

# ***Maiden Lane LLC***

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

*Consolidated Financial Statements as of and for the  
Years Ended December 31, 2015 and 2014,  
and Independent Auditors' Report*

# Maiden Lane LLC

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# FEDERAL RESERVE BANK of NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Management's Report on Internal Control Over Financial Reporting

March 8, 2016

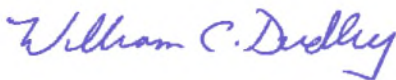
To the Board of Directors of the  
Federal Reserve Bank of New York:

The management of Maiden Lane LLC (ML LLC) is responsible for the preparation and fair presentation of the Consolidated Statements of Financial Condition as of December 31, 2015 and 2014, and the Consolidated Statements of Income and Consolidated Statements of Cash Flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

The management of ML LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. ML LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. ML LLC's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of ML LLC's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that ML LLC's receipts and expenditures are being made only in accordance with authorizations of its management; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ML LLC's assets that could have a material effect on its financial statements.

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

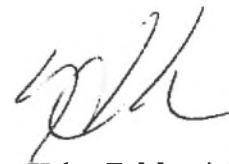
The management of ML LLC assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that ML LLC maintained effective internal control over financial reporting.



William C. Dudley  
President



Michael Strine  
First Vice President



Helen E. Mucciolo  
Principal Financial Officer



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Independent Auditors' Report

To the Managing Member of  
Maiden Lane LLC:

We have audited the accompanying consolidated statement of financial condition of Maiden Lane LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC") as of December 31, 2015, and the related consolidated statements of income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the LLC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of the LLC as of December 31, 2014 and for the year then ended were audited by other auditors whose report thereon dated March 11, 2015, expressed an unmodified opinion on those statements.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the LLC as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

New York, New York  
March 8, 2016

## Maiden Lane LLC

### Consolidated Statements of Financial Condition

As of December 31, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 212,843	\$ 276,842
Investments, at fair value (cost of \$1,567,258 and \$1,477,869, respectively, and includes assets pledged of \$52,401 and \$86,877, respectively)	1,509,030	1,410,519
Swap contracts, at fair value	55,873	123,836
Principal and interest receivable	36	75
Total assets	<u>\$ 1,777,782</u>	<u>\$ 1,811,272</u>
<b>Liabilities and member's equity</b>		
Senior Loan, at fair value	\$ 1,720,633	\$ 1,684,513
Swap contracts, at fair value	20,538	40,647
Cash collateral on swap contracts	36,209	85,093
Other liabilities and accrued expenses	402	1,019
Total liabilities	<u>1,777,782</u>	<u>1,811,272</u>
Member's equity (\$10 par value, 1 share issued and outstanding)	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 1,777,782</u>	<u>\$ 1,811,272</u>

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

## Maiden Lane LLC

### Consolidated Statements of Income

For the years ended December 31, 2015 and 2014

(Amounts in thousands)

	2015	2014
<b>Revenues</b>		
Interest income	\$ 4,386	\$ 75,604
Realized gains on investments and swap contracts, net	31,855	738
Unrealized gains on investments and swap contracts, net	2,616	35,419
Other income	-	1,250
Total revenues	<u>38,857</u>	<u>113,011</u>
<b>Expenses</b>		
Professional fees and other expenses	<u>2,737</u>	<u>3,548</u>
Net operating income	<u>36,120</u>	<u>109,463</u>
<b>Non-operating losses</b>		
Unrealized losses on the Senior Loan	<u>(36,120)</u>	<u>(109,463)</u>
Total non-operating losses	<u>(36,120)</u>	<u>(109,463)</u>
<b>Net income</b>	<u>\$ -</u>	<u>\$ -</u>

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

# Maiden Lane LLC

## Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(Amounts in thousands)

	2015	2014
<b>Cash flows from operating activities</b>		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion and amortization of discounts and premiums on investments	(4,099)	(3,756)
Realized gains on investments and swap contracts, net	(31,855)	(738)
Unrealized gains on investments and swap contracts, net	(2,616)	(35,419)
Unrealized losses on the Senior Loan	36,120	109,463
Decrease in principal and interest receivable	39	272
Decrease in other assets	-	83
Decrease in other liabilities and accrued expenses	(617)	(640)
Net cash flow (used in) provided by operating activities	<u>(3,028)</u>	<u>69,265</u>
<b>Cash flows from investing activities</b>		
Payments for purchase of investments	(1,809,229)	(1,406,054)
Proceeds from principal paydowns on investments	22,191	518,247
Proceeds from sales and maturities of investments and settlements, net	1,713,535	542,363
Payments for purchase of and recoveries on swap contracts, net	(2,243)	(3,766)
Proceeds from disposition of and protection payments on swap contracts, net	76,859	36,585
Periodic payments for swap contracts, net	(13,200)	(9,739)
Decrease in restricted cash	-	40,206
Net cash flow used in investing activities	<u>(12,087)</u>	<u>(282,158)</u>
<b>Cash flows from financing activities</b>		
(Repayments of) proceeds from collateral received on swap contracts	<u>(48,884)</u>	<u>2,801</u>
Net cash flow (used in) provided by financing activities	<u>(48,884)</u>	<u>2,801</u>
Net decrease in cash and cash equivalents	(63,999)	(210,092)
Beginning cash and cash equivalents	276,842	486,934
Ending cash and cash equivalents	<u>\$ 212,843</u>	<u>\$ 276,842</u>

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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### 1. Organization and Nature of Business

Maiden Lane LLC (the “LLC”), a special purpose vehicle consolidated by the Federal Reserve Bank of New York (“FRBNY” or “Managing Member”), is a single member Delaware limited liability company that was formed to acquire approximately \$30 billion of The Bear Stearns Companies Inc.’s (“Bear Stearns”) assets in connection with and to facilitate the merger of Bear Stearns and JPMorgan Chase & Co. (“JPMC”). FRBNY is the sole and managing member of the LLC as well as the controlling party of the assets of the LLC, and will remain as such as long as FRBNY retains an economic interest in the LLC. Financing for the LLC was provided by FRBNY for approximately \$28.8 billion, as the senior lender (the “Senior Loan”), and by JPMC for \$1.15 billion, as the subordinated lender (the “Subordinated Loan”) (together the “Loans”). The Loans were funded on June 26, 2008 and had a ten-year term maturing on June 26, 2018. In 2012, the LLC repaid in full the outstanding principal and accrued interest on the Loans. Net proceeds from the sale or other disposition of the LLC’s assets will be paid to FRBNY as Contingent Interest (see Note 4) on the Senior Loan. The Senior Loan is collateralized by all the assets of the LLC through a pledge to State Street Bank and Trust (“State Street”) as collateral agent.

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

Two grantor trusts were established to directly acquire the whole mortgage loans. One was formed to acquire a portfolio of commercial mortgage loans and one was formed to acquire a portfolio of residential mortgage loans (Maiden Lane Commercial Mortgage Backed Securities Trust 2008-1 [“CRE Trust”] and Maiden Lane Asset Backed Securities I Trust 2008-1 [“Residential Trust”], together the “Grantor Trusts”). The Residential Trust terminated in December 2013, in accordance with its terms, as a result of the liquidation of its last asset.

The LLC owns the trust certificates representing all of the beneficial ownership interest in the CRE Trust. The CRE Trust is controlled by FRBNY as long as the LLC remains a certificate holder. The LLC is the sole certificate holder as of December 31, 2015. The trustee and master servicer for the CRE Trust are nationally recognized financial institutions. The master servicer to the CRE Trust is responsible for remitting to the CRE Trust all principal and interest payments and any other amounts collected by the primary loan servicers on the underlying loans of the trust. Payments received by the CRE Trust are passed on to the LLC as the sole beneficiary after deducting certain trust expenses, advances, servicing costs, and fees. Prior to its termination, the Residential Trust was owned and operated in the same manner as described above for the CRE Trust. Following termination, the LLC surrendered all of its certificates in the Residential Trust and received one final distribution of the remaining amounts due to it as beneficiary.

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

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



# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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### 2. Summary of Significant Accounting Policies

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

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

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

#### A. Cash and Cash Equivalents

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

The LLC invests available cash in Government Money Market Funds registered under the Investment Company Act of 1940. As of December 31, 2015 and 2014, the LLC had approximately \$213 million and \$274 million, respectively, in Government Money Market Funds.

#### B. Investments and Swap Contracts

The LLC’s investments consist primarily of short-term investments with maturities of greater than three months and less than one year when acquired (primarily consisting of U.S. Treasury bills). The LLC’s swap contracts consist of credit default swaps (“CDS”). The LLC follows the guidance in FASB ASC Topic 320, *Investments – Debt and Equity Securities*, when accounting for investments in debt securities and FASB ASC Topic 815 (“ASC 815”), *Derivatives and Hedging*, when accounting for swap contracts.

Interest income on investments is recorded when earned and includes amortization of premiums and accretion of discounts. Paydown gains and losses on mortgage- and asset-backed investments are recorded as adjustments to interest income.

Investment and swap transactions are accounted for at trade date. Changes in fair value on investments and swap contracts are recorded as unrealized gains and losses. Realized gains or losses on investments and swap transactions are determined on the identified cost basis.

From time to time, the LLC may receive proceeds from or make payments for settlements related to actions involving portfolio investments. When such settlements occur, the LLC will record the amount as an adjustment to the cost basis of the investment if the investment is still held by the LLC or as a realized gain or loss on the investment if the investment is no longer held by the LLC.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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

The LLC has elected the fair value option in accordance with FASB ASC Topic 825, *Financial Instruments*, for investments and the Senior Loan (including accrued and capitalized interest), all of which are recorded at fair value in accordance with ASC 820. The Managing Member believes that accounting for the investments and Senior Loan at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. For more information on the valuation of investments and the Senior Loan, refer to Note 5 and Note 6.

Swap contracts are recorded at fair value in accordance with ASC 820 and ASC 815. For more information on the valuation of swap contracts, refer to Note 5 and Note 6.

### *Fair Value Hierarchy*

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

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the LLC's own estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

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

### *D. Accounting for Senior Loan*

The consolidated financial statements reflect the fair value of the Senior Loan. The Senior Loan is recorded as "Senior Loan, at fair value" in the Consolidated Statements of Financial Condition and changes in its fair value are recorded as "Unrealized losses on the Senior Loan" in the Consolidated Statements of Income.

### *E. Variable Interest Entities*

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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

The LLC holds certain interests in VIEs through investments in swap contracts, non-agency residential mortgage-backed securities ("non-agency RMBS"), commercial mortgage-backed securities ("CMBS"), and collateralized debt obligations. VIEs generally finance the purchase of assets by issuing debt and equity instruments. In assessing the nature and extent of its financial interests in these VIEs, the LLC considered the nature and purpose of its involvement with these VIEs, which is primarily as investor, and in limited instances, as seller of protection through credit default swaps. The LLC has made a determination that there are no material VIEs that required consolidation into its consolidated financial statements as of December 31, 2015 and 2014. As of December 31, 2015, the LLC's significant interests in non-consolidated VIEs consisted of a payable of approximately \$10 million, which was recorded as a component of "Swap contracts, at fair value" in the Consolidated Statements of Financial Condition. The fair value and total maximum exposure to non-consolidated VIEs was \$10 million as of December 31, 2015 and \$15 million as of December 31, 2014.

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

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

### *G. Income Taxes*

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

### *H. Foreign Currency Translation*

Swap collateral received denominated in a foreign currency is translated into U.S. dollar amounts using the prevailing exchange rate as of the date of the consolidated financial statements. There is no gain or loss associated with this foreign denominated collateral as the asset and liability positions associated with it are offsetting.

### *I. Recently Issued Accounting Standards*

In February 2015, the FASB issued Accounting Standards Update ("ASU") 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This update revised the consolidation model for reporting entities that are required to evaluate whether they should consolidate certain legal entities. More specifically, the update modified the evaluation of whether limited liability companies are VIEs or voting interest entities and revised the consolidation analysis of reporting entities involved with VIEs, particularly those with fee arrangements and related party relationships. This update is effective for the LLC for the year ending December 31, 2016 and is not expected to have a material effect on the LLC's consolidated financial statements.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This update is effective for the LLC for the year ending December 31, 2019. The LLC is continuing to evaluate the effect of this new guidance on the LLC's consolidated financial statements.

### 3. Senior Loan (including Contingent Interest)

The Senior Loan is entitled to receive additional Contingent Interest (see Note 4) in amounts equal to any proceeds from the sale of the LLC's assets that are available for distribution pursuant to the order of priority described in Note 4.

The following table presents a reconciliation of the Senior Loan as of December 31, 2015 and 2014 (in thousands):

	<u>Senior Loan</u>
Fair value, December 31, 2013	\$ 1,575,050
<i>2014 Activity:</i>	
Unrealized losses on the Senior Loan	<u>109,463</u>
Fair value, December 31, 2014 <sup>1</sup>	1,684,513
<i>2015 Activity:</i>	
Unrealized losses on the Senior Loan	<u>36,120</u>
Fair value, December 31, 2015 <sup>1</sup>	<u>\$ 1,720,633</u>

<sup>1</sup> The outstanding principal and accrued interest balance on the Senior Loan was \$0 as of December 31, 2015 and 2014. The remaining fair value represents the undistributed Contingent Interest on the Senior Loan.

### 4. Distribution of Proceeds

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

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

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

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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*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 (the "Contingent Interest").

### 5. Fair Value Measurements

The LLC measures all investments, swap contracts, and the Senior Loan at fair value in accordance with ASC 820.

#### Determination of Fair Value

The LLC values its investments and cash equivalents on the basis of last available bid prices or current market quotations provided by dealers or pricing services selected under the supervision of the Investment Manager. To determine the value of a particular investment, pricing services may use certain information with respect to market transactions in such investments or comparable investments, various relationships observed in the market between investments, quotations from dealers, and pricing metrics and calculated yield measures based on valuation methodologies commonly employed in the market for such investments. The fair value of swap contracts is provided by JPMC as calculation agent and is reviewed by the Investment Manager.

Market quotations may not represent fair value in certain instances in which the Investment Manager and the LLC believe that facts and circumstances applicable to an issuer, a seller, a purchaser, or the market for a particular investment cause such market quotations to not reflect the fair value of an investment. In such cases or when market quotations are unavailable, the Investment Manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from the reported performance of investments with similar characteristics as well as available market data to determine fair value.

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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### Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases in which there is limited trading activity for particular investments or current market quotations are not available or reflective of the fair value of an instrument, the valuation is based on models that use inputs, estimates, and assumptions that market participants would use in pricing the investments. To the extent that such inputs, estimates, and assumptions are not observable, the investments are classified within Level 3 of the valuation hierarchy. For instance, in valuing certain debt securities, the determination of fair value is based on proprietary valuation models when external price information is not available. Key inputs to the model may include market spreads or yield estimates for comparable instruments, performance data (i.e. prepayment rates, default rates, and loss severity), valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features.

For the swap contracts, all of which are categorized as Level 3 assets and liabilities, there are various valuation methodologies. In each case, the fair value of the instrument underlying the swap is a significant input used to derive the fair value of the swap. When there are broker or dealer prices available for the underlying instruments, the fair value of the swap is derived based on those prices. When the instrument underlying the swap is a market index (i.e. CMBS index), the closing market index price, which can also be expressed as a credit spread, is used to determine the fair value of the swap. In the remaining cases, the fair value of the underlying instrument is principally based on inputs and assumptions not observable in the market (i.e. discount rates, prepayment rates, default rates, and recovery rates). Key unobservable inputs are explained in more detail in the table below.

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

### Inputs for Level 3 Assets and Liabilities

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair values of the LLC's Level 3 assets and liabilities as of December 31, 2015 (in thousands, except for input values):

<u>Instrument</u>	<u>Fair value</u>	<u>Principal valuation technique</u>	<u>Unobservable inputs</u>	<u>Range of input values</u>	<u>Weighted average<sup>2</sup></u>
Swap contracts, net	\$ 71,131	Discounted cash flows	Credit spreads <sup>1</sup>	3,262 bps - 109,643 bps	40,037 bps
			Discount rate	2% - 25%	15%
			Constant prepayment rate	2% - 13%	5%
			Constant default rate	0% - 100%	36%
			Loss severity	32% - 80%	48%

<sup>1</sup> Implied spread on closing market prices for index positions.

<sup>2</sup> Weighted averages are calculated based on the fair value of the respective instruments.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair values of the LLC's Level 3 assets and liabilities as of December 31, 2014 (in thousands, except for input values):

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average <sup>2</sup>
Swap contracts, net	\$ 125,605	Discounted cash flows	Credit spreads <sup>1</sup>	2,893 bps - 12,683 bps	9,023 bps
			Discount rate	5% - 25%	17%
			Constant prepayment rate	0% - 8%	1%
			Constant default rate	0% - 99%	6%
			Loss severity	40% - 95%	52%

<sup>1</sup> Implied spread on closing market prices for index positions.

<sup>2</sup> Weighted averages are calculated based on the fair value of the respective instruments.

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

### Sensitivity of Level 3 Fair Value Measurements to Changes in Unobservable Inputs

The following provides a general description of the impact of a change in an unobservable input on the fair value measurement and the interrelationship of unobservable inputs:

#### I. Swap contracts

For CDS with reference obligations on CMBS, an increase in credit spreads would generally result in a higher fair value measurement for protection buyers and a lower fair value measurement for protection sellers. The inverse would also generally apply to this relationship given a decrease in credit spreads.

For CDS with reference obligations on residential mortgage-backed securities ("RMBS") or other asset-backed securities, changes in the discount rate, constant prepayment rate, constant default rate, and loss severity would have an uncertain effect on the overall fair value measurement. This is because, in general, changes in these inputs could potentially have a different impact on the fair value measurement of an individual CDS based on the structure, payment status, and other relevant contractual details of its underlying reference obligation. Additionally, changes in the fair value measurement based on variations in the inputs used generally cannot be extrapolated because the relationship between each input is not perfectly correlated.

#### II. Senior Loan

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The following table presents the assets and liabilities recorded at fair value as of December 31, 2015 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			Netting <sup>3</sup>	Total fair value
	Level 1 <sup>2</sup>	Level 2 <sup>2</sup>	Level 3		
Assets:					
Money market funds <sup>1</sup>	\$ 212,843	\$ -	\$ -	\$ -	\$ 212,843
Investments:					
Short-term investments	1,495,872	-	-	-	1,495,872
Other investments	-	12,565	593	-	13,158
Total investments	1,495,872	12,565	593	-	1,509,030
Swap contracts	-	-	130,491	(74,618)	55,873
Total assets	\$ 1,708,715	\$ 12,565	\$ 131,084	\$ (74,618)	\$ 1,777,746
Liabilities:					
Senior Loan	\$ -	\$ -	\$ (1,720,633)	\$ -	\$ (1,720,633)
Swap contracts	-	-	(59,360)	38,822	(20,538)
Total liabilities	\$ -	\$ -	\$ (1,779,993)	\$ 38,822	\$ (1,741,171)

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

<sup>2</sup> There were no transfers between Level 1 and Level 2 during the year ended December 31, 2015.

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



# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The following table presents the assets and liabilities recorded at fair value as of December 31, 2014 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			Netting <sup>3</sup>	Total fair value
	Level 1 <sup>2</sup>	Level 2 <sup>2</sup>	Level 3		
Assets:					
Money market funds <sup>1</sup>	\$ 274,364	\$ -	\$ -	\$ -	\$ 274,364
Investments:					
Short-term investments	1,399,431	-	-	-	1,399,431
Other investments	-	6,479	4,609	-	11,088
Total investments	1,399,431	6,479	4,609	-	1,410,519
Swap contracts	-	-	240,295	(116,459)	123,836
Total assets	\$ 1,673,795	\$ 6,479	\$ 244,904	\$ (116,459)	\$ 1,808,719
Liabilities:					
Senior Loan	\$ -	\$ -	\$ (1,684,513)	\$ -	\$ (1,684,513)
Swap contracts	-	-	(114,690)	74,043	(40,647)
Total liabilities	\$ -	\$ -	\$ (1,799,203)	\$ 74,043	\$ (1,725,160)

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

<sup>2</sup> There were no transfers between Level 1 and Level 2 during the year ended December 31, 2014.

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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, 2015, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2014	Purchases, sales, issuances, and settlements, net	Net realized/ unrealized gains (losses)	Gross transfers in	Gross transfers out <sup>1,2</sup>	Fair value at December 31, 2015	Change in unrealized gains (losses) related to financial instruments held at December 31, 2015
Investments:							
Other investments	\$ 4,609	\$ (1,349)	\$ 540	\$ -	\$ (3,207)	\$ 593	\$ (1,507)
Swap contracts, net	\$ 125,605	\$ (68,036)	\$ 13,562	\$ -	\$ -	\$ 71,131	\$ 15,927
Senior Loan	\$ (1,684,513)	\$ -	\$ (36,120)	\$ -	\$ -	\$ (1,720,633)	\$ (36,120)

<sup>1</sup> Other investments, with a December 31, 2014 fair value of \$3,207, were transferred from Level 3 to Level 2 because they are valued at December 31, 2015 based on quoted prices for identical or similar assets in non-active markets or model-based techniques for which all significant inputs were observable (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3).

<sup>2</sup> The amount of transfers is based on the fair values of the transferred assets at the beginning of the reporting period.

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown above for the year ended December 31, 2015 (in thousands):

	Purchases	Sales	Issuances	Settlements <sup>1</sup>	Purchases, sales, issuances, and settlements, net
Investments:					
Other investments	\$ -	\$ (2,816)	\$ -	\$ 1,467	\$ (1,349)
Swap contracts, net	\$ -	\$ (32,307)	\$ -	\$ (35,729)	\$ (68,036)
Senior Loan	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> Includes paydowns.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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, 2014, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2013	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in	Gross transfers out <sup>1,2</sup>	Fair value at December 31, 2014	Change in unrealized gains (losses) related to financial instruments held at December 31, 2014
Investments:							
Commercial mortgage loans	\$ 506,589	\$ (522,854)	\$ 16,265	\$ -	\$ -	\$ -	\$ -
Other investments	8,095	4,037	(4,072)	-	(3,451)	4,609	(4,032)
Total investments	<u>\$ 514,684</u>	<u>\$ (518,817)</u>	<u>\$ 12,193</u>	<u>\$ -</u>	<u>\$ (3,451)</u>	<u>\$ 4,609</u>	<u>\$ (4,032)</u>
Swap contracts, net	\$ 151,696	\$ (47,666)	\$ 21,575	\$ -	\$ -	\$ 125,605	\$ 13,380
Senior Loan	\$ (1,575,050)	\$ -	\$ (109,463)	\$ -	\$ -	\$ (1,684,513)	\$ (109,463)

<sup>1</sup> Other investments, with a December 31, 2013 fair value of \$3,451, were transferred from Level 3 to Level 2 because they are valued at December 31, 2014 based on quoted prices for identical or similar assets in non-active markets or model-based techniques for which all significant inputs were observable (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3).

<sup>2</sup> The amount of transfers is based on the fair values of the transferred assets at the beginning of the reporting period.

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown above for the year ended December 31, 2014 (in thousands):

	Purchases	Sales	Issuances	Settlements <sup>1</sup>	Purchases, sales, issuances, and settlements, net
Investments:					
Commercial mortgage loans	\$ -	\$ -	\$ -	\$ (522,854)	\$ (522,854)
Other investments	1,375	-	-	2,662	4,037
Total investments	<u>\$ 1,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (520,192)</u>	<u>\$ (518,817)</u>
Swap contracts, net	\$ -	\$ (24,080)	\$ -	\$ (23,586)	\$ (47,666)
Senior Loan	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> Includes paydowns.

## Maiden Lane LLC

### Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The following table presents total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the year ended December 31, 2015 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments:			
Short-term investments	\$ -	\$ (785)	\$ (785)
Commercial mortgage loans <sup>1</sup>	20,414	-	20,414
Other investments	(8,627)	9,907	1,280
Total investments	<u>11,787</u>	<u>9,122</u>	<u>20,909</u>
Swap contracts, net	20,068	(6,506)	13,562
Total investments and swap contracts	<u>\$ 31,855</u>	<u>\$ 2,616</u>	<u>\$ 34,471</u>
Senior Loan	<u>\$ -</u>	<u>\$ (36,120)</u>	<u>\$ (36,120)</u>

<sup>1</sup> There are no gains (losses) on the commercial mortgage loans attributable to changes in instrument-specific credit risk.

The following table presents total realized and unrealized gains (losses) associated with the LLC's assets and liabilities measured at fair value for the year ended December 31, 2014 (in thousands):

	Total realized gains (losses)	Fair value changes unrealized gains (losses)	Total realized / unrealized gains (losses)
Investments:			
Short-term investments	\$ -	\$ (106)	\$ (106)
Commercial mortgage loans <sup>1</sup>	4,862	11,403	16,265
Other investments	1,514	(3,091)	(1,577)
Total investments	<u>6,376</u>	<u>8,206</u>	<u>14,582</u>
Swap contracts, net	(5,638)	27,213	21,575
Total investments and swap contracts	<u>\$ 738</u>	<u>\$ 35,419</u>	<u>\$ 36,157</u>
Senior Loan	<u>\$ -</u>	<u>\$ (109,463)</u>	<u>\$ (109,463)</u>

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

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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### 6. Investment and Risk Profile

As of December 31, 2015, the LLC's portfolio consisted primarily of short-term investments and swap contracts. The following is a description of the significant holdings at December 31, 2015 and the associated credit risk for each holding:

#### A. Debt Securities

The LLC has investments in short-term instruments with maturities of greater than three months and less than one year when acquired. As of December 31, 2015 and 2014, the LLC's short-term instruments consisted of U.S. Treasury bills.

Other investments primarily consist of non-agency RMBS and CMBS.

#### B. Derivative Instruments

Derivative contracts are instruments, such as swap contracts, that derive their value from underlying assets, indices, reference rates, or a combination of these factors. The LLC portfolio is composed of derivative financial instruments included in the TRS. The LLC and JPMC entered into the TRS with reference obligations representing CDS primarily on CMBS and RMBS with various market participants, including JPMC.

On an ongoing basis, per the terms of the TRS, the LLC pledges collateral for credit or liquidity related shortfalls based on 20 percent of the notional amount of sold CDS protection and 10 percent of the present value of future premiums on purchased CDS protection. Separately, the LLC and JPMC engage in bilateral posting of collateral to cover the net mark-to-market ("MTM") variations in the swap portfolio. The LLC only nets the collateral received from JPMC from the bilateral MTM posting for the reference obligations for which JPMC is the counterparty.

The values of the LLC's cash and cash equivalents include cash collateral associated with the TRS of \$72 million and \$128 million as of December 31, 2015 and 2014, respectively. In addition, the LLC has pledged \$52 million and \$87 million of U.S. Treasury bills to JPMC as of December 31, 2015 and 2014, respectively.

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

#### I. Market Risk

CDS are agreements that provide protection for the buyer against the loss of principal, and in some cases, interest on a bond or loan in case of a default by the issuer. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency, or failure to meet payment obligations when due. The buyer of the CDS pays a premium in return for payment protection upon the occurrence, if any, of a credit event. Upon the occurrence of a triggering credit event, the maximum potential amount of future payments the seller could be required to make under a CDS is equal to the notional amount of the contract. Such future payments could be reduced or offset by amounts recovered under recourse or by collateral provisions outlined in the contract, including seizure and liquidation of collateral pledged by the buyer.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The LLC's derivatives portfolio consists of purchased credit protection and sold credit protection with differing underlying referenced names that do not necessarily offset.

### II. Credit Risk

Credit risk is the risk of financial loss resulting from failure by a counterparty to meet its contractual obligations to the LLC. This can be caused by factors directly related to the counterparty, such as business or management. Taking collateral is the most common way to mitigate such risk. The LLC takes financial collateral in the form of cash and marketable securities to cover JPMC counterparty risk as part of the TRS agreement with JPMC. The LLC however remains exposed to the credit risk of counterparties to the swaps, other than JPMC, that underlie the TRS.

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

For the derivative balances reported in the Consolidated Statements of Financial Condition, the LLC offsets its asset and liability positions held with the same counterparty. In addition, the LLC offsets the cash collateral held with JPMC against any net liabilities of JPMC with the LLC under the TRS. As of December 31, 2015 and 2014, there were no amounts subject to an enforceable master netting agreement that were not offset in the Consolidated Statements of Financial Condition.

The following table summarizes the fair value and notional amounts of derivative instruments by contract type on a gross basis as of December 31, 2015 and 2014 (in thousands, except contract data):

	2015			2014		
	Gross derivative assets	Gross derivative liabilities	Notional Amounts <sup>3</sup>	Gross derivative assets	Gross derivative liabilities	Notional Amounts <sup>3</sup>
Credit derivatives:						
CDS <sup>1,2</sup>	\$ 130,491	\$ (59,360)	\$ 356,981	\$ 240,295	\$ (114,690)	\$ 631,983
Amounts offset in the Consolidated Statements of Financial Condition:						
Counterparty netting	(38,822)	38,822		(74,043)	74,043	
Cash collateral netting	(35,796)	-		(42,416)	-	
Net amounts in the Consolidated Statements of Financial Condition	<u>\$ 55,873</u>	<u>\$ (20,538)</u>		<u>\$ 123,836</u>	<u>\$ (40,647)</u>	

<sup>1</sup> CDS fair values as of December 31, 2015 for assets and liabilities include receivables of \$600 and payables of \$625. CDS fair values as of December 31, 2014 for assets and liabilities include receivables of \$643 and payables of \$4,202.

<sup>2</sup> There were 128 and 210 CDS contracts outstanding as of December 31, 2015 and 2014, respectively.

<sup>3</sup> Represents the sum of gross long and gross short notional derivative contracts. The change in notional amounts is representative of the volume of activity for the year ended December 31, 2015.

# Maiden Lane LLC

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

The following table summarizes certain information regarding protection bought and protection sold through CDS as of December 31, 2015 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential recovery (payout) / notional					Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	
Credit protection bought:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade (BB+ or lower)	-	-	-	195,320	195,320	129,862
Total credit protection bought	\$ -	\$ -	\$ -	\$ 195,320	\$ 195,320	\$ 129,862
Credit protection sold:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade (BB+ or lower)	-	-	-	(161,661)	(161,661)	(58,706)
Total credit protection sold	\$ -	\$ -	\$ -	\$ (161,661)	\$ (161,661)	\$ (58,706)

The following table summarizes certain information regarding protection bought and protection sold through CDS as of December 31, 2014 (in thousands):

Credit Ratings of the Reference Obligation	Maximum potential recovery (payout) / notional					Fair value Asset / (liability)
	Years to maturity					
	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	
Credit protection bought:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ 5,000	\$ 21,819	\$ 26,819	\$ 407
Non-investment grade (BB+ or lower)	-	8,500	-	377,752	386,252	239,162
Total credit protection bought	\$ -	\$ 8,500	\$ 5,000	\$ 399,571	\$ 413,071	\$ 239,569
Credit protection sold:						
Investment grade (AAA to BBB-)	\$ -	\$ -	\$ -	\$ (4,475)	\$ (4,475)	\$ (86)
Non-investment grade (BB+ or lower)	-	-	-	(214,437)	(214,437)	(110,319)
Total credit protection sold	\$ -	\$ -	\$ -	\$ (218,912)	\$ (218,912)	\$ (110,405)

### III. Currency Risk

Currency risk is the risk of financial loss resulting from exposure to unanticipated changes in exchange rates between two currencies. Previously, under the terms of the TRS, JPMC was allowed to post cash collateral in the form of either U.S. dollar or Euro denominated currencies to cover the net MTM variation in the swap portfolio. When JPMC posted collateral in Euro currency, this risk was mitigated by daily variation margin updates that capture the movement in the value of the swap portfolio in addition to any movement in exchange rates on the swap collateral. In November 2014, the terms of the TRS were amended such that JPMC is no longer allowed to post cash collateral in Euro currency.

## **Maiden Lane LLC**

### **Notes to Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014

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#### **7. Commitments and Contingencies**

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

#### **8. Subsequent Events**

There were no subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2015. Subsequent events were evaluated through March 8, 2016, which is the date that the consolidated financial statements were available to be issued.