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

Federal Reserve System: Federal Reserve Bank of New York

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Maiden Lane III LLC

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

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

Maiden Lane III LLC

Table of Contents

	Page
Management's Report on Internal Control over Financial Reporting	1
Independent Auditors' Report	2-3
Financial Statements as of and for the years ended December 31, 2011 and 2010:	
Statements of Financial Condition	4
Condensed Schedules of Investments	5
Statements of Operations	6
Statements of Cash Flows	7
Notes to Financial Statements	8-20

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control over Financial Reporting

March 20, 2012

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

The management of the Maiden Lane III LLC (ML III LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition and Condensed Schedules of Investments as of December 31, 2011 and 2010, and the Statements of Operations, and Statements of Cash Flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

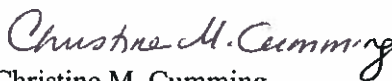
The management of the ML III LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The ML III LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability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

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

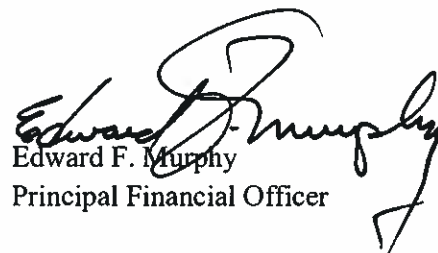
The management of the ML III LLC assessed its internal control over financial reporting based upon the criteria established in the "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the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



William C. Dudley
President



Christine M. Cumming
First Vice President



Edward F. Murphy
Principal Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Managing Member of
Maiden Lane III LLC:

We have audited the accompanying Statements of Financial Condition of Maiden Lane III LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC"), including the Condensed Schedules of Investments as of December 31, 2011 and 2010, and the related Statements of Operations, and Cash Flows for the years then ended. We also have audited the LLC's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these Financial Statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these Financial Statements and an opinion on the LLC's internal control over financial reporting based on our audits.

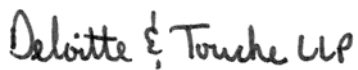
We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform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

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

unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the Financial Statements.

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

In our opinion, such Financial Statements present fairly, in all material respects, the financial position of Maiden Lane III LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 20, 2012

Maiden Lane III LLC

Statements of Financial Condition

As of December 31, 2011 and 2010

(Amounts in thousands, except contributed capital data)

	2011	2010
Assets		
Investments, at fair value (cost of \$21,882,868 and \$23,759,108, respectively)	\$ 17,734,504	\$ 22,973,856
Cash and cash equivalents	54,635	580,181
Principal and interest receivable	30,688	28,862
Total assets	<u>\$ 17,819,827</u>	<u>\$ 23,582,899</u>
Liabilities and Members' Equity		
Senior Loan, at fair value	\$ 11,467,363	\$ 16,846,264
Equity Contribution, at fair value	6,349,940	6,732,476
Professional fees payable and accrued	2,524	4,159
Total liabilities	<u>17,819,827</u>	<u>23,582,899</u>
Members' equity (\$100 contributed capital)	<u>-</u>	<u>-</u>
Total liabilities and members' equity	<u>\$ 17,819,827</u>	<u>\$ 23,582,899</u>

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

Maiden Lane III LLC

Condensed Schedules of Investments

As of December 31, 2011 and 2010

(Amounts in thousands, except percentage data)

<u>2011</u>	<u>Face Value</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
ABS CDOs:			
High-Grade ABS CDOs :			
TRIAX 2006-2A A1B2	\$ 1,283,943	\$ 913,991	5.1%
TRIAX 2006-2A A1A	321,018	228,521	1.3%
Other ¹		10,093,817	56.9%
Total High-Grade ABS CDOs (cost \$14,792,814)		<u>11,236,329</u>	<u>63.3%</u>
Mezzanine ABS CDOs ¹ (cost \$2,323,394)		<u>1,453,477</u>	<u>8.2%</u>
Commercial Real Estate CDOs :			
MAX 2007-1 A1	2,096,537	1,162,320	6.6%
MAX 2008-1 A1	5,403,463	2,995,680	16.9%
Other ¹		625,778	3.5%
Total Commercial Real Estate CDOs (cost \$4,520,807)		<u>4,783,778</u>	<u>27.0%</u>
RMBS, CMBS, & Other (cost \$245,853)		<u>260,920</u>	<u>1.5%</u>
Total Investments (cost \$21,882,868)		<u>\$ 17,734,504</u>	<u>100.0%</u>
<u>2010</u>	<u>Face Value</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
ABS CDOs:			
High-Grade ABS CDOs:			
TRIAX 2006-2A A1B2	\$ 1,499,850	\$ 1,075,986	4.7%
TRIAX 2006-2A A1B1	128,803	127,704	0.6%
TRIAX 2006-2A A1A	423,308	330,366	1.4%
Other ¹		13,434,816	58.5%
Total High-Grade ABS CDOs (cost \$16,333,664)		<u>14,968,872</u>	<u>65.2%</u>
Mezzanine ABS CDOs ¹ (cost \$2,571,559)		<u>1,941,710</u>	<u>8.5%</u>
Commercial Real Estate CDOs:			
MAX 2007-1 A1	2,096,537	1,408,873	6.1%
MAX 2008-1 A1	5,403,463	3,631,127	15.8%
Other ¹		722,924	3.1%
Total Commercial Real Estate CDOs (cost \$4,580,348)		<u>5,762,924</u>	<u>25.0%</u>
RMBS, CMBS, & Other (cost \$273,537)		<u>300,350</u>	<u>1.3%</u>
Total Investments (cost \$23,759,108)		<u>\$ 22,973,856</u>	<u>100.0%</u>

¹ Includes all securities or CDO issuers that, individually, represent less than 5% of total investments.

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

Maiden Lane III LLC

Statements of Operations

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

	<u>2011</u>	<u>2010</u>
Investment income		
Interest income	<u>\$ 2,012,034</u>	<u>\$ 2,298,781</u>
Expenses		
Interest expense	322,226	376,359
Professional fees	<u>19,809</u>	<u>21,960</u>
Total expenses	<u>342,035</u>	<u>398,319</u>
Net investment income	<u>1,669,999</u>	<u>1,900,462</u>
Realized and unrealized gains (losses)		
Realized gains on investments, net	746	53,699
Unrealized (losses) gains on investments, net	(3,363,112)	3,087,423
Unrealized gains (losses) on Senior Loan, net	1,133,886	(2,775,207)
Unrealized gains (losses) on Equity Contribution, net	<u>558,481</u>	<u>(2,266,377)</u>
Net realized and unrealized losses	<u>(1,669,999)</u>	<u>(1,900,462)</u>
Net change in members' equity resulting from operations	<u>\$ -</u>	<u>\$ -</u>

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

Maiden Lane III LLC

Statements of Cash Flows

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

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Net change in members' equity resulting from operations	\$ -	\$ -
Adjustments to reconcile net change in members' equity resulting from operations to net cash provided by operating activities:		
Unrealized losses (gains) on investments, net	3,363,112	(3,087,423)
Unrealized (gains) losses on Senior Loan, net	(1,133,886)	2,775,207
Unrealized (gains) losses on Equity Contribution, net	(558,481)	2,266,377
Increase in capitalized and accrued interest on Senior Loan	146,281	204,065
Increase in capitalized and accrued interest on Equity Contribution	175,945	172,294
(Increase) decrease in principal and interest receivable	(1,826)	1,072
(Decrease) increase in professional fees payable and accrued	(1,635)	805
Proceeds from principal paydowns on investments	1,874,538	2,430,239
Proceeds from sale of investments	2,448	76,005
Realized gains on investments, net	(746)	(53,699)
Net cash flow provided by operating activities	<u>3,865,750</u>	<u>4,784,942</u>
Cash flows from financing activities		
Repayments of Senior Loan	<u>(4,391,296)</u>	<u>(4,633,033)</u>
Net cash flow used in financing activities	<u>(4,391,296)</u>	<u>(4,633,033)</u>
Net (decrease) increase in cash and cash equivalents	(525,546)	151,909
Beginning cash and cash equivalents	<u>580,181</u>	<u>428,272</u>
Ending cash and cash equivalents	<u>\$ 54,635</u>	<u>\$ 580,181</u>
Supplemental non-cash operating and financing activities:		
Accrued and capitalized interest on Senior Loan and Equity Contribution	<u>\$ 322,226</u>	<u>\$ 376,359</u>

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

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

1. Organization and Nature of Business

Maiden Lane III LLC (the “LLC”), a special purpose vehicle consolidated by the Federal Reserve Bank of New York (“FRBNY” or the “Managing Member”), is a Delaware limited liability company that was formed to acquire asset-backed security collateralized debt obligations (“ABS CDOs”) from certain third-party counterparties of AIG Financial Products Corp. (“AIGFP”). In connection with the acquisitions, the third-party counterparties agreed to terminate their related credit derivative contracts with AIGFP.

During the period ended December 31, 2008, the LLC borrowed approximately \$24.3 billion from FRBNY through two separate extensions of credit (collectively the “Senior Loan”) and American International Group, Inc. (“AIG”), the parent company of AIGFP, provided capital of \$5 billion to the LLC (the “Equity Contribution”). These proceeds were used to purchase ABS CDOs with a fair value of \$29.6 billion, determined as of October 31, 2008. The counterparties received \$26.8 billion net of principal and interest received and finance charges paid on the ABS CDOs. The LLC also made a payment to AIGFP of \$2.5 billion representing the over collateralization previously posted by AIGFP and retained by counterparties in respect of terminated credit default swaps (“CDS”) as compared to the LLC’s fair value acquisition prices calculated as of October 31, 2008. The aggregate amount of principal and interest proceeds from CDOs received after the announcement date, but prior to the settlement dates, 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 \$29.6 billion to \$29.3 billion.

FRBNY is the managing member and controlling party of the assets of the LLC and will remain as such as long as FRBNY retains an economic interest in the LLC. FRBNY and AIG and any permitted AIG assignees (the “Equity Investor”) are the sole members of the LLC. FRBNY has contributed \$100 and owns all managing member interests of the LLC, AIG has contributed the Equity Contribution, and FRBNY and AIG and any permitted AIG assignees own the equity interests in the LLC. The Senior Loan is collateralized by all the assets of the LLC through a pledge to The Bank of New York Mellon (“BNYM”) as collateral agent. The Equity Contribution is accounted for as a liability by the LLC, as described in Note 2D.

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, the Senior Loan, and Equity Contribution. Actual results could differ from those estimates.

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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

A. *Cash and Cash Equivalents*

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

B. *Valuation of Financial Assets and Liabilities*

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

The LLC has elected the fair value option in accordance with FASB ASC Topic 825 (“ASC 825”), *Financial Instruments*, for the Senior Loan and the Equity Contribution. Under ASC 825, the LLC records the Senior Loan and the Equity Contribution, including related accrued and capitalized interest, at fair value in the LLC’s financial statements in accordance with ASC 820. The Managing Member believes that accounting for the Senior Loan and Equity Contribution at fair value appropriately reflects the LLC’s purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC’s obligations.

Fair Value Hierarchy

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

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

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

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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 Equity Contribution

The Senior Loan and related accrued and capitalized interest, at fair value, are recorded as “Senior Loan, at fair value” in the Statements of Financial Condition and changes in fair value are recorded as “Unrealized gains (losses) on Senior Loan, net” in the Statements of Operations. The Equity Contribution and related accrued and capitalized interest, at fair value, are recorded as “Equity Contribution, at fair value” in the Statements of Financial Condition and changes in fair value are recorded as “Unrealized gains (losses) on Equity Contribution, net” in the Statements of Operations.

The Equity Contribution is reported as a liability in the Statement of Financial Condition in accordance with FASB ASC Topic 480 (“ASC 480”), *Distinguishing Liabilities from Equity*, because the Equity Contribution is mandatorily redeemable before the liquidation of the LLC.

E. Professional Fees

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

F. Income Taxes

The LLC is a partnership for U.S. Federal, state, and local income tax purposes and makes no provision for such taxes as its taxable income and losses are taken into account by its members. The LLC qualified, and intends to continue to qualify, for tax purposes as a partnership.

G. Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements*. New requirements for disclosure of information about transfers among the hierarchy’s classification and the level of disaggregation of classes of assets were effective for the LLC for the year beginning on January 1, 2010, and the required disclosures are included in Note 5. Other required disclosures include the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements, which were effective for the LLC for the year beginning on January 1, 2011 and are included in Note 5.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update will result in common fair value measurement and disclosure requirements for GAAP and International Financial Reporting Standards. In addition, this update requires additional disclosures for fair value measurements categorized as Level 3, including quantitative information about the unobservable inputs and assumptions used in the fair value measurement, a description of the valuation policies and procedures, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, disclosure of the amounts and reasons for all transfers in and out of Level 1 and Level 2 will be required. The adoption of this update is

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

effective for the LLC for the year ending December 31, 2012, and is not expected to have a material effect on the LLC's financial statements.

3. Senior Loan and Equity Contribution

The Senior Loan has an original six-year term maturing on November 25, 2014 provided that FRBNY may extend the date of final maturity to any later date. The interest rate on the Senior Loan is equal to the London interbank offered rate ("Libor") for one-month deposits in U.S. dollars plus 100 basis points, while the interest rate on the Equity Contribution is equal to the Libor rate for one-month deposits in U.S. dollars plus 300 basis points. Interest on the Senior Loan and the Equity Contribution is capitalized monthly and accrued daily based on the amount of principal and capitalized interest outstanding on the first business day of each month.

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

The following table presents a reconciliation of the Senior Loan and Equity Contribution as of December 31, 2011 and 2010 (in thousands):

	Senior Loan ²	Equity Contribution ³	Total
Fair value, January 1, 2010	\$ 18,500,025	\$ 4,293,805	\$ 22,793,830
<i>2010 Activity:</i>			
Accrued and capitalized interest	204,065	172,294	376,359
Repayments	(4,633,033)	-	(4,633,033)
Unrealized losses ¹	2,775,207	2,266,377	5,041,584
Fair value, December 31, 2010	<u>16,846,264</u>	<u>6,732,476</u>	<u>23,578,740</u>
<i>2011 Activity:</i>			
Accrued and capitalized interest	146,281	175,945	322,226
Repayments	(4,391,296)	-	(4,391,296)
Unrealized gains ¹	(1,133,886)	(558,481)	(1,692,367)
Fair value, December 31, 2011	<u>\$ 11,467,363</u>	<u>\$ 6,349,940</u>	<u>\$ 17,817,303</u>

¹ Recorded as "Unrealized gains (losses) on Senior Loan, net" and "Unrealized gains (losses) on Equity Contribution, net" in the Statements of Operations.

² The outstanding principal and accrued interest balances of the Senior Loan were \$9,826,042 (principal of \$9,134,238 and interest of \$691,804) and \$14,071,057 (principal of \$13,525,534 and interest of \$545,523) as of December 31, 2011 and 2010, respectively.

³ The outstanding principal and accrued interest balances of the Equity Contribution were \$5,541,528 (principal of \$5,000,000 and interest of \$541,528) and \$5,365,583 (principal of \$5,000,000 and interest of \$365,583) as of December 31, 2011 and 2010, respectively.

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

The weighted-average interest rates on the Senior Loan and Equity Contribution for the year ended December 31, 2011 were 1.24 percent and 3.24 percent, respectively. The weighted-average interest rates on the Senior Loan and Equity Contribution for the year ended December 31, 2010 were 1.27 percent and 3.27 percent, respectively.

4. Distribution of Proceeds

In accordance with the Master Investment and Credit Agreement, amounts available in the accounts of the LLC were distributed monthly in the following order of priority:

first, to pay any costs and expenses then due and payable;

second, to pay any amounts due and payable to any counterparty to any permitted hedging transactions as of the payment cut-off date;

third, to fund the expense reimbursement sub-account until the balance thereof is equal to an amount specified by FRBNY (\$500,000 as of December 31, 2011 and 2010);

fourth, to fund the investment reserve sub-account until the balance thereof is equal to an amount specified by FRBNY (\$0 as of December 31, 2011 and 2010);

fifth, to pay all or a portion of the outstanding principal amount of the Senior Loan;

sixth, 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 and unpaid interest outstanding on the Senior Loan;

seventh, 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 release to the LLC, for distribution to the Equity Investor or its permitted assignees, the lesser of (a) all remaining amounts and (b) the undistributed balance of the Equity Contribution Amount;

eighth, 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, (ii) all other remaining secured obligations outstanding shall have been paid in full in cash and (iii) the Equity Contribution amount shall have been decreased to zero because cash has been released to the LLC for distribution to the Equity Investor or its permitted assignees, the lesser of (a) all remaining amounts and (b) the accrued but unpaid accrued interest in respect of the equity interest;

ninth, so long as (i) the entire outstanding principal amount of, and all accrued and unpaid interest outstanding on, the Senior Loan has been paid in full in cash, (ii) all other remaining secured obligations outstanding shall have been paid in full in cash and (iii) the Equity Contribution amount shall have been decreased to zero and there are no outstanding accrued and unpaid interest, to pay any amounts due and payable to any counterparty to any permitted hedging transactions as of the payment cut-off date to the extent not paid under clause *second* above;

tenth, so long as, (i) the entire outstanding principal amount of, and all accrued and unpaid interest outstanding on, the Senior Loan have been paid in full in cash, (ii) all other remaining secured obligations outstanding

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

shall have been paid in full in cash and (iii) the Equity Contribution amount shall have been decreased to zero and there are no outstanding accrued and unpaid interest, to pay 67 percent of all remaining amounts to FRBNY and to release to the LLC, for distribution to the Equity Investor or its permitted assignees, 33 percent of all remaining amounts.

Effective March 31, 2011, amendments were made to the Credit Agreement such that permitted hedging transaction payments are paid on the date that such amounts are due and owing by the LLC under the terms of the permitted hedge, and that distributions to each Equity Investor as noted in the *seventh*, *eighth*, and *tenth* priorities described above are made pro rata based on each Equity Investor's percentage interest.

5. Fair Value Measurements

The LLC qualifies as a non-registered investment company under the provisions of ASC 946 and, therefore, all investments are recorded at fair value in accordance with ASC 820. The LLC elected to measure the Senior Loan and the Equity Contribution at fair value under ASC 825.

Determination of Fair Value

Due to the nature of the investments held by the LLC, valuation is based on model-based techniques that use inputs, estimates and assumptions that market participants would use in pricing the investments. To the extent such inputs, estimates and assumptions are not observable, the investments are classified within Level 3 of the valuation hierarchy. For instance, in valuing certain investments, the determination of fair value is based on proprietary valuation models when external price information is not available. Key inputs to the model may include market spreads or yield estimates for comparable instruments, data for each credit rating, valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features.

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

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

Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases where there is limited trading activity for particular investments or where current market quotations are not reflective of the fair value of an instrument, the valuation is based on 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. In valuing certain debt securities and whole mortgage loans, the determination of fair value is based on proprietary valuation models when external price information is not available. Key inputs to the model may include market spreads or yield estimates for comparable instruments, data for each credit rating, valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features. In valuing certain CDOs, assumptions used

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

and described above for debt securities and whole mortgage loans may have been used to value the underlying securities within a CDO in order to ultimately determine the value of the respective CDO.

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

	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Assets:				
ABS CDOs				
High-Grade ABS CDOs	\$ -	\$ -	\$ 11,236,329	\$ 11,236,329
Mezzanine ABS CDOs	-	94	1,453,383	1,453,477
Commercial Real Estate CDOs	-	4,119	4,779,659	4,783,778
Total ABS CDOs	-	4,213	17,469,371	17,473,584
RMBS, CMBS, & Other	-	148,956	111,964	260,920
Money market funds ¹	54,635	-	-	54,635
Total assets	<u>\$ 54,635</u>	<u>\$ 153,169</u>	<u>\$ 17,581,335</u>	<u>\$ 17,789,139</u>
Liabilities:				
Senior Loan	\$ -	\$ -	\$ (11,467,363)	\$ (11,467,363)
Equity Contribution	-	-	(6,349,940)	(6,349,940)
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (17,817,303)</u>	<u>\$ (17,817,303)</u>

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

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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

	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Assets:				
ABS CDOs				
High-Grade ABS CDOs	\$ -	\$ -	\$ 14,968,872	\$ 14,968,872
Mezzanine ABS CDOs	-	76	1,941,634	1,941,710
Commercial Real Estate CDOs	-	2,290	5,760,634	5,762,924
Total ABS CDOs	-	2,366	22,671,140	22,673,506
RMBS, CMBS, & Other	-	225,261	75,089	300,350
Money market funds ¹	110,683	-	-	110,683
Other Short Term Investments ¹	469,498	-	-	469,498
Total assets	\$ 580,181	\$ 227,627	\$ 22,746,229	\$ 23,554,037
Liabilities:				
Senior Loan	\$ -	\$ -	\$ (16,846,264)	\$ (16,846,264)
Equity Contribution	-	-	(6,732,476)	(6,732,476)
Total liabilities	\$ -	\$ -	\$ (23,578,740)	\$ (23,578,740)

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

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2011, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2010	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in ^{1,2}	Gross transfers out ^{1,2}	Fair values at December 31, 2011	Change in unrealized gains (losses) related to financial instruments held at December 31, 2011
Assets:							
ABS CDOs							
High-Grade ABS CDOs	\$ 14,968,872	\$ (1,540,868)	\$ (2,191,675)	\$ -	\$ -	\$ 11,236,329	\$ (2,149,321)
Mezzanine ABS CDOs	1,941,634	(248,876)	(239,375)	-	-	1,453,383	(235,024)
Commercial Real Estate CDOs	5,760,634	(59,580)	(921,395)	-	-	4,779,659	(921,396)
Total ABS CDOs	22,671,140	(1,849,324)	(3,352,445)	-	-	17,469,371	(3,305,741)
RMBS, CMBS, & Other	75,089	(9,139)	(366)	80,133	(33,753)	111,964	(395)
Total assets	\$ 22,746,229	\$ (1,858,463)	\$ (3,352,811)	\$ 80,133	\$ (33,753)	\$ 17,581,335	\$ (3,306,136)
Liabilities:							
Senior Loan	\$ (16,846,264)	\$ 4,245,015	\$ 1,133,886	\$ -	\$ -	\$ (11,467,363)	\$ 1,133,886
Equity Contribution	(6,732,476)	(175,945)	558,481	-	-	(6,349,940)	558,481
Total liabilities	\$ (23,578,740)	\$ 4,069,070	\$ 1,692,367	\$ -	\$ -	\$ (17,817,303)	\$ 1,692,367

¹ RMBS, CMBS and other securities, with a December 31, 2010 fair value of \$33,753, were transferred from Level 3 to Level 2 because they are valued at December 31, 2011 based on quoted prices for identical or similar assets in non-active markets (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3). There were also RMBS, CMBS and other securities that became less observable during the year ending December 31, 2011, which resulted in \$80,133 in transfers from Level 2 to Level 3. There were no other significant transfers between Levels during the year ended December 31, 2011.

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

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

	Purchases	Sales	Issuances	Settlements ²	Purchases, sales, issuances, and settlements, net
Assets:					
ABS CDOs					
High-Grade ABS CDOs	\$ -	\$ -	\$ -	\$ (1,540,868)	\$ (1,540,868)
Mezzanine ABS CDOs	-	(2,437)	-	(246,439)	(248,876)
Commercial Real Estate CDOs	-	-	-	(59,580)	(59,580)
Total ABS CDOs	-	(2,437)	-	(1,846,887)	(1,849,324)
RMBS, CMBS, & Other	-	(11)	-	(9,128)	(9,139)
Total assets	\$ -	\$ (2,448)	\$ -	\$ (1,856,015)	\$ (1,858,463)
Liabilities:					
Senior Loan	\$ (146,281) ¹	\$ -	\$ -	\$ 4,391,296	\$ 4,245,015
Equity Contribution	(175,945) ¹	-	-	-	(175,945)
Total liabilities	\$ (322,226)	\$ -	\$ -	\$ 4,391,296	\$ 4,069,070

¹ Represents accrued and capitalized interest.

² Includes paydowns.

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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

	Fair value at December 31, 2009	Purchases, sales, issuances, and settlements, net	Net realized / unrealized gains (losses)	Gross transfers in ^{1,2}	Gross transfers out ^{1,2}	Fair value at December 31, 2010	Change in unrealized gains (losses) related to financial instruments held at December 31, 2010
Assets:							
ABS CDOs							
High-Grade ABS CDOs	\$ 15,399,671	\$ (1,732,809)	\$ 1,302,010	\$ -	\$ -	\$ 14,968,872	\$ 1,302,010
Mezzanine ABS CDOs	1,989,447	(252,978)	205,259	-	(94)	1,941,634	193,150
Commercial Real Estate CDOs	4,693,940	(495,666)	1,564,049	-	(1,689)	5,760,634	1,522,460
Total ABS CDOs	22,083,058	(2,481,453)	3,071,318	-	(1,783)	22,671,140	3,017,620
RMBS, CMBS, & Other	208,513	(5,451)	12,530	-	(140,503)	75,089	12,530
Total assets	\$ 22,291,571	\$ (2,486,904)	\$ 3,083,848	\$ -	\$ (142,286)	\$ 22,746,229	\$ 3,030,150
Liabilities:							
Senior Loan	\$ (18,500,025)	\$ 4,428,968	\$ (2,775,207)	\$ -	\$ -	\$ (16,846,264)	\$ (2,775,207)
Equity Contribution	(4,293,805)	(172,294)	(2,266,377)	-	-	(6,732,476)	(2,266,377)
Total liabilities	\$ (22,793,830)	\$ 4,256,674	\$ (5,041,584)	\$ -	\$ -	\$ (23,578,740)	\$ (5,041,584)

¹ RMBS, CMBS and other securities, with a December 31, 2009 fair value of \$140,503, were transferred from Level 3 to Level 2 because they are valued at December 31, 2010 based on quoted prices for identical or similar assets in non-active markets (Level 2). These investments were valued in the prior year based on non-observable inputs (Level 3). There were no other significant transfers between Levels during the year ended December 31, 2010.

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

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

	Purchases	Sales	Issuances	Settlements ²	Purchases, sales, issuances, and settlements, net
Assets:					
ABS CDOs					
High-Grade ABS CDOs	\$ -	\$ -	\$ -	\$ (1,732,809)	\$ (1,732,809)
Mezzanine ABS CDOs	-	(56,943)	-	(196,035)	(252,978)
Commercial Real Estate CDOs	-	(125,758)	-	(369,908)	(495,666)
Total ABS CDOs	-	(182,701)	-	(2,298,752)	(2,481,453)
RMBS, CMBS, & Other	-	-	-	(5,451)	(5,451)
Total assets	\$ -	\$ (182,701)	\$ -	\$ (2,304,203)	\$ (2,486,904)
Liabilities:					
Senior Loan	\$ (204,065) ¹	\$ -	\$ -	\$ 4,633,033	\$ 4,428,968
Equity Contribution	(172,294) ¹	-	-	-	(172,294)
Total liabilities	\$ (376,359)	\$ -	\$ -	\$ 4,633,033	\$ 4,256,674

¹ Represents accrued and capitalized interest.

² Includes paydowns.

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

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

6. Investment Risk Profile

The primary holdings within the LLC are ABS CDOs. An ABS CDO is a security issued by a bankruptcy remote entity that is backed by a diversified pool of debt securities, which in the case of the LLC are primarily residential mortgage-backed securities (“RMBS”) and commercial mortgage backed-securities (“CMBS”). The cash flows of ABS CDOs can be split into multiple segments, called “tranches,” which will vary in risk profile and yield. The junior tranches will bear the initial risk of loss, followed by the more senior tranches. The ABS CDOs in the LLC portfolio largely represent senior tranches. Because they are shielded from defaults by the subordinated tranches, senior tranches will typically have higher credit ratings and lower yields than their underlying securities, and often receive investment grade ratings from one or more of the nationally recognized rating agencies upon issuance. Despite the protection afforded by the subordinated tranches, senior tranches can experience substantial losses from actual defaults on the underlying non-agency RMBS or CMBS.

ABS CDO securities are limited recourse obligations of the issuer thereof payable solely from the underlying securities owned by the issuer or proceeds thereof. Consequently, holders of ABS CDO securities must rely solely on distributions on the collateral underlying such ABS CDO securities or the proceeds thereof for payment. Such collateral may consist of investment grade debt securities, high yield debt securities, loans, structured finance securities, synthetic securities and other debt instruments. Investments in assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of those assets because the buyer of such synthetic security usually will have a contractual relationship only with the synthetic security counterparty and not the obligor on the reference obligation of such synthetic security. The buyer of a synthetic security will not benefit from any collateral supporting the reference obligation of such synthetic security, will not have any remedies that would normally be available to the holder of such reference obligation, and will be subject to the credit risk of the synthetic security counterparty as well as the obligor on such reference obligation. Over the last two years, there has been a significant increase in the default rates of, delinquencies on, and rating downgrades reported on RMBS and CMBS. As a result of increases in the default rates and delinquencies, there has been a decrease in the amount of credit support available for the ABS CDO securities backed by such RMBS and CMBS since the issue date thereof. Diminished credit support as a result of increases in the default rates of, delinquencies on, and rating downgrades reported on RMBS and CMBS could increase the likelihood that payments may not be made to holders of ABS CDO securities.

The LLC may acquire underlying collateral of ABS CDOs held in the portfolio. Collateral acquired by the LLC is reported as “RMBS, CMBS, and Other” in the Condensed Schedules of Investments as of December 31, 2011 and 2010. CMBS and RMBS expose the LLC to varying levels of credit, interest rate, liquidity, and concentration risk. Credit-related risk 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 securities are issued. The rate of delinquencies and defaults on residential and commercial 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. Adverse developments in the RMBS and CMBS markets could have a considerable effect on the LLC because of its investment concentration in CDOs backed by CMBS and RMBS as well as through “RMBS, CMBS and Other” securities held directly by the LLC.

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

At December 31, 2011, the investment type/vintage and rating composition of the LLC's \$17.7 billion portfolio, recorded at fair value, as a percentage of aggregate fair value of all securities in the portfolio, was as follows:

	Rating ^{1, 2, 3}					Not Rated ⁴	Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower		
ABS CDOs:							
High-Grade ABS CDOs	-	-	-	-	60.7%	2.7%	63.4%
Pre-2005	-	-	-	-	20.5%	0.8%	21.3%
2005	-	-	-	-	28.3%	1.9%	30.2%
2006	-	-	-	-	5.4%	-	5.4%
2007	-	-	-	-	6.4%	-	6.4%
Mezzanine ABS CDOs	-	-	-	-	8.0%	0.2%	8.2%
Pre-2005	-	-	-	-	4.5%	0.2%	4.7%
2005	-	-	-	-	3.0%	-	3.0%
2006	-	-	-	-	-	-	-
2007	-	-	-	-	0.6%	-	0.6%
Commercial Real-Estate CDOs	-	-	-	-	27.0%	-	27.0%
Pre-2005	-	-	-	-	3.5%	-	3.5%
2005	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-
2007	-	-	-	-	23.4%	-	23.4%
RMBS, CMBS, & Other:	0.1%	0.1%	0.1%	0.1%	1.0%	-	1.5%
Pre-2005	-	-	-	-	0.1%	-	0.2%
2005	0.1%	0.1%	0.1%	0.1%	0.8%	-	1.2%
2006	-	-	-	-	0.1%	-	0.1%
2007	-	-	-	-	-	-	-
Total Investments	0.1%	0.1%	0.1%	0.1%	96.7%	2.9%	100.0%

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

² The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO.

³ Rows and columns may not total due to rounding.

⁴ Not rated by a nationally recognized statistical rating organization as of December 31, 2011.

Maiden Lane III LLC

Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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 members' 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, 2011. Subsequent events were evaluated through March 20, 2012, which is the date the LLC issued the financial statements.