

# ***Maiden Lane II LLC***

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

*Financial Statements as of and for the Years Ended  
December 31, 2013 and 2012, and  
Independent Auditors' Report*

# Maiden Lane II LLC

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# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

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

March 14, 2014

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

The management of Maiden Lane II LLC (ML II LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition as of December 31, 2013 and 2012, 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 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 II LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. ML II LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. ML II LLC's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of ML II LLC's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that ML II 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 II LLC's assets that could have a material effect on its financial statements.

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

The management of ML II LLC assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that ML II LLC maintained effective internal control over financial reporting.



William C. Dudley  
President



Christine M. Cumming  
First Vice President



Michael Strine  
Principal Financial Officer

## **INDEPENDENT AUDITORS' REPORT**

To the Managing Member of  
Maiden Lane II LLC:

We have audited the accompanying financial statements of Maiden Lane II LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC"), which are comprised of the statements of financial condition, as of December 31, 2013 and 2012, and the related statements of operations and cash flows for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The LLC's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement. An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the LLC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control. Accordingly, we express no such opinion. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, on March 19, 2012, the LLC was dissolved. Under Delaware law, upon dissolution of the LLC, its affairs may be wound up. Winding up requires the LLC to pay or make reasonable provision to pay all claims and obligations of the LLC before distributing its remaining assets. While its affairs are being wound up, the LLC is retaining certain assets to meet trailing expenses and other obligations as required by law. When winding up is complete, a final distribution of any remaining assets will be made in accordance with Delaware law and the LLC agreement, and a certificate of cancellation will be filed in the office of the Delaware Secretary of State. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

March 14, 2014

## Maiden Lane II LLC

### Statements of Financial Condition

As of December 31, 2013 and 2012

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

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	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 63,439	\$ 60,976
Principal and interest receivable	1	1
Total assets	<u>\$ 63,440</u>	<u>\$ 60,977</u>
<b>Liabilities and member's equity</b>		
Senior Loan, at fair value	\$ 52,838	\$ 50,729
Deferred Purchase Price, at fair value	10,568	10,146
Professional fees payable and accrued	34	102
Total liabilities	<u>63,440</u>	<u>60,977</u>
Member's equity (\$10 par value, 1 share issued and outstanding)	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 63,440</u>	<u>\$ 60,977</u>

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

## Maiden Lane II LLC

### Statements of Operations

For the years ended December 31, 2013 and 2012  
(Amounts in thousands)

	2013	2012
<b>Investment income</b>		
Interest income	\$ 3,366	\$ 51,841
<b>Expenses</b>		
Interest expense	-	17,945
Professional fees	835	1,327
Total expenses	835	19,272
Net investment income	2,531	32,569
<b>Realized and unrealized gains (losses)</b>		
Realized gains on investments, net	-	547,177
Unrealized gains on investments, net	-	845,648
Realized losses on Senior Loan	-	(2,266,794)
Unrealized (losses) gains on Senior Loan, net	(2,109)	1,078,966
Realized losses on Deferred Purchase Price	-	(453,359)
Unrealized (losses) gains on Deferred Purchase Price, net	(422)	215,793
Net realized and unrealized losses	(2,531)	(32,569)
<b>Net change in member's equity resulting from operations</b>	<b>\$ -</b>	<b>\$ -</b>

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

# Maiden Lane II LLC

## Statements of Cash Flows

For the years ended December 31, 2013 and 2012  
(Amounts in thousands)

	2013	2012
<b>Cash flows from operating activities</b>		
Net change in member's equity resulting from operations	\$ -	\$ -
Adjustments to reconcile net change in member's equity resulting from operations to net cash provided by operating activities:		
Unrealized gains on investments, net	-	(845,648)
Unrealized losses (gains) on Senior Loan, net	2,109	(1,078,966)
Unrealized losses (gains) on Deferred Purchase Price, net	422	(215,793)
Decrease in capitalized and accrued interest on Senior Loan	-	(568,995)
Decrease in capitalized and accrued interest on Deferred Purchase Price	-	(106,147)
Decrease in principal and interest receivable	-	3,089
Decrease in professional fees payable and accrued	(68)	(3,254)
Proceeds from principal paydowns on investments	-	111,648
Proceeds from sale of investments and settlements	-	10,386,133
Realized gains on investments, net	-	(547,177)
Realized losses on Senior Loan	-	2,266,794
Realized losses on Deferred Purchase Price	-	453,359
Net cash flow provided by operating activities	<u>2,463</u>	<u>9,855,043</u>
<b>Cash flows from financing activities</b>		
Repayments of Senior Loan	-	(6,223,069)
Payments of Fixed Deferred Purchase Price	-	(1,000,000)
Payments of Contingent Interest on Senior Loan	-	(2,266,794)
Payments of Variable Deferred Purchase Price	-	(453,359)
Net cash flow used in financing activities	<u>-</u>	<u>(9,943,222)</u>
Net increase (decrease) in cash and cash equivalents	2,463	(88,179)
Beginning cash and cash equivalents	60,976	149,155
Ending cash and cash equivalents	<u>\$ 63,439</u>	<u>\$ 60,976</u>
<b>Supplemental disclosures</b>		
Non-cash operating and financing activities:		
Accrued and capitalized interest on Senior Loan and Deferred Purchase Price	<u>\$ -</u>	<u>\$ 17,945</u>
Cash paid during the year for:		
Interest	<u>\$ -</u>	<u>\$ 693,087</u>

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



# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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### 1. Organization and Nature of Business

Maiden Lane II LLC (the “LLC”), a special purpose vehicle consolidated by the Federal Reserve Bank of New York (“FRBNY” or “Managing Member”), is a single member Delaware limited liability company that was formed to acquire non-agency residential mortgage-backed securities (“non-agency RMBS”) from the reinvestment pool of the securities lending portfolio of several regulated U.S. insurance subsidiaries of the American International Group, Inc. (the “AIG Subsidiaries”).

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

Under the terms of the Asset Purchase Agreement, after the Senior Loan was repaid in full plus interest, the AIG Subsidiaries were entitled to receive from the LLC payment of the Fixed Deferred Purchase Price, plus accrued and unpaid interest. After the Fixed Deferred Purchase Price was paid in full plus interest, FRBNY and the AIG Subsidiaries were, and continue to be, entitled to receive five-sixths and one-sixth of all remaining amounts, respectively (the “Contingent Interest” and the “Variable Deferred Purchase Price,” respectively). The Fixed Deferred Purchase Price and the Variable Deferred Purchase Price are collectively referred to as the Deferred Purchase Price. The Senior Loan and the 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.

In 2012, the LLC sold its remaining portfolio assets through a series of competitive auctions. Proceeds from these sales were subsequently used to fully repay the Senior Loan plus accrued interest and fully pay the Fixed Deferred Purchase Price plus accrued interest. Additional distributions were made to FRBNY as Contingent Interest and to the AIG Subsidiaries as Variable Deferred Purchase Price in accordance with the priority of payment explained in Note 4.

On March 19, 2012, the LLC was dissolved. Under Delaware law, upon dissolution of the LLC, its affairs may be wound up. Winding up requires the LLC to pay or make reasonable provision to pay all claims and obligations of the LLC before distributing its remaining assets. While its affairs are being wound up, the LLC is retaining certain assets to meet trailing expenses and other obligations as required by law. When winding up is complete, a final distribution of any remaining assets will be made in accordance with Delaware law and the LLC agreement, and a certificate of cancellation will be filed in the office of the Delaware Secretary of State. The costs to wind up the LLC are not expected to be material.

BlackRock Financial Management, Inc. (the “Investment Manager” or “BlackRock”) managed the investment portfolio of the LLC under a multi-year contract with FRBNY that included provisions governing termination. In January 2013, BlackRock’s contract was terminated as there were no investments remaining in the LLC requiring management. BNYM provides administrative services and has been appointed to serve as collateral agent under multi-year contracts with FRBNY that include provisions governing termination.

# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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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 the Senior Loan and the Deferred Purchase Price. Actual results could differ from those estimates.

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

#### A. Cash and Cash Equivalents

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

#### B. Valuation of Financial Assets and Liabilities

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

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

#### Fair Value Hierarchy

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

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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

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

### *C. Investment Transactions and Investment Income*

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

From time to time, the LLC may receive proceeds from settlements related to actions involving portfolio investments. When such settlements are received, 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 on the investment if the investment is no longer held by the LLC.

### *D. Accounting for the Senior Loan and Deferred Purchase Price*

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

Distributions of Contingent Interest and Variable Deferred Purchase Price are recorded as "Realized losses on Senior Loan" and "Realized losses on Deferred Purchase Price," respectively, in the Statements of Operations.

### *E. Professional Fees*

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

### *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.

# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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### *G. Recently Issued Accounting Standards*

In April 2013, the FASB issued Accounting Standards Update (“ASU”) 2013-07, *Presentation of Financial Statements* (Topic 205): *Liquidation Basis of Accounting*. This update clarifies when entities in liquidation should apply the liquidation basis of accounting and provides guidance on financial statement presentation. This update is effective for an entity that determines liquidation is imminent during annual reporting periods beginning after December 15, 2013. During 2012, the LLC sold its remaining portfolio assets; however, the financial statement presentation for the LLC was not modified to the liquidation basis as the standard does not apply to entities whose liquidation follows a plan for liquidation that was specified in the entity’s governing documents at inception.

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies* (Topic 946): *Amendments to the Scope, Measurement, and Disclosure Requirements*. This update changes the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. This update is effective for the LLC for the year ending December 31, 2014 and is not expected to have a material effect on the LLC’s financial statements.

### **3. Senior Loan (including Contingent Interest) and Deferred Purchase Price (including Fixed and Variable Deferred Purchase Price)**

The Senior Loan had a six-year term maturing on December 12, 2014. The interest rate on the Senior Loan was equal to the London interbank offered rate (“Libor”) for one-month deposits in U.S. dollars plus 100 basis points, while the interest rate on the Fixed Deferred Purchase Price was equal to the Libor rate for one-month deposits in U.S. dollars plus 300 basis points. Interest on the Senior Loan and the Fixed Deferred Purchase Price was capitalized monthly and accrued daily based on the amount of principal and capitalized interest outstanding on the last business day of each month.

In March 2012, the LLC repaid in full the outstanding principal and accrued interest (other than Contingent Interest) on the Senior Loan and paid in full the outstanding principal and accrued interest on the Fixed Deferred Purchase Price to FRBNY and the AIG Subsidiaries, respectively. In addition to these payments, distributions were made to FRBNY as Contingent Interest and the AIG Subsidiaries as Variable Deferred Purchase Price in the amounts of \$2.3 billion and \$0.5 billion, respectively.

## Maiden Lane II LLC

### Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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The following table presents a reconciliation of the Senior Loan and the Deferred Purchase Price as of December 31, 2013 and 2012 (in thousands):

	Senior Loan	Deferred Purchase Price	Total
Fair value, December 31, 2011	\$ 7,921,759	\$ 1,332,086	\$ 9,253,845
<i>2012 Activity:</i>			
Accrued and capitalized interest	10,877	7,068	17,945
Payments <sup>1</sup>	(9,069,735)	(1,566,574)	(10,636,309)
Unrealized gains	(1,078,966)	(215,793)	(1,294,759)
Realized losses	2,266,794	453,359	2,720,153
Fair value, December 31, 2012 <sup>2</sup>	<u>50,729</u>	<u>10,146</u>	<u>60,875</u>
<i>2013 Activity:</i>			
Unrealized losses	2,109	422	2,531
Fair value, December 31, 2013 <sup>2</sup>	<u>\$ 52,838</u>	<u>\$ 10,568</u>	<u>\$ 63,406</u>

<sup>1</sup> Includes payments on the Senior Loan of \$6,223,069 of principal, \$579,872 of accrued interest, and \$2,266,794 of Contingent Interest and on the Deferred Purchase Price of \$1,000,000 of principal, \$113,215 of accrued interest, and \$453,359 of Variable Deferred Purchase Price.

<sup>2</sup> The outstanding principal and accrued interest balances on the Senior Loan and the Deferred Purchase Price were \$0 and \$0, respectively, as of December 31, 2013 and 2012. The remaining fair value represents the undistributed Contingent Interest and Variable Deferred Purchase Price on the Senior Loan and the Deferred Purchase Price, respectively.

The weighted average interest rates on the Senior Loan and the Fixed Deferred Purchase Price for the year ended December 31, 2012 were 1.29 percent and 3.28 percent, respectively.

#### 4. Distribution of Proceeds

Prior to March 19, 2012, in accordance with the Security Agreement, amounts available in the accounts of the LLC were distributed monthly in the following order of priority:

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

*second*, to fund the expense reimbursement sub-account until the balance thereof is equal to an amount specified by FRBNY (\$0 as of December 31, 2013 and 2012);

*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;

# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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*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-sixths of all remaining amounts to FRBNY as Contingent Interest and one-sixth of all remaining amounts to the AIG Subsidiaries as Variable Deferred Purchase Price.

On March 19, 2012, the LLC was dissolved and the Managing Member began to wind up the affairs of the LLC. All future distributions will be made by the Managing Member in accordance with and as required by Delaware law and the agreements governing the LLC.

### 5. Fair Value Measurements

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

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

Because of the uncertainty inherent in determining the fair value of debt instruments that do not have a readily available fair value, the fair values of the Senior Loan and Deferred Purchase Price may differ from the values that may ultimately be realized and paid.

## Maiden Lane II LLC

### Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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The following table presents the assets and liabilities recorded at fair value as of December 31, 2013 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			Total fair value
	Level 1 <sup>2</sup>	Level 2 <sup>2</sup>	Level 3 <sup>2</sup>	
Assets:				
Money market funds <sup>1</sup>	\$ 63,439	\$ -	\$ -	\$ 63,439
Liabilities:				
Senior Loan	\$ -	\$ (52,838)	\$ -	\$ (52,838)
Deferred Purchase Price	-	(10,568)	-	(10,568)
Total liabilities	\$ -	\$ (63,406)	\$ -	\$ (63,406)

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

<sup>2</sup> There were no transfers between Levels during the year ended December 31, 2013.

The following table presents the assets and liabilities recorded at fair value as of December 31, 2012 by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			Total fair value
	Level 1 <sup>2</sup>	Level 2 <sup>2</sup>	Level 3	
Assets:				
Money market funds <sup>1</sup>	\$ 60,976	\$ -	\$ -	\$ 60,976
Liabilities:				
Senior Loan	\$ -	\$ (50,729)	\$ -	\$ (50,729)
Deferred Purchase Price	-	(10,146)	-	(10,146)
Total liabilities	\$ -	\$ (60,875)	\$ -	\$ (60,875)

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

<sup>2</sup> There were no transfers between Level 1 and Level 2 during the year ended December 31, 2012.

# Maiden Lane II LLC

## Notes to Financial Statements

For the years ended December 31, 2013 and 2012

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, 2012, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2011	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, 2012	Change in unrealized gains (losses) related to financial instruments held at December 31, 2012
Assets:							
Non-agency RMBS							
Alt-A ARM	\$ 1,050,028	\$ (1,288,392)	\$ 238,364	\$ -	\$ -	\$ -	\$ -
Subprime	2,617,513	(3,025,465)	407,952	-	-	-	-
Option ARM	432,684	(502,909)	70,225	-	-	-	-
Other	433,189	(562,870)	129,681	-	-	-	-
Total assets	<u>\$ 4,533,414</u>	<u>\$ (5,379,636)</u>	<u>\$ 846,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:							
Senior Loan	\$ (7,921,759)	\$ -	\$ -	\$ -	\$ 7,921,759	\$ -	\$ -
Deferred Purchase Price	(1,332,086)	-	-	-	1,332,086	-	-
Total liabilities	<u>\$ (9,253,845)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,253,845</u>	<u>\$ -</u>	<u>\$ -</u>

<sup>1</sup> The Senior Loan and the Deferred Purchase Price, with December 31, 2011 fair values of \$(7,921,759) and \$(1,332,086), respectively, were transferred from Level 3 to Level 2 because they are valued at December 31, 2012 based on model-based techniques for which all significant inputs are observable (Level 2). These instruments 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 liabilities 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, 2012 (in thousands):

	Purchases	Sales	Issuances	Settlements <sup>1</sup>	Purchases, sales, issuances, and settlements, net
Assets:					
Non-agency RMBS					
Alt-A ARM	\$ -	\$ (1,273,211)	\$ -	\$ (15,181)	\$ (1,288,392)
Subprime	-	(2,987,928)	-	(37,537)	(3,025,465)
Option ARM	-	(500,400)	-	(2,509)	(502,909)
Other	-	(558,088)	-	(4,782)	(562,870)
Total assets	<u>\$ -</u>	<u>\$ (5,319,627)</u>	<u>\$ -</u>	<u>\$ (60,009)</u>	<u>\$ (5,379,636)</u>
Liabilities:					
Senior Loan	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Purchase Price	-	-	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<sup>1</sup> Includes paydowns.



# **Maiden Lane II LLC**

## **Notes to Financial Statements**

For the years ended December 31, 2013 and 2012

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### **6. 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. Additionally, in connection with settlements and/or other agreements related to actions involving portfolio investments which have occurred, the LLC has provided certain indemnifications. The LLC has not had any prior claims or losses pursuant to any of these agreements and expects the risk of loss to be remote.

### **7. 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.

### **8. Subsequent Events**

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2013. Subsequent events were evaluated through March 14, 2014, which is the date that the financial statements were available to be issued.