Maiden Lane II LLC

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

Financial Statements for the Year Ended December 31, 2009, and for the Period October 31, 2008 to December 31, 2008, 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

April 21, 2010

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, Condensed Schedules of Investments, Statements of Operations, and Statements of Cash Flows as of December 31, 2009 (the "Financial Statements"). The Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

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

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

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

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

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The LLC's internal control over financial reporting is a process designed by, or under the supervision of, the LLC's principal executive and principal financial officers, or persons performing similar functions, and effected by the LLC's Managing Member to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The LLC's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the LLC; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the LLC are being made only in accordance with authorizations of the Managing Member; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the 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, 2009 and 2008, and the results of its operations and its cash flows for the year ended December 31, 2009 and for the period October 31, 2008 to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

April 21, 2010

Maiden Lane II LLC

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

	2009	2008
Assets		
Investments, at fair value (cost of $17,779,227 and $20,338,117, respectively)	$ 15,642,678	$ 18,839,039
Cash and cash equivalents	266,821	351,217
Principal and interest receivable	2,478	4,328
Total assets	$ 15,911,977	$ 19,194,584
Liabilities and Member's Equity		
Senior Loan, at fair value	$ 15,910,176	$ 19,192,250
Fixed Deferred Purchase Price, at fair value	-	-
Professional fees payable and accrued	1,801	2,334
Total liabilities	15,911,977	19,194,584
Member's equity ($10 par value, 1 share issued and outstanding)	-	-
Total liabilities and member's equity	$ 15,911,977	$ 19,194,584

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

Maiden Lane II LLC

Condensed Schedules of Investments
As of December 31, 2009 and 2008
(Amounts in thousands)

2009	Cost	Fair Value	Percentage of Total Investments
Non-agency RMBS [3]			
Alt-A ARM	$ 5,508,637	$ 4,893,526	31.3%
Subprime	9,355,179	8,565,932	54.8%
Option ARM	1,237,324	953,057	6.1%
Other [1]	1,678,087	1,230,163	7.8%
Total investments in non-agency RMBS	$ 17,779,227	$ 15,642,678	100.0%

2008	Cost	Fair Value	Percentage of Total Investments
Non-agency RMBS			
Alt-A ARM	$ 6,162,131	$ 5,226,427	27.7%
Subprime	10,981,895	10,796,000	57.3%
Option ARM	1,188,833	866,785	4.6%
Other [2]	2,005,258	1,949,827	10.4%
Total investments in non-agency RMBS	$ 20,338,117	$ 18,839,039	100.0%

[1] Includes all asset types that, individually, represent less than 5% of total investments.
[2] Includes all asset types that, individually, represent less than 5% of total investments at fair value, except for Option ARM, which is presented for comparative purposes to conform to the current year presentation.
[3] Certain investments were re-categorized for the year ended December 31, 2009. This re-categorization did not have a material effect on the LLC’s financial statements.

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

Maiden Lane II LLC

Statements of Operations

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

	2009	2008
Investment Income		
Interest income	$ 1,088,173	$ 302,540
Expenses		
Interest expense	271,496	130,142
Professional fees	12,367	5,308
Total expenses	283,863	135,450
Net investment income	804,310	167,090
Realized and Unrealized Gains (Losses)		
Realized gains on investments, net	33,962	-
Unrealized losses on investments, net	(637,472)	(1,499,078)
Unrealized gains (losses) on Senior Loan	(234,894)	329,487
Unrealized gains on Fixed Deferred Purchase Price	34,094	1,002,501
Net realized and unrealized losses	(804,310)	(167,090)
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 year ended December 31, 2009 and the period October 31, 2008 to December 31, 2008
(Amounts in thousands)

	2009	2008
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 (used in) operating activities:		
Unrealized losses on investments, net	637,472	1,499,078
Unrealized (gains) losses on Senior Loan	234,894	(329,487)
Unrealized gains on Fixed Deferred Purchase Price	(34,094)	(1,002,501)
Increase in capitalized and accrued interest on Senior Loan	238,328	27,451
Increase in capitalized and accrued interest on Fixed Deferred Purchase Price	34,094	2,501
(Increase) decrease in interest receivable	1,850	(4,328)
Increase (decrease) in professional fees payable and accrued	(533)	2,334
Payments for purchase of investments	-	(19,838,294)
Proceeds from principal paydowns on investments	2,503,686	500,177
Proceeds from sale of investments	55,203	-
Net cash flow provided by (used in) operating activities	3,670,900	(19,143,069)
Cash flows from financing activities		
Proceeds from Senior Loan	-	19,494,286
Repayments of Senior Loan	(3,755,296)	-
Net cash flow provided by (used in) financing activities	(3,755,296)	19,494,286
Net increase (decrease) in cash and cash equivalents	(84,396)	351,217
Beginning cash and cash equivalents	351,217	-
Ending cash and cash equivalents	$ 266,821	$ 351,217
Supplemental non-cash operating and financing activities		
Deferral of payment for purchase of investments	$ -	$ 1,000,000
Accrued and capitalized interest on Senior Loan and Fixed Deferred Purchase Price	$ 272,422	$ 29,952

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 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 repayment 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.

The transaction was completed with October 31, 2008 as the purchase date. Due to the extended settlement dates, interest was charged on the cost of securities purchased or credited for cash flows on the purchased securities that occurred after October 31, 2008 through the date they were either paid for or received by the LLC. In connection with the acquisition of the assets, the LLC paid a cost of carry of $100.2 million to the AIG Subsidiaries. The cost of carry, representing a financing cost incurred from October 31, 2008 through the settlement dates of the various assets, was recorded as a component of "Interest expense" in the Statements of Operations for the period October 31, 2008 to December 31, 2008.

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.

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

B. Valuation of Financial Assets and Liabilities

The LLC qualifies as a non-registered investment company under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946 (ASC 946) *Financial Services - Investment Companies* (previously the American Institute of Certified Public Accountants *Audit and Accounting Guide for Investment Companies)* and therefore, all investments are recorded at fair value in accordance with FASB ASC Topic 820 (ASC 820) *Fair Value Measurements and Disclosures* (previously Statement of Financial Accounting Standard ("SFAS") 157).

The LLC elected the fair value option under FASB ASC Topic 825 (ASC 825) *Financial Instruments* (previously SFAS 159) for the Senior Loan and Fixed Deferred Purchase Price. Under ASC 825, the LLC records the Senior Loan and Fixed Deferred Purchase Price, including related accrued and capitalized interest, at fair value in the LLC's financial statements. The Managing Member believes that accounting for the Senior Loan and 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.

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, is 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" in the Statements of Operations. The Fixed Deferred Purchase Price and related accrued and capitalized interest, at fair value, is 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 on Fixed Deferred Purchase Price" in the Statements of Operations.

E. Professional Fees

Professional fees are primarily comprised of the fees charged by the Investment Manager, BNYM, attorneys, and independent auditors. Organization and closing costs of $3.2 million, associated with the formation of the LLC and the cost of acquisition of the portfolio, were expensed when incurred in 2008.

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

In May 2009, FASB issued SFAS 165, *Subsequent Events*, (codified in FASB Topic 855 (ASC 855) *Subsequent Events)*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The LLC adopted ASC 855 for the year ended December 31, 2009 and the required disclosures are reflected in Note 9.

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

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (ASC 820) – *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures related to fair value measurements. This update is effective for the LLC's financial statements for the year beginning on January 1, 2010 and early adoption is prohibited. The adoption of this update is not expected to have a material effect on the LLC's 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") rate 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 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 collateral accounts, and pursuant to the order of priority described in Note 4.

The table below presents a reconciliation of the Senior Loan and Fixed Deferred Purchase Price as of December 31, 2009 and 2008 (in thousands):

	Senior Loan [2]	Fixed Deferred Purchase Price [3]	Total
Beginning principal balance, October 31, 2008	$ -	$ -	$ -
2008 Activity:			
Funding, December 12, 2008	19,494,286	1,000,000	20,494,286
Accrued and capitalized interest	27,451	2,501	29,952
Unrealized gains [1]	(329,487)	(1,002,501)	(1,331,988)
Fair value, December 31, 2008	19,192,250	-	19,192,250
2009 Activity:			
Accrued and capitalized interest	238,328	34,094	272,422
Repayments	(3,755,296)	-	(3,755,296)
Unrealized (gains) / losses [1]	234,894	(34,094)	200,800
Fair value, December 31, 2009	$ 15,910,176	$ -	$ 15,910,176

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

[2] The outstanding principal and accrued interest balance of the Senior Loan was $16,004,769 and $19,521,737 as of December 31, 2009 and 2008, respectively.

[3] The outstanding principal and accrued interest balance of the Fixed Deferred Purchase Price was $1,036,595 and $1,002,501 as of December 31, 2009 and 2008, respectively.

The weighted-average interest rates on the Senior Loan and Fixed Deferred Purchase Price for the year ended December 31, 2009 were 1.36 percent and 3.36 percent, respectively. The weighted-average interest rates on the Senior Loan and Fixed Deferred Purchase Price for the period December 12, 2008 to December 31, 2008 were 2.58 percent and 4.58 percent, respectively.

4. Distribution of Proceeds

In accordance with the Security Agreement, amounts available in the accounts of the LLC as of the 27th calendar day of each month shall be distributed on the 4th business day following each month-end or such other date as may be specified by FRBNY in the following order of priority:

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

second, to fund the expense reimbursement sub-account until the balance thereof is equal to an amount specified by FRBNY ($5 million as of December 31, 2009);

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 the ASC 946 and therefore, all investments are recorded at fair value in accordance with ASC 820. The LLC elected to measure the Senior Loan and the Fixed Deferred Purchase Price at fair value under ASC 825.

Fair Value Hierarchy

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

The three levels established by ASC 820 are described below:

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

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

Determination of Fair Value

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

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 (loss) and realized gains (losses) on investments, as reflected in the Senior Loan and Fixed Deferred Purchase Price reconciliation presented in Note 3.

Due to the inherent uncertainty of 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 believed to reflect the fair value of an investment, valuation is based on inputs from model-based techniques that use estimates of assumptions that market participants would use in pricing the investments. To the extent that such estimates of assumptions are not observable, the investments are classified within Level 3 of the valuation hierarchy. For instance, in valuing certain 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 spread data for each credit rating, collateral type, collateral value, and other relevant contractual features.

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

	Fair Value Hierarchy			
2009	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Non-agency RMBS	$ -	$ 8,586,482	$ 7,056,196	$ 15,642,678
Money market funds [1]	266,821	-	-	266,821
Total assets	$ 266,821	$ 8,586,482	$ 7,056,196	$ 15,909,499
Liabilities:				
Senior Loan	$ -	$ -	$ (15,910,176)	$ (15,910,176)
Fixed Deferred Purchase Price	-	-	-	-
Total liabilities	$ -	$ -	$ (15,910,176)	$ (15,910,176)

[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, 2008 by the fair value hierarchy (in thousands):

2008	Fair Value Hierarchy Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Non-agency RMBS	$ -	$ 7,406,039	$ 11,433,000	$ 18,839,039
Money market funds [1]	351,217	-	-	351,217
Total assets	$ 351,217	$ 7,406,039	$ 11,433,000	$ 19,190,256
Liabilities:				
Senior Loan	$ -	$ -	$ (19,192,250)	$ (19,192,250)
Fixed Deferred Purchase Price	-	-	-	-
Total liabilities	$ -	$ -	$ (19,192,250)	$ (19,192,250)

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

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

	Fair Value at January 1, 2009	Net Purchases, Sales, Paydowns, and Settlements	Net Realized / Unrealized Gains (Losses)	Net Transfers In or (Out) [3]	Fair Value at December 31, 2009	Net Unrealized Gains (Losses)
Assets:						
Non-agency RMBS	$ 11,433,000	$ (1,386,677)	$ (480,884)	$ (2,509,243)	$ 7,056,196	$ (514,846)
Liabilities:						
Senior Loan	$ (19,192,250)	$ 3,516,968 [1]	$ (234,894)	$ -	$ (15,910,176)	$ (234,894)
Fixed Deferred Purchase Price	-	(34,094) [2]	34,094	-	-	34,094
Total liabilities	$ (19,192,250)	$ 3,482,874	$ (200,800)	$ -	$ (15,910,176)	$ (200,800)

[1] Includes $238,328 of accrued and capitalized interest.
[2] Includes $34,094 of accrued and capitalized interest.
[3] Valuation inputs for Non-agency RMBS have become more observable during the year ended December 31, 2009, which resulted in reclassifications from Level 3 to Level 2.

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

	Net Purchases, Sales, Paydowns, and Settlements	Net Realized / Unrealized Gains (Losses)	Net Transfers In or (Out)	Fair Value at December 31, 2008	Net Unrealized Gains (Losses)
Assets:					
Non-agency RMBS	$ 12,606,197	$ (1,173,197)	$ -	$ 11,433,000	$ (1,173,197)
Liabilities:					
Senior Loan	$ (19,521,737) [1]	$ 329,487	$ -	$ (19,192,250)	$ 329,487
Fixed Deferred Purchase Price	(1,002,501) [2]	1,002,501	-	-	1,002,501
Total liabilities	$ (20,524,238)	$ 1,331,988	$ -	$ (19,192,250)	$ 1,331,988

[1] Includes $27,451 of accrued and capitalized interest.
[2] Includes $2,501 of accrued and capitalized interest.

6. Investment Risk Profile

The LLC's investments in non-agency RMBS expose the LLC to varying levels of credit, interest rate, general market, and concentration risk. Credit-related risk on non-agency RMBS arises from losses due to delinquencies and defaults by borrowers on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the non-agency RMBS are issued. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower's equity in the mortgaged property and the individual financial circumstances of the borrower.

The rate of interest payable on certain non-agency RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to the 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.

At December 31, 2009, the type/sector and rating composition of the LLC's $15.6 billion non-agency RMBS portfolio, recorded at fair value, as a percentage of aggregate fair value, was as follows:

	Rating [1, 3]					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Total
Asset Type:						
Alt-A ARM	0.9%	3.1%	2.2%	1.9%	23.3%	31.3%
Subprime	7.7%	2.8%	3.0%	1.9%	39.4%	54.8%
Option ARM	0.0%	0.0%	0.0%	0.1%	6.0%	6.1%
Other [2]	0.1%	0.6%	0.0%	0.0%	7.2%	7.8%
Total	8.7%	6.4%	5.2%	3.8%	75.9%	100.0%

[1] Lowest of all ratings is used for the purposes 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% of aggregate portfolio fair value.
[3] Rows and columns may not total due to rounding.

As of December 31, 2009, approximately 44 percent of the properties collateralizing the non-agency RMBS held by the LLC were located in California and Florida, based on the geographic location data available for the underlying loans by aggregate unpaid principal balance.

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

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