Maiden Lane II LLC

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

Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

Maiden Lane II LLC

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FEDERAL RESERVE BANK *of* NEW YORK
33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control over Financial Reporting

March 20, 2012

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

The management of the Maiden Lane II LLC (ML II LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition as of December 31, 2011 and 2010, and the Statements of Operations, and 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 II LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The ML II 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 II 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 II 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 II 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 II 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 II 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 II LLC maintained effective internal control over financial reporting.

William C. Dudley
William C. Dudley
President

Christine M. Cumming
Christine M. Cumming
First Vice President

Edward F. Murphy
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Principal Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Managing Member of
Maiden Lane II LLC:

We have audited the accompanying Statements of Financial Condition of Maiden Lane II LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC"), including the Condensed Schedules of Investments as of December 31, 2011 and 2010, and the related Statements of Operations, 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 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 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 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 Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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 Financial Statements.

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

In our opinion, such Financial Statements present fairly, in all material respects, the financial position of Maiden Lane II LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) as of December 31, 2011 and 2010, and the results of its operations and its 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.

As discussed in Note 9 to the Financial Statements, the Federal Reserve Bank of New York, through a series of competitive bidding processes, sold the remaining LLC portfolio assets with a total unpaid principal balance of $19.2 billion. The sales proceeds received exceeded the fair value of the assets as of December 31, 2011 by $1.2 billion. Proceeds from these sales were used to fully repay the Senior Loan plus accrued interest and the Fixed Deferred Purchase Price plus accrued interest, and will provide residual income that will be distributed in accordance with the LLC agreements.

Deloitte & Touche LLP

March 20, 2012

Maiden Lane II LLC

Statements of Financial Condition

As of December 31, 2011 and 2010

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

	2011	2010
Assets		
Investments, at fair value (cost of $9,950,604 and $15,860,683, respectively)	$ 9,104,956	$ 16,188,128
Cash and cash equivalents	149,155	264,540
Principal and interest receivable	3,090	4,193
Total assets	$ 9,257,201	$ 16,456,861
Liabilities and Member's Equity		
Senior Loan, at fair value	$ 7,921,759	$ 15,067,548
Fixed Deferred Purchase Price, at fair value	1,332,086	1,387,545
Professional fees payable and accrued	3,356	1,768
Total liabilities	9,257,201	16,456,861
Member's equity ($10 par value, 1 share issued and outstanding)	-	-
Total liabilities and member's equity	$ 9,257,201	$ 16,456,861

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

Maiden Lane II LLC

Condensed Schedules of Investments

As of December 31, 2011 and 2010
(Amounts in thousands, except percentage data)

2011	Cost	Fair Value	Percentage of Total Investments
Non-agency RMBS			
Alt-A ARM	$ 2,512,632	$ 2,174,642	23.9%
Subprime	5,892,125	5,392,177	59.2%
Option ARM	598,621	536,244	5.9%
Other [1]	947,226	1,001,893	11.0%
Total investments in non-agency RMBS	$ 9,950,604	$ 9,104,956	100.0%

2010	Cost	Fair Value	Percentage of Total Investments
Non-agency RMBS			
Alt-A ARM	$ 4,832,040	$ 4,764,499	29.4%
Subprime	8,401,213	8,993,715	55.6%
Option ARM	1,172,356	1,103,866	6.8%
Other [1]	1,455,074	1,326,048	8.2%
Total investments in non-agency RMBS	$ 15,860,683	$ 16,188,128	100.0%

[1] Includes all asset types that, individually, represent less than 5% of total investments.

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

Maiden Lane II LLC

Statements of Operations

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

	2011	2010
Investment income		
Interest income	$ 608,566	$ 794,016
Expenses		
Interest expense	152,705	220,064
Professional fees	7,890	10,201
Total expenses	160,595	230,265
Net investment income	447,971	563,751
Realized and unrealized gains (losses)		
Realized gains on investments, net	181,650	2,549
Unrealized (losses) gains on investments, net	(1,173,093)	2,463,994
Unrealized gains (losses) on Senior Loan, net	452,893	(1,677,181)
Unrealized gains (losses) on Fixed Deferred Purchase Price, net	90,579	(1,353,113)
Net realized and unrealized losses	(447,971)	(563,751)
Net change in member's equity resulting from operations	$ -	$ -

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

Maiden Lane II LLC

Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Cash flows from operating activities		
Net change in member's equity resulting from operations	$ -	$ -
Adjustments to reconcile net change in member's equity resulting from operations to net cash provided by operating activities:		
Unrealized losses (gains) on investments, net	1,173,093	(2,463,994)
Unrealized (gains) losses on Senior Loan, net	(452,893)	1,677,181
Unrealized (gains) losses on Fixed Deferred Purchase Price, net	(90,579)	1,353,113
Increase in capitalized and accrued interest on Senior Loan	117,585	185,632
Increase in capitalized and accrued interest on Fixed Deferred Purchase Price	35,120	34,432
Decrease (increase) in principal and interest receivable	1,103	(1,715)
Increase (decrease) in professional fees payable and accrued	1,588	(33)
Proceeds from principal paydowns on investments	1,405,509	1,883,451
Proceeds from sale of investments	4,686,220	37,642
Realized gains on investments, net	(181,650)	(2,549)
Net cash flow provided by operating activities	6,695,096	2,703,160
Cash flows from financing activities		
Repayments of Senior Loan	(6,810,481)	(2,705,441)
Net cash flow used in financing activities	(6,810,481)	(2,705,441)
Net decrease in cash and cash equivalents	(115,385)	(2,281)
Beginning cash and cash equivalents	264,540	266,821
Ending cash and cash equivalents	$ 149,155	$ 264,540
Supplemental non-cash operating and financing activities		
Accrued and capitalized interest on Senior Loan and Fixed Deferred Purchase Price	$ 152,705	$ 220,064

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

1. Organization and Nature of Business

Maiden Lane II 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 non-agency residential mortgage-backed securities ("non-agency RMBS") from the reinvestment pool of the securities lending portfolio of several regulated U.S. insurance subsidiaries of the American International Group, Inc. (the "AIG Subsidiaries").

On December 12, 2008, the LLC purchased from the AIG Subsidiaries, non-agency RMBS with an approximate fair value of $20.8 billion, determined as of October 31, 2008. The LLC financed this purchase by borrowing $19.5 billion (the "Senior Loan") from FRBNY and through the deferral of $1.0 billion of the purchase price payable to the AIG Subsidiaries (the "Fixed Deferred Purchase Price"). The Senior Loan proceeds were used to purchase the $20.8 billion of non-agency RMBS. The aggregate amount of principal and interest proceeds from non-agency RMBS received after the announcement date, but prior to the settlement date, net of financing costs, amounted to approximately $0.3 billion and therefore reduced the amount of funding required at settlement by $0.3 billion, from $20.8 billion to $20.5 billion.

Under the terms of the Asset Purchase Agreement, after the Senior Loan has been repaid in full plus interest, the AIG Subsidiaries will be entitled to receive from the LLC payment of the Fixed Deferred Purchase Price, plus accrued and unpaid interest. The Senior Loan and the Fixed Deferred Purchase Price are collateralized by all of the assets of the LLC through a pledge to The Bank of New York Mellon ("BNYM") as collateral agent. FRBNY is the sole and managing member 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.

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. BNYM provides administrative services and has been appointed to serve as collateral agent under multi-year contracts with FRBNY that include provisions governing termination.

On March 30, 2011, the FRBNY announced that, through the Investment Manager, it would dispose of the securities in the LLC portfolio individually and in segments through a competitive sales process over time as market conditions warrant. During the year ended December 31, 2011, a total of nine bid list auctions were conducted and assets with a total current face amount of $9.96 billion were sold. Subsequent to December 31, 2011, the FRBNY sold the remaining securities in the LLC portfolio through a competitive bidding process, as discussed in Note 9.

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

2. Summary of Significant Accounting Policies

The 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 in non-agency RMBS, the Senior Loan, and the Fixed Deferred Purchase Price. Actual results could differ from those estimates.

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.

B. Valuation of Financial Assets and Liabilities

The LLC qualifies as a nonregistered investment company under the provisions of FASB ASC Topic 946 ("ASC 946"), *Financial Services - Investment Companies*, and therefore, all investments are recorded at fair value in accordance with ASC 820.

The LLC has elected the fair value option in accordance with FASB ASC Topic 825 ("ASC 825"), *Financial Instruments*, for the Senior Loan and the Fixed Deferred Purchase Price. Under ASC 825, the LLC records the Senior Loan and the Fixed Deferred Purchase Price, including related accrued and capitalized interest, at fair value in the LLC's financial statements in accordance with ASC 820. The Managing Member believes that accounting for the Senior Loan and the Fixed Deferred Purchase Price 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.

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 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.

C. Investment Transactions and Investment Income

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

D. Accounting for the Senior Loan and Fixed Deferred Purchase Price

The Senior Loan and related accrued and capitalized interest, at fair value, are recorded as "Senior Loan, at fair value" in the Statements of Financial Condition and changes in fair value are recorded as "Unrealized gains (losses) on Senior Loan, net" in the Statements of Operations. The Fixed Deferred Purchase Price and related accrued and capitalized interest, at fair value, are reported as a liability and recorded as "Fixed Deferred Purchase Price, at fair value" in the Statements of Financial Condition and changes in fair value are recorded as "Unrealized gains (losses) on Fixed Deferred Purchase Price, net" in the Statements of Operations.

E. Professional Fees

Professional fees are primarily comprised of the fees charged by the Investment Manager and administrator.

F. 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 LLC's financial statements.

G. 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 financial statements.

3. Senior Loan and Fixed Deferred Purchase Price

The Senior Loan has an original six-year term maturing on December 12, 2014 provided that FRBNY may extend the date of final maturity to any later date. The interest rate on the Senior Loan is equal to the London interbank offered rate ("Libor") for one-month deposits in U.S. dollars plus 100 basis points, while the interest rate on the Fixed Deferred Purchase Price is equal to the Libor rate for one-month deposits in U.S. dollars plus 300 basis points. Interest on the Senior Loan and the Fixed Deferred Purchase Price is capitalized monthly and accrued daily based on the amount of principal and capitalized interest outstanding on the last business day of each month.

Repayment of the Senior Loan will be made monthly, subject to availability of funds in the LLC's accounts, and pursuant to the order of priority described in Note 4.

The following table presents a reconciliation of the Senior Loan and the Fixed Deferred Purchase Price as of December 31, 2011 and 2010 (in thousands):

	Senior Loan [2]	Fixed Deferred Purchase Price [3]	Total
Fair value, January 1, 2010	$ 15,910,176	$ -	$ 15,910,176
2010 Activity:			
Accrued and capitalized interest	185,632	34,432	220,064
Repayments	(2,705,441)	-	(2,705,441)
Unrealized losses [1]	1,677,181	1,353,113	3,030,294
Fair value, December 31, 2010	15,067,548	1,387,545	16,455,093
2011 Activity:			
Accrued and capitalized interest	117,585	35,120	152,705
Repayments	(6,810,481)	-	(6,810,481)
Unrealized gains [1]	(452,893)	(90,579)	(543,472)
Fair value, December 31, 2011	$ 7,921,759	$ 1,332,086	$ 9,253,845

[1] Recorded as "Unrealized gains (losses) on Senior Loan, net" and "Unrealized gains (losses) on Fixed Deferred Purchase Price, net," respectively, in the Statements of Operations.

[2] The outstanding principal and accrued interest balances of the Senior Loan were $6,792,064 (principal of $6,223,069 and interest of $568,995) and $13,484,961 (principal of $13,033,550 and interest of $451,411) as of December 31, 2011 and 2010, respectively.

[3] The outstanding principal and accrued interest balances of the Fixed Deferred Purchase Price were $1,106,147 (principal of $1,000,000 and interest of $106,147) and $1,071,027 (principal of $1,000,000 and interest of $71,027) as of December 31, 2011 and 2010, respectively.

The weighted-average interest rates on the Senior Loan and the Fixed Deferred Purchase Price for the year ended December 31, 2011 were 1.24 percent and 3.24 percent, respectively. The weighted-average interest rates on the Senior Loan and Fixed Deferred Purchase Price for the year ended December 31, 2010 were 1.27 percent and 3.27 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 fund the expense reimbursement sub-account until the balance thereof is equal to an amount specified by FRBNY ($5 million as of December 31, 2011 and 2010);

third, to pay all or any portion of the outstanding principal amount of the Senior Loan;

fourth, so long as the entire outstanding principal amount of the Senior Loan shall have been paid in full in cash, to pay all or any portion of the accrued but 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 shall have been paid in full in cash, to pay all or any portion of the outstanding principal amount of the Fixed Deferred Purchase Price;

sixth, so long as (i) the entire outstanding principal amount of, and all accrued and unpaid interest outstanding on, the Senior Loan shall have been paid in full in cash and (ii) the entire outstanding principal amount of the Fixed Deferred Purchase Price shall have been paid in full in cash, to pay all or any portion of the accrued but unpaid interest outstanding on the Fixed Deferred Purchase Price;

seventh, so long as (i) the entire outstanding principal amount of, and all accrued and unpaid interest outstanding on, the Senior Loan and the Fixed Deferred Purchase Price shall have been paid in full in cash and (ii) all other remaining secured obligations outstanding (and all fees and expenses or other amounts to the extent not constituting fees or costs and expenses) shall have been paid in full in cash, to pay five-sixth of all remaining amounts to FRBNY as contingent interest and one-sixth of all remaining amounts to the AIG Subsidiaries.

5. Fair Value Measurements

The LLC qualifies as a non-registered investment company under the provisions of ASC 946 and therefore, all investments are recorded at fair value in accordance with ASC 820. The LLC measures the Senior Loan and the Fixed Deferred Purchase Price 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.

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 Senior Loan and the Fixed Deferred Purchase Price is determined based on the fair value of the underlying assets held by the LLC and the allocation of the LLC's net investment income or loss and realized gains or losses on investments, as reflected in the Senior Loan and the Fixed Deferred Purchase Price reconciliation presented in Note 3.

Because of the uncertainty inherent in determining the fair value of investments and debt instruments that do not have a readily available fair value, the fair values of the LLC's investments, Senior Loan and Fixed Deferred Purchase Price 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 investment, 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 non-agency RMBS, 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	Total fair value
Assets:				
Non-agency RMBS				
Alt-A ARM	$ -	$ 1,124,614	$ 1,050,028	$ 2,174,642
Subprime	-	2,774,664	2,617,513	5,392,177
Option ARM	-	103,560	432,684	536,244
Other	-	568,704	433,189	1,001,893
Total Non-agency RMBS	-	4,571,542	4,533,414	9,104,956
Money market funds [1]	149,155	-	-	149,155
Total assets	$ 149,155	$ 4,571,542	$ 4,533,414	$ 9,254,111
Liabilities:				
Senior Loan	$ -	$ -	$ (7,921,759)	$ (7,921,759)
Fixed Deferred Purchase Price	-	-	(1,332,086)	(1,332,086)
Total liabilities	$ -	$ -	$ (9,253,845)	$ (9,253,845)

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

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	Total fair value
Assets:				
Non-agency RMBS				
Alt-A ARM	$ -	$ 2,802,317	$ 1,962,182	$ 4,764,499
Subprime	-	6,039,687	2,954,028	8,993,715
Option ARM	-	613,197	490,669	1,103,866
Other	-	693,438	632,610	1,326,048
Total Non-agency RMBS	-	10,148,639	6,039,489	16,188,128
Money market funds [1]	217,540	-	-	217,540
Other short-term investments [1]	47,000	-	-	47,000
Total assets	$ 264,540	$ 10,148,639	$ 6,039,489	$ 16,452,668
Liabilities:				
Senior Loan	$ -	$ -	$ (15,067,548)	$ (15,067,548)
Fixed Deferred Purchase Price	-	-	(1,387,545)	(1,387,545)
Total liabilities	$ -	$ -	$ (16,455,093)	$ (16,455,093)

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

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 [1,2]	Gross transfers out [1,2]	Fair value at December 31, 2011	Change in unrealized gains (losses) related to financial instruments held at December 31, 2011
Assets:							
Non-agency RMBS							
Alt-A ARM	$ 1,962,182	$ (1,153,326)	$ (144,527)	$ 731,295	$ (345,596)	$ 1,050,028	$ (210,452)
Subprime	2,954,028	(965,940)	(504,302)	2,353,337	(1,219,610)	2,617,513	(534,853)
Option ARM	490,669	(225,996)	540	190,878	(23,407)	432,684	(26,996)
Other	632,610	(300,747)	87,639	264,633	(250,946)	433,189	49,861
Total assets	$ 6,039,489	$ (2,646,009)	$ (560,650)	$ 3,540,143	$ (1,839,559)	$ 4,533,414	$ (722,440)
Liabilities:							
Senior Loan	$ (15,067,548)	$ 6,692,896	$ 452,893	$ -	$ -	$ (7,921,759)	$ 452,893
Fixed Deferred							
Purchase Price	(1,387,545)	(35,120)	90,579	-	-	(1,332,086)	90,579
Total liabilities	$ (16,455,093)	$ 6,657,776	$ 543,472	$ -	$ -	$ (9,253,845)	$ 543,472

[1] Non-agency RMBS, with a December 31, 2010 fair value of $1,839,559, 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 certain Non-agency RMBS for which valuation inputs became less observable during the year ended December 31, 2011 which resulted in $3,540,143 in transfers from Level 2 to Level 3. There were no other significant transfers between Levels during the year ended December 31, 2011.

[2] 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 [2]	Purchases, sales, issuances, and settlements, net
Assets:					
Non-agency RMBS					
Alt-A ARM	$ -	$ (970,482)	$ -	$ (182,844)	$ (1,153,326)
Subprime	-	(616,431)	-	(349,509)	(965,940)
Option ARM	-	(175,583)	-	(50,413)	(225,996)
Other	-	(213,922)	-	(86,825)	(300,747)
Total assets	$ -	$(1,976,418)	$ -	$ (669,591)	$ (2,646,009)
Liabilities:					
Senior Loan	$ (117,585) [1]	$ -	$ -	$ 6,810,481	$ 6,692,896
Fixed Deferred					
Purchase Price	(35,120) [1]	-	-	-	(35,120)
Total liabilities	$ (152,705)	$ -	$ -	$ 6,810,481	$ 6,657,776

[1] Represents accrued and capitalized interest.

[2] Includes paydowns.

Notes to Financial Statements
For the years ended December 31, 2011 and 2010

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2010, including 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 [1,2]	Gross transfers out [1,2]	Fair value at December 31, 2010	Change in unrealized gains (losses) related to financial instruments held at December 31, 2010
Assets:							
Non-agency RMBS							
Alt-A ARM	$ 2,591,300	$ (284,793)	$ 204,330	$ 712,759	$ (1,261,414)	$ 1,962,182	$ 204,328
Subprime	3,228,837	(308,612)	446,340	1,547,470	(1,960,007)	2,954,028	446,340
Option ARM	632,089	(20,476)	104,902	25,063	(250,909)	490,669	104,901
Other	603,970	(106,599)	131,500	361,432	(357,693)	632,610	131,501
Total assets	$ 7,056,196	$ (720,480)	$ 887,072	$ 2,646,724	$ (3,830,023)	$ 6,039,489	$ 887,070
Liabilities:							
Senior Loan	$ (15,910,176)	$ 2,519,809	$ (1,677,181)	$ -	$ -	$ (15,067,548)	$ (1,677,181)
Fixed Deferred Purchase Price	-	(34,432)	(1,353,113)	-	-	(1,387,545)	(1,353,113)
Total liabilities	$ (15,910,176)	$ 2,485,377	$ (3,030,294)	$ -	$ -	$ (16,455,093)	$ (3,030,294)

[1] Non-agency RMBS, with a December 31, 2009 fair value of $3,830,023, 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 also certain Non-agency RMBS for which valuation inputs became less observable during the year ended December 31, 2010 which resulted in $2,646,724 in transfers from Level 2 to Level 3. There were no other significant transfers between Levels during the year ended December 31, 2010.
[2] 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 [2]	Purchases, sales, issuances, and settlements, net
Assets:					
Non-agency RMBS					
Alt-A ARM	$ -	$ (5,756)	$ -	$ (279,037)	$ (284,793)
Subprime	-	-	-	(308,612)	(308,612)
Option ARM	-	-	-	(20,476)	(20,476)
Other	-	-	-	(106,599)	(106,599)
Total assets	$ -	$ (5,756)	$ -	$ (714,724)	$ (720,480)
Liabilities:					
Senior Loan	$ (185,632) [1]	$ -	$ -	$ 2,705,441	$ 2,519,809
Fixed Deferred Purchase Price	(34,432) [1]	-	-	-	(34,432)
Total liabilities	$ (220,064)	$ -	$ -	$ 2,705,441	$ 2,485,377

[1] Represents accrued and capitalized interest.
[2] 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.

6. Investment Risk Profile

The LLC's investments in non-agency RMBS contain 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 residential 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 residential mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to the holder of such non-agency RMBS is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest.

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.

At December 31, 2011, the type and rating composition of the LLC's $9.1 billion non-agency RMBS portfolio, recorded at fair value, as a percentage of aggregate fair value of all securities in the portfolio, was as follows:

	Ratings [1,3]					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Total
Asset Type:						
Alt-A ARM	-	1.1%	1.1%	0.2%	21.6%	23.9%
Subprime	3.9%	3.2%	1.6%	1.0%	49.5%	59.2%
Option ARM	-	-	-	-	5.9%	5.9%
Other [2]	-	0.8%	1.6%	-	8.7%	11.0%
Total Investments	3.9%	5.0%	4.3%	1.2%	85.6%	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] Includes all asset types that, individually, represent less than 5 percent of aggregate portfolio fair value.

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

As of December 31, 2011, approximately 29 percent and 13 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.

7. Contingencies

The LLC agrees to pay the reasonable out-of-pocket costs and expenses of its service providers incurred in connection with its duties under the respective agreements and to indemnify its service providers for any losses, claims, damages, liabilities and related expenses etc., which may arise out of the respective agreements unless they result from the service provider's bad faith, gross negligence, fraudulent actions or willful misconduct. The indemnity, which is provided solely by the LLC, survives termination of the respective agreements. The LLC has not had any prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

8. Financial Highlights

The disclosures of internal rate of return and ratios of net investment income and expenses to average member's equity have been omitted because the LLC has no substantial equity and such disclosures would not be meaningful.

9. Subsequent Events

Subsequent to December 31, 2011, the FRBNY, through a series of three competitive bidding processes, sold the remaining LLC portfolio assets with a total unpaid principal balance of $19.2 billion. The sales proceeds received exceeded the fair value of the assets as of December 31, 2011 by $1.2 billion. Proceeds from these sales were used to fully repay the Senior Loan plus accrued interest and the Fixed Deferred Purchase Price plus accrued interest, and will provide residual income that will be distributed in accordance with the LLC agreements.

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