the reference obligations where JPMC is the counterparty. The values of the LLC's cash equivalents and investments, purchased by the re-hypothecation of cash collateral associated with the TRS, were $0.8 billion and $0.5 billion, respectively, as of December 31, 2009 and $2.1 billion and $0.5 billion, respectively, as of December 31, 2008. In addition, the LLC has pledged $1.5 billion and $3.0 billion of Federal agency and GSE MBS to JPMC as of December 31, 2009 and 2008, respectively.

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

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 collateral related to future contracts of $40 million and $69 million as of December 31, 2009 and 2008, respectively.

Credit Default Swaps

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

II. Credit Risk

Credit risk is the risk of financial loss resulting from failure by a counterparty to meet its contractual obligations to the LLC. This can be caused by factors directly related to the counterparty, such as business or management. Taking collateral is the most common way to mitigate credit risk. The LLC takes financial collateral in the form of cash and marketable securities 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, 2009 and 2008 (in thousands) and the change in notional amounts is representative of the volume of activity for the year ended December 31, 2009:

	Notional Amounts [1, 2]	
	2009	2008
Interest rate contracts:		
IRS	$ 3,184,500	$ 11,187,830
Futures and options on futures [3]	70,289	45,125
Credit derivatives:		
CDS	7,323,150	11,791,489
Total	$ 10,577,939	$ 23,024,444

[1] Represents the sum of gross long and gross short notional derivative contracts.
[2] There were 1,764 and 3,606 CDS and IRS contracts outstanding as of December 31, 2009 and 2008, respectively.
[3] Futures and options on futures relate to contract obligations and not gross notional amounts.

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

	Derivatives Used in Trading Activities	
	Gross Derivative Assets	Gross Derivative Liabilities
Interest rate contracts:		
IRS	$ 4,636	$ 194,633
Futures and options on futures	19,838	-
Credit derivatives:		
CDS	3,272,402	1,816,428
Counterparty netting	(1,868,446)	(1,868,446)
Cash collateral netting	(281,410)	-
Total	$ 1,147,020	$ 142,615

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

	Maximum Potential Payout / Notional					
	Years to Maturity					Fair Value
Credit Ratings of the Reference Obligation	1 Year or Less	After 1 Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years	Total	Asset / (Liability)
CDS:						
Investment grade (AAA to BBB-)	$ 40,000	$ 140,000	$ 5,000	$ 165,304	$ 350,304	$ (154,444)
Non-investment grade (BB+ or lower)	5,000	20,000	120,000	1,953,492	2,098,492	(1,639,284)
Total CDS Sold	$ 45,000	$ 160,000	$ 125,000	$ 2,118,796	$ 2,448,796	$ (1,793,728)

7. Commitments and Contingencies

Certain commercial mortgage loans acquired by the Grantor Trusts have unfunded commitments according to the underlying loan agreements with the respective borrowers. These unfunded commitments to extend credit represent the only such commitments of the LLC. The Grantor Trusts had unfunded commitments to extend credit of $157 million and $266 million as of December 31, 2009 and 2008, respectively. The Grantor Trusts are 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” in the Consolidated Statements of Financial Condition, is held in an escrow account by State Street, as custodian for the trustee of the Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1. The balances in the escrow account were $158 million and $266 million, as of December 31, 2009 and 2008, respectively. The Trust and Master Servicing Agreement governing the Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1 requires that these amounts be held in escrow for as long as such unfunded commitments remain outstanding.

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 has not had any significant prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

8. Subsequent Events

On April 8, 2010, an agreement was reached to modify approximately $4.1 billion of commercial mortgage and mezzanine loans held in the LLC's investment portfolio. These loans, which represent the LLC's largest investment based on unpaid principal balance, are reported as hospitality loans in the table in Note 6 that discloses the concentration of unpaid principal balances in the LLC's investment portfolio. The key provisions of the modification include the discounted payoff of certain mezzanine loans, the conversion of the most junior mezzanine loans to preferred equity, an extension of the final maturity date of the remaining loans from 2013 to 2015, and an increase in interest rates and fees. Management is evaluating the impact of the modification and does not believe it will result in an adverse effect to the consolidated financial statements of the LLC.

There were no other subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2009. Subsequent events were evaluated through April 21, 2010, which is the date the LLC issued the consolidated financial statements.