GMAC LLC
Form 10-K/A
May 14, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008, or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-3754

GMAC LLC

(Exact name of registrant as specified in its charter)

Delaware	**38-0572512**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

200 Renaissance Center

P.O. Box 200 Detroit, Michigan

48265-2000

(Address of principal executive offices)

(Zip Code)

(313) 556-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act (all listed on the New York Stock Exchange):

Title of each class	
$8^{7}/_{8}$% Notes due June 1, 2010	7.30% Public Income Notes (PINES) due March 9, 2031
6.00% Debentures due April 1, 2011	7.35% Notes due August 8, 2032
10.00% Deferred Interest Debentures due December 1, 2012	7.25% Notes due February 7, 2033
10.30% Deferred Interest Debentures due June 15, 2015	7.375% Notes due December 16, 2044

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

Aggregate market value of voting and nonvoting common equity held by nonaffiliates: Not applicable, as GMAC LLC has no publicly traded equity securities.

Documents incorporated by reference. None.

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Explanatory Note

GMAC LLC Form 10-K/A

GMAC LLC (GMAC) is filing this amendment No. 1 to Form 10-K for the fiscal year ended December 31, 2008 (2008 Form 10-K). The purpose of this amendment is to provide separate financial statements of Capmark Financial Group Inc. (Capmark), an equity method investment, in accordance with Rule 03-9 of Regulation S-X. When GMAC filed the 2008 Form 10-K with the United States Securities and Exchange Commission on February 26, 2009, the audited financial statements of Capmark were not yet available.

During 2008 GMAC recognized losses of $765 million related to Capmark. These losses included GMAC s share of CapMark s net loss during 2008 and impairment of GMAC s remaining investment interest in Capmark. As of December 31, 2008, GMAC had no remaining balance in the Capmark equity investment, no further financial obligations, and has ceased equity method accounting. Under Rule 03-9 of Regulation S-X, GMAC is required to provide separate financial statements for CapMark because the losses of $765 million exceeded 20% of GMAC s reported income before income tax benefit of $1.9 billion for the year ended December 31, 2008.

Except for the amendment described above, this Form 10-K/A does not modify or update other disclosures in, or exhibits to, GMAC s 2008 Form 10-K. For convenience and ease of reference, this amendment sets forth Item 15. Exhibits, Financial Statement Schedules from the 2008 Form 10-K in its entirety with the applicable changes.

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* Refer to the 2008 Form 10-K filed on February 26, 2009.

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Part IV

GMAC LLC Form 10-K/A

Item 15. Exhibits, Financial Statement Schedules

The exhibits listed on the accompanying Index of Exhibits are filed or incorporated by reference as a part of this report. This Index is incorporated herein by reference. Certain financial statement schedules have been omitted because prescribed information has been incorporated into our Consolidated Financial Statements or notes thereto.

Exhibit	Description	Method of filing
2.1	Purchase and Sale Agreement by and among General Motors Corporation, GMAC LLC (formerly General Motors Acceptance Corporation), GM Finance Co. Holdings Inc. and FIM Holdings LLC dated as of April 2, 2006	Filed as Exhibit 2.1 to the Company s Current Report on Form 8-K dated as of April 2, 2006, (File No. 1-3754), incorporated herein by reference.
3.1	Certificate of Formation of GMAC LLC dated July 20, 2006	Filed as Exhibit 3.1 to the Company s Quarterly Report for the period ended June 30, 2006, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
3.2	Certificate of Conversion to Limited Liability Company of General Motors Acceptance Corporation to GMAC LLC dated July 20, 2006	Filed as Exhibit 3.2 to the Company s Quarterly Report for the period ended June 30, 2006, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
3.3	Amendment No. 6 to the Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC, dated December 29, 2008	Filed as Exhibit 3.2 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
3.3.1	Amendment No. 7 to the Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC, dated December 29, 2008	Filed as Exhibit 3.3 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
3.3.2	Second Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC dated December 31, 2008	Filed as Exhibit 3.4 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
4.1	Form of Indenture dated as of July 1, 1982, between the Company and Bank of New York (Successor Trustee to Morgan Guaranty Trust Company of New York), relating to Debt Securities	Filed as Exhibit 4(a) to the Company s Registration Statement No. 2-75115, incorporated herein by reference.
4.1.1	Form of First Supplemental Indenture dated as of April 1, 1986, supplementing the Indenture designated as Exhibit 4.1	Filed as Exhibit 4(g) to the Company s Registration Statement No. 33-4653, incorporated herein by reference.
4.1.2	Form of Second Supplemental Indenture dated as of June 15, 1987, supplementing the indenture designated as Exhibit 4.1	Filed as Exhibit 4(h) to the Company s Registration Statement No. 33-15236, incorporated herein by reference.
4.1.3	Form of Third Supplemental Indenture dated as of September 30, 1996, supplementing the indenture designated as Exhibit	Filed as Exhibit 4(i) to the Company s Registration Statement No. 333-33183, incorporated herein by reference.

4.1

4.1.4	Form of Fourth Supplemental Indenture dated as of January 1, 1998, supplementing the Indenture designated as Exhibit 4.1	Filed as Exhibit 4(j) to the Company s Registration Statement No. 333-48705, incorporated herein by reference.

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Exhibit	Description	Method of filing
4.1.5	Form of Fifth Supplemental Indenture dated as of September 30, 1998, supplementing the indenture designated as Exhibit 4.1	Filed as Exhibit 4(k) to the Company s Registration Statement No. 333-75463, incorporated herein by reference.
4.2	Form of Indenture dated as of September 24, 1996, between the Company and The Chase Manhattan Bank, Trustee, relating to SmartNotes	Filed as Exhibit 4 to the Company s Registration Statement No. 333-12023, incorporated herein by reference.
4.2.1	Form of First Supplemental Indenture dated as of January 1, 1998, supplementing the Indenture designated as Exhibit 4.2	Filed as Exhibit 4(a)(1) to the Company s Registration Statement No. 333-48207, incorporated herein by reference.
4.2.2	Form of Second Supplemental Indenture dated as of June 20, 2006, supplementing the Indenture designated as Exhibit 4.2	Filed as Exhibit 4(a)(2) to the Company s Registration Statement No. 33-136021, incorporated herein by reference.
4.3	Form of Indenture dated as of October 15, 1985, between the Company and U.S. Bank Trust (Successor Trustee to Comerica Bank), relating to Demand Notes	Filed as Exhibit 4 to the Company s Registration Statement No. 2-99057, incorporated herein by reference.
4.3.1	Form of First Supplemental Indenture dated as of April 1, 1986, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(a) to the Company s Registration Statement No. 33-4661, incorporated herein by reference.
4.3.2	Form of Second Supplemental Indenture dated as of June 24, 1986, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(b) to the Company s Registration Statement No. 33-6717, incorporated herein by reference.
4.3.3	Form of Third Supplemental Indenture dated as of February 15, 1987, supplementing the Indenture designated as Exhibit 4.37	Filed as Exhibit 4(c) to the Company s Registration Statement No. 33-12059, incorporated herein by reference.
4.3.4	Form of Fourth Supplemental Indenture dated as of December 1, 1988, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(d) to the Company s Registration Statement No. 33-26057, incorporated herein by reference.
4.3.5	Form of Fifth Supplemental Indenture dated as of October 2, 1989, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(e) to the Company s Registration Statement No. 33-31596, incorporated herein by reference.
4.3.6	Form of Sixth Supplemental Indenture dated as of January 1, 1998, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(f) to the Company s Registration Statement No. 333-56431, incorporated herein by reference.
4.3.7	Form of Seventh Supplemental Indenture dated as of June 15, 1998, supplementing the Indenture designated as Exhibit 4.3	Filed as Exhibit 4(g) to the Company s Registration Statement No. 333-56431, incorporated herein by reference.
4.4	Form of Indenture dated as of December 1, 1993, between the Company and Citibank, N.A., Trustee, relating to Medium-Term Notes	Filed as Exhibit 4 to the Company s Registration Statement No. 33-51381, incorporated herein by reference.
4.4.1	Form of First Supplemental Indenture dated as of January 1, 1998, supplementing the Indenture designated as Exhibit 4.4	Filed as Exhibit 4(a)(1) to the Company s Registration Statement No. 333-59551, incorporated herein by reference.
4.5	Indenture, dated as of December 31, 2008, among GMAC LLC and The Bank of New York Mellon, as trustee	Filed as Exhibit 4.2 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.

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Exhibit	Description	Method of filing
4.6	Guarantee Agreement, dated as of December 31, 2008, among GMAC LLC, the Guarantor parties thereto, and The Bank of New York Mellon, as trustee	Filed as Exhibit 4.3 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10	Letter Agreement, dated December 29, 2008, between GMAC LLC and General Motors Corporation with respect to certain existing commercial arrangements *	**
10.1	United States Consumer Financing Services Agreement, dated November 30, 2006, by and between General Motors Corporation and GMAC LLC	Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of November 30, 2006, (File No. 1-3754), incorporated herein by reference.
10.2	Intellectual Property License Agreement, dated November 30, 2006, by and between General Motors Corporation and GMAC LLC	Filed as Exhibit 10.1 to the Company s Quarterly Report for the period ended March 31, 2007, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.3	Participation Agreement dated as of June 4, 2008, between each of GMAC LLC, General Motors Corporation, and Cerberus ResCap Financing LLC	Filed as Exhibit 10.1 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.4	Parent Company Agreement dated July 21, 2008, between each of GMAC LLC, Cerberus FIM, LLC, Cerberus FIM Investors, LLC, FIM Holdings LLC, IB Finance Holding Company, LLC, GMAC Bank and the Federal Deposit Insurance Corporation	Filed as Exhibit 10.2 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.5	Capital and Liquidity Maintenance Agreement dated as of July 21, 2008, among Cerberus FIM, LLC, Cerberus FIM Investors, LLC, FIM Holdings LLC, GMAC LLC, IB Finance Holding Company, LLC, GMAC Bank, and the Federal Deposit Insurance Corporation	Filed as Exhibit 10.3 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.6	Purchase Agreement among Residential Capital, LLC, GMAC Model Home Finance I, LLC, and CMH Holdings LLC, dated June 6, 2008	Filed as Exhibit 10.7 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.7	Purchase Agreement among GMAC Mortgage, LLC and Cerberus International, Ltd. dated July 30, 2008 (Freddie Mac Stripped Interest Certificates, Series 256)	Filed as Exhibit 10.2 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.8	Purchase Agreement among GMAC Mortgage, LLC and Cerberus Partners, L.P. dated July 30, 2008 (Freddie Mac Stripped Interest Certificates, Series 256)	Filed as Exhibit 10.3 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.9		

	Purchase Agreement among Residential Capital, LLC, DOA Holding Properties, LLC, DOA Properties IIIB (KB Models), LLC and MHPool Holdings LLC dated September 30, 2008	Filed as Exhibit 10.4 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.10	Servicing Agreement between Residential Capital, LLC and MHPool Holdings LLC dated September 30, 2008	Filed as Exhibit 10.5 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.

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Exhibit	Description	Method of filing
10.11	Limited Assignment and Assumption Agreement among KBOne, LLC, DOA Holdings NoteCo, LLC, Residential Funding Company, LLC and MHPool Holdings LLC dated September 30, 2008	Filed as Exhibit 10.6 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.12	Letter Agreement, dated December 29, 2008, between GMAC LLC and the United States Department of the Treasury, which includes the Securities Purchase Agreement Standard Terms attached thereto, with respect to the issuance and sale of the Series D-1 Preferred Membership Interests and the Warrant	Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.13	Exchange Agreement, dated as of December 29, 2008, by and among GMAC LLC, General Motors Corporation and FIM Holdings LLC	Filed as Exhibit 10.2 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.14	Membership Interest Subscription Agreement, dated as of December 29, 2008, by and among GMAC LLC, General Motors Corporation and FIM Holdings LLC	Filed as Exhibit 10.3 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.15	Limited Keep-Well Agreement, dated as of December 31, 2008, by and between GMAC LLC and Preferred Blocker Inc	Filed as Exhibit 10.4 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.16	Registration Rights Agreement, dated as of December 31, 2008, by GMAC LLC, Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Barclays Capital Inc., Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. Incorporated, and Greenwich Capital Markets, Inc. (relating to the New Guaranteed Notes)	Filed as Exhibit 10.5 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.17	Registration Rights Agreement, dated as of December 31, 2008, by GMAC LLC, Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Barclays Capital Inc., Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. Incorporated, and Greenwich Capital Markets, Inc. (relating to the New Senior Notes)	Filed as Exhibit 10.6 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.18	Registration Rights Agreement, dated as of December 31, 2008, by GMAC LLC, Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Barclays Capital Inc., Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. Incorporated, and Greenwich Capital Markets, Inc. (relating to the New Subordinated Notes)	Filed as Exhibit 10.7 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.

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Exhibit	Description	Method of filing
10.19	Registration Rights Agreement, dated as of December 31, 2008, by GMAC LLC, Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Barclays Capital Inc., Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. Incorporated, and Greenwich Capital Markets, Inc. (relating to the New Preferred Stock)	Filed as Exhibit 10.8 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.20	Termination Agreement, dated as of December 29, 2008, by and among GMAC LLC, General Motors Corporation and FIM Holdings LLC	Filed as Exhibit 10.9 to the Company s Current Report on Form 8-K dated as of January 2, 2009, (File No. 1-3754), incorporated herein by reference.
10.21	Governance Agreement, dated as of January 16, 2009, by and between GMAC LLC, FIM Holdings LLC, GM Finance Co. Holdings LLC and the United States Department of the Treasury	Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of January 21, 2009, (File No. 1-3754), incorporated herein by reference.
10.22	GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan, dated July 16, 2008	Filed as Exhibit 10.4 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.23	GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan dated July 16, 2008, and as amended September 10, 2008	Filed as Exhibit 10.1 to the Company s Quarterly Report for the period ended September 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.24	GMAC Long--Term Incentive Plan LLC Form Award Letter	Filed as Exhibit 10.5 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.25	GMAC LLC Senior Leadership Severance Plan, Plan Document and Summary Plan Description, Effective June 1, 2008	Filed as Exhibit 10.6 to the Company s Quarterly Report for the period ended June 30, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.26	Compensation Statement, dated September 30, 2008, for Alvaro G. de Molina	**
10.27	GMAC LLC Senior Leadership Severance Plan Participation Agreement for Alvaro G. de Molina, dated September 17, 2008	**
10.28	Purchase Offer GMAC Management LLC Class C Membership Interests dated September 15, 2008 (Alvaro de Molina)	**
10.29	Award under the GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan, dated September 15, 2008 (Alvaro de Molina)	**

10.30	S. Ramsey Letter Agreement, dated September 11, 2007	**
10.31	GMAC LLC Senior Leadership Severance Plan Participation Agreement for Samuel Ramsey, dated October 9, 2008	**

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Exhibit	Description	Method of filing
10.32	Letter Agreement, dated October 31, 2007, between GMAC LLC and Robert S. Hull	Filed as Exhibit 10.6 to the Company s Annual Report for the period ended December 31, 2007, on Form 10-K (File No. 1-3754), incorporated herein by reference.
10.33	GMAC LLC Senior Leadership Severance Plan Participation Agreement for Robert S. Hull, dated September 23, 2008	**
10.34	Purchase Offer GMAC Management LLC Class C Membership Interests dated September 15, 2008 (Robert S. Hull)	**
10.35	Award under the GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan, dated September 15, 2008 (Robert S. Hull)	**
10.36	Employment Agreement, dated November 30, 2006, between GMAC LLC and Eric Feldstein	Filed as Exhibit 10.2 to the Company s Annual Report for the period ended December 31, 2006, on Form 10-K (File No. 1-3754), incorporated herein by reference.
10.37	Eric Feldstein Letter Agreement, dated March 20, 2008	Filed as Exhibit 10.1 to the Company s Quarterly Report for the period ended March 31, 2008, on Form 10-Q (File No. 1-3754), incorporated herein by reference.
10.38	Employment Agreement, dated November 30, 2006, between GMAC LLC and William Muir	Filed as Exhibit 10.3 to the Company s Annual Report for the period ended December 31, 2006, on Form 10-K (File No. 1-3754), incorporated herein by reference.
10.39	Purchase Offer GMAC Management LLC Class C Membership Interests dated September 15, 2008 (William Muir)	**
10.40	Award under the GMAC Long-Term Incentive Plan LLC Long Term Equity Compensation Incentive Plan, dated September 25, 2008 (William Muir)	**
10.41	S. Gupta Letter Agreement, dated February 20, 2008	**
10.42	GMAC LLC Senior Leadership Severance Plan Participation Agreement for Sanjay Gupta, dated September 30, 2008	**
10.43	Purchase Offer GMAC Management LLC Class C Membership Interests dated September 15, 2008 (Sanjay Gupta)	**
10.44	Award under the GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan, dated September 30, 2008 (Sanjay Gupta)	**
10.45	GMAC Long-Term Incentive Plan LLC Long-Term Phantom Interest Plan, effective December 18, 2006	Filed as Exhibit 10.5 to the Company s Annual Report for the period ended December 31, 2006, on Form 10-K (File No. 1-3754), incorporated herein by reference.

10.45.1	Amendment #1 to The GMAC Long-Term Incentive Plan LLC Long-Term Phantom Interest Plan, dated February 13, 2008	Filed as Exhibit 10.8.1 to the Company s Annual Report for the period ended December 31, 2007, on Form 10-K (File No. 1-3754), incorporated herein by reference.

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Exhibit	Description	Method of filing
10.46	Form of Award Agreement related to the GMAC Long-Term Incentive Plan LLC Long-Term Phantom Interest Plan (2008-2010 performance period) (applicable to Messrs. Muir and de Molina)	Filed as Exhibit 10.11 to the Company s Annual Report for the period ended December 31, 2007, on Form 10-K (File No. 1-3754), incorporated herein by reference.
10.47	Form of Award Agreement related to the GMAC Long-Term Incentive Plan LLC Long-Term Phantom Interest Plan (2008 2010 performance period) (applicable to executives other than Messrs. Muir and de Molina)	Filed as Exhibit 10.12 to the Company s Annual Report for the period ended December 31, 2007, on Form 10-K (File No. 1-3754), incorporated herein by reference.
10.48	Purchase Offer GMAC Management LLC Class C Membership Interests dated September 15, 2008 (Samuel Ramsey)	**
10.49	Award under the GMAC Long-Term Incentive Plan LLC Long-Term Equity Compensation Incentive Plan, dated October 9, 2008 (Samuel Ramsey)	**
12	Computation of Ratio of Earnings to Fixed Charges	**
21	Subsidiaries of the Registrant as of December 31, 2008	**
23.1	Consent of Independent Registered Public Accounting Firm	**
23.2	Consent of Independent Registered Accounting Firm	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.

The following exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Filed herewith.

* Certain confidential portions have been omitted pursuant to a confidential treatment request which has been separately filed with the Securities and Exchange Commission.

** Refer to the 2008 Form 10-K filed on February 26, 2009.

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Separate Financial Statements of Capmark Financial Group Inc.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Capmark Financial Group Inc.

Horsham, Pennsylvania

We have audited the accompanying consolidated balance sheets of Capmark Financial Group Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for the years ended December 31, 2008 and 2007 and for the period from March 23, 2006 to December 31, 2006 (successor) and the period from January 1, 2006 to March 22, 2006 (predecessor). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 and the period from March 23, 2006 to December 31, 2006 (successor) and for the period from January 1, 2006 to March 22, 2006 (predecessor) in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred operating losses and its stockholders equity has declined, resulting in noncompliance with covenants and an event of default under certain credit agreements; uncertainty about the outcome of negotiations with lenders to waive the covenants and modify the terms of the credit agreements raise substantial doubt about the Company s ability to continue as a going concern. Management s plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2008 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115,* and SFAS No. 157, *Fair Value Measurements.*

As discussed in Note 3 to the consolidated financial statements, as of January 1, 2007, the Company changed its method of accounting for income taxes to conform to the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*

As discussed in Note 3 to the consolidated financial statements, as of March 23, 2006, the Company changed its basis of accounting in connection with the business combination in which the Company pushed down the purchase price in accordance with SEC Staff Accounting Bulletin No. 54, *Application of Push Down Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase*.

/s/ DELOITTE & TOUCHE LLP
April 23, 2009

Philadelphia, Pennsylvania

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CAPMARK FINANCIAL GROUP INC.

Consolidated Balance Sheet

(in thousands, except share amounts)

	December 31, 2008	December 31, 2007
Assets		
Cash, cash equivalents and restricted cash	$ 874,390	$ 1,436,752
Accounts and other receivables	343,780	470,669
Investment securities:		
Trading	1,457,384	185,692
Available for sale	843,967	949,682
Loans held for sale	3,970,683	7,783,769
Loans held for investment, net of allowance for loan losses of $108.2 million as of December 31, 2008 and $28.8 million as of December 31, 2007	8,207,980	6,891,714
Real estate investments	1,844,924	1,748,555
Equity investments	1,568,057	1,984,140
Mortgage servicing rights	817,189	890,550
Current taxes receivable	133,395	201,916
Deferred tax assets		32,029
Goodwill and other intangible assets, net	99,348	182,549
Other assets	477,078	506,379
Total assets	$ 20,638,175	$ 23,264,396
Liabilities and Stockholders Equity		
Liabilities:		
Short-term borrowings	$ 3,310,758	$ 3,832,637
Collateralized borrowings in securitization trusts	184,086	260,524
Other long-term borrowings	8,098,749	8,047,162
Deposit liabilities	5,690,930	5,552,607
Real estate syndication proceeds and related liabilities	1,258,743	1,563,151
Other liabilities	689,624	1,069,068
Total liabilities	19,232,890	20,325,149
Commitments and Contingent Liabilities		
Minority Interest	186,400	330,196
Mezzanine Equity	72,851	102,418
Stockholders Equity:		
Preferred stock, $.001 par value; 100,000,000 shares authorized; none issued and outstanding as of December 31, 2008 and 2007		
Common stock, $.001 par value; 650,000,000 shares authorized; 412,900,918 shares issued and outstanding as of December 31, 2008 and 412,898,576 shares issued and outstanding as of December 31, 2007	413	413
Capital paid in excess of par value	2,063,280	2,050,361
Retained (deficit) earnings	(941,398)	418,876
Accumulated other comprehensive (loss) income, net of tax:		
Net unrealized (loss) gain on investment securities and derivative instruments	(18,468)	17,536
Net foreign currency translation adjustment	42,207	19,447
Total accumulated other comprehensive (loss) income, net of tax	23,739	36,983

Total stockholders equity	1,146,034	2,506,633
Total liabilities and stockholders equity	$ 20,638,175	$ 23,264,396

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

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CAPMARK FINANCIAL GROUP INC.

Consolidated Statement of Operations

(in thousands, except per share data)

		Successor		Predecessor
	Year ended December 31, 2008	Year ended December 31, 2007	Period from March 23, 2006 to December 31, 2006	Period from January 1, 2006 to March 22, 2006
Net Interest Income				
Interest income	$ 959,585	$ 1,251,192	$ 901,753	$ 253 691
Interest expense	761,018	914,460	659,514	172,176
Net interest income	198,567	336,732	242,239	81,515
Provision for loan losses	179,665	32,666	73,585	1,031
Net interest income after provision for loan losses	18,902	304,066	168,654	80,484
Noninterest Income				
Net (losses) gains:				
Net (losses) gains on loans	(1,029,772)	(128,413)	95,038	46,941
Net (losses) gains on investments and real estate	(326,949)	65,104	(27,992)	12,187
Other gains (losses), net	197,785	75,944	1,809	(10,683)
Mortgage servicing fees	187,776	206,414	152,401	46,766
Placement fees	62,240	65,756	76,893	11,194
Investment banking fees and syndication income	97,950	111,954	64,596	(42,263)
Asset management fees	75,730	103,266	46,365	14,001
Trust fees	132,217	193,866	134,001	32,398
Other fees	12,625	53,685	55,643	19,533
Equity in (loss) income of joint ventures and partnerships	(206,227)	56,018	81,040	(13,198)
Net real estate investment and other income	106,026	104,485	75,726	19,790
Total noninterest income	(690,599)	908,079	755,520	136,666
Net revenue	(671,697)	1,212,145	924,174	217,150
Noninterest Expense				
Compensation and benefits	303,867	414,479	366,895	129,016
Amortization of mortgage servicing rights	139,557	130,457	97,696	23,312
Occupancy and equipment	77,781	107,203	79,743	21,801
Professional fees	114,554	102,882	96,597	16,439
Other expenses	147,493	134,353	129,250	30,371
Total noninterest expense	783,252	889,374	770,181	220,939
(Loss) income before minority interest and income tax provision (benefit)	(1,454,949)	322,771	153,993	(3,789)
Minority interest income	110,480	124,331	53,308	12,264
(Loss) income before income tax provision (benefit)	(1,344,469)	447,102	207,301	8,475
Income tax provision (benefit)	8,300	166,778	63,157	(3,972)

Net (Loss) Income	$ (1,352,769)	$ 280,324	$ 144,144	$ 12,447
Basic net (loss) income per share				
Net (loss) income per share	$ (3.13)	$ 0.65	$ 0.33	$ 0.03
Weighted average basic shares outstanding	431,672	433,071	431,899	412,803
Diluted net (loss) income per share				
Net (loss) income per share	$ (3.13)	$ 0.65	$ 0.33	$ 0.03
Weighted average diluted shares outstanding	431,672	434,315	432,037	412,803

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

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CAPMARK FINANCIAL GROUP INC.

Consolidated Statement of Changes in Stockholders Equity

(in thousands)

	Year ended December 31, 2008	Successor Year ended December 31, 2007	Period from March 23, 2006 to December 31, 2006	Predecessor Period from January 1, 2006 to March 22, 2006
Common Stock				
Balance at beginning of period	$ 413	$ 413	$ 413	$ 413
Balance at end of period	413	413	413	413
Capital Paid in Excess of Par Value				
Balance at beginning of period	2,050,361	2,034,875	415,146	469,545
Recapitalization			1,613,372	
Capital contribution from parent				14,698
Additional shares issued	9	512	2	
Dividend paid to parent				(69,097)
Stock-based compensation expense	13,194	15,843	6,355	
Other	(284)	(869)		
Balance at end of period	2,063,280	2,050,361	2,034,875	415,146
Retained (Deficit) Earnings				
Balance at beginning of period	418,876	144,144	1,566,276	1,553,829
Cumulative effect of adopting FASB Interpretation No. 48		(9,535)		
Cumulative effect of adopting Statement of Financial Accounting Standards No. 159	(9,805)			
Recapitalization			(1,566,276)	
Net (loss) income	(1,352,769)	280,324	144,144	12,447
Other	2,300	3,943		
Balance at end of period	(941,398)	418,876	144,144	1,566,276
Accumulated Other Comprehensive (Loss) Income, Net of Tax				
Balance at beginning of period	36,983	49,793	(9,132)	(27,165)
Recapitalization			9,132	
Net unrealized (loss) gain on investment securities and derivative instruments	(36,004)	(13,762)	31,298	(3,960)
Net foreign currency translation adjustment	22,760	952	18,495	21,993
Balance at end of period	23,739	36,983	49,793	(9,132)
Total Stockholders Equity	$ 1,146,034	$ 2,506,633	$ 2,229,225	$ 1,972,703
Comprehensive (Loss) Income				
Net (loss) income	$ (1,352,769)	$ 280,324	$ 144,144	$ 12,447
Other comprehensive (loss) income	(13,244)	(12,810)	49,793	18,033

Comprehensive (loss) income	$ (1,366,013)	$ 267,514	$ 193,937	$ 30,480

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

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CAPMARK FINANCIAL GROUP INC.

Consolidated Statement of Cash Flows

(in thousands)

	Successor			Predecessor
	Year ended December 31, 2008	Year ended December 31, 2007	Period from March 23, 2006 to December 31, 2006	Period from January 1, 2006 to March 22, 2006
Operating Activities				
Net (loss) income	$ (1,352,769)	$ 280,324	$ 144,144	$ 12,447
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Provision for loan losses	179,665	32,666	73,585	1,031
Provision (benefit) for deferred income taxes	44,283	50,693	20,677	(26,412)
Net losses (gains)	1,158,936	(12,635)	(68,855)	(48,445)
Provision for unrecognized tax benefits under FASB Interpretation No. 48	1,072	15,118		
Depreciation and amortization of real estate, property and equipment	29,728	53,684	37,507	8,498
Amortization of intangible assets and mortgage servicing rights and goodwill impairment	176,040	146,935	110,301	24,729
Amortization of debt issuance costs	17,389	18,786	24,684	
Accretion/amortization on loans and investment securities	(65,136)	(57,972)	(15,141)	(20,279)
Extinguishment of real estate syndication proceeds	(182,409)	(318,433)	(132,609)	(38,519)
Other real estate syndication activities	(79,134)	(16,779)	(4,575)	52,334
Capitalized interest income/expense, net	(46,584)	(50,474)	(26,723)	(8,691)
Equity in net losses of investees and cash return on investment .	399,368	350,462	178,321	58,830
Minority interest income	(110,480)	(124,331)	(53,308)	(12,264)
Stock-based compensation expense	13,194	15,843	6,355	
Other adjustments	10,692	2,520	21,979	1,600
Net change in assets and liabilities which provided (used) cash:				
Accounts and other receivables	33,479	24,784	(185,831)	43,131
Investment securities classified as trading	(1,316,013)	922,539	(55,680)	271,589
Other assets	(186,594)	(126,180)	(21,453)	(9,845)
Other liabilities	(501,284)	(62,106)	195,322	(461,376)
Current taxes payable	100,463	(221,857)	(91,690)	(28,572)
Proceeds from sales of/payments from loans held for sale	9,420,887	15,040,791	11,856,012	4,176,120
Origination/purchase of loans held for sale	(6,526,836)	(18,193,899)	(12,355,934)	(3,397,485)
Net cash provided by (used in) operating activities	1,217,957	(2,229,521)	(342,912)	598,421
Investing Activities				
Net decrease (increase) in restricted cash	82,656	20,690	(74,476)	(29,955)
Proceeds from sales of investment securities classified as available for sale	21,507	492,188	152,485	70,611
Proceeds from repayments of investment securities classified as available for sale	126,072	304,622	127,078	33,264
Purchases of investment securities classified as available for sale	(117,696)	(556,158)	(561,841)	(124,053)
Proceeds from repayments of loans held for investment	1,460,852	2,552,115	2,098,893	695,527
Origination/purchase of loans held for investment	(2,935,081)	(2,213,284)	(1,480,893)	(441,635)
Proceeds from sales of real estate investments	186,146	371,685	255,163	43,074

Purchases of real estate investments	(165,978)	(728,389)	(347,223)	(12,718)
Net purchases of property and equipment	(8,009)	(2,500)	(8,367)	(4,552)
Proceeds from repayments of investment securities classified as held to maturity				442
Proceeds from sales of/capital distributions from equity investments	207,102	1,097,667	361,972	51,939

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CAPMARK FINANCIAL GROUP INC.

Consolidated Statement of Cash Flows (Continued)

(in thousands)

	Successor			Predecessor
	Year ended December 31, 2008	Year ended December 31, 2007	Period from March 23, 2006 to December 31, 2006	Period from January 1, 2006 to March 22, 2006
Purchases of equity investments	(176,721)	(1,274,559)	(346,499)	(82,022)
Purchases of mortgage servicing rights	(17,933)	(126,838)	(72,156)	(20,116)
Sales of mortgage servicing rights		39,554	21,286	
Other investing activities, net	(2,264)	2,029	27,482	2,308
Net cash (used in) provided by investing activities	(1,339,347)	(21,178)	152,904	182,114
Financing Activities				
Net (decrease) increase in short-term borrowings	(398,139)	680,334	(6,711,483)	589,092
Proceeds from issuance of collateralized borrowings in securitization trusts		47,608	517,794	10,385
Repayments of collateralized borrowings in securitization trusts	(9,225)	(1,275,535)	(327,986)	(33,405)
Proceeds from issuance of other long-term borrowings	1,122,354	4,670,461	8,377,212	113,469
Repayments of other long-term borrowings	(1,129,545)	(3,981,157)	(1,912,333)	(393,930)
Net increase (decrease) in deposit liabilities	3,607	2,641,650	(310,438)	(832,766)
Real estate syndication proceeds received	46,492	262,485	240,387	73,927
Minority interest (payments) proceeds	(1,455)	48,663	(45,809)	(16,230)
(Repurchases of)/proceeds from issuance of mezzanine equity and additional common shares	(27,540)	(3,400)	102,277	
Dividend paid to parent				(69,097)
Other financing activities, net	16,518	12,543		14,698
Net cash (used in) provided by financing activities	(376,933)	3,103,652	(70,379)	(543,857)
Effect of Foreign Exchange Rates on Cash	18,616	25,720	2,935	1,000
Net (Decrease) Increase in Cash and Cash Equivalents	(479,707)	878,673	(257,452)	237,678
Cash and Cash Equivalents, Beginning of Period	1,204,477	325,804	583,256	345,578
Cash and Cash Equivalents, End of Period(1)	$ 724,770	$ 1,204,477	$ 325,804	$ 583,256
Supplemental Disclosures of Cash Flow Information:				
Income taxes (refunded) paid	$ (97,391)	$ 304,670	$ 107,560	$ 46,273
Interest paid	770,233	747,787	570,705	142,941
Non-cash Investing and Financing Activities:				

Impact of push down accounting on stockholders equity			56,229	
Cumulative effect of adopting FASB Interpretation No. 48 on retained earnings		(9,535)		
Cumulative effect of adopting Statement of Financial Accounting Standards No. 159 on retained earnings	(9,805)			
Transfer of loans held for sale to loans held for investment		4,509,711		
Financing obligations assumed by third party related to sale of operations		677,148		
Transfer of loans to real estate	92,782	46,625	2,715	
Various non-cash assets and liabilities (derecognized) acquired through (deconsolidation) consolidation of variable interest and other entities, net	(95,867)	37,985	274,614	88,770

(1) Cash and cash equivalents exclude restricted cash of $149.6 million as of December 31, 2008, $232.3 million as of December 31, 2007, $251.4 million as of December 31, 2006 and $178.5 million as of March 22, 2006.

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

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements

1. Organization and Operations

Capmark Financial Group Inc. (Capmark) is a diversified company that provides financial services to investors in commercial real estate-related assets. Capmark has three core businesses: lending and mortgage banking, investments and funds management, and servicing. Capmark operates in North America, Europe and Asia. As used herein, the term Company refers to Capmark Financial Group Inc. and its consolidated subsidiaries, except where it is clear that the term means only Capmark Financial Group Inc.

Prior to March 23, 2006, the Company was an indirect wholly-owned subsidiary of GMAC LLC, formerly known as General Motors Acceptance Corporation (GMAC). On March 23, 2006, an investor entity owned by affiliates of Kohlberg Kravis Roberts & Co. L.P., Five Mile Capital Partners LLC, Goldman Sachs Capital Partners and Dune Capital Management LP (collectively, the Sponsors) acquired a controlling equity stake in the Company from a subsidiary of GMAC. As of December 31, 2008, the Sponsors and one other investor owned approximately 75.4 percent of the Company s common stock, employees, former employees and non-employee directors (collectively, the Management Stockholders) owned approximately 3.3 percent of the Company s common stock and a subsidiary of GMAC owned approximately 21.3 percent of the Company s common stock. The changes in ownership and the other related transactions that occurred on March 23, 2006 are referred to as the Sponsor Transactions in these notes to the consolidated financial statements.

The Company operates primarily through the following subsidiaries:

Capmark Finance Inc. (Capmark Finance), a wholly-owned subsidiary of the Company, originates and sells commercial mortgage loans primarily in the secondary mortgage market, and services these loans on an ongoing basis. Capmark Finance is an approved national lender and servicer of mortgage loans by the Department of Housing and Urban Development, Freddie Mac, Fannie Mae, Federal Housing Administration (FHA) and Ginnie Mae.

Capmark Capital Inc. (Capmark Capital), a wholly-owned subsidiary of the Company, is a holding company for the Company s broker-dealer and affordable housing operations. Capmark Securities Inc. (Capmark Securities), a wholly-owned subsidiary of Capmark Capital, is registered with the Securities and Exchange Commission (SEC) as a general securities broker-dealer and is a member of the Financial Industry Regulatory Authority. Capmark Affordable Equity Holdings Inc. (Capmark Affordable Equity), a wholly-owned subsidiary of Capmark Capital, previously syndicated affordable housing investment partnerships and is currently focused on the ongoing management of syndicated real estate investment partnerships and on the management of its existing inventory of non-syndicated investments that generate low-income housing tax credits and historic tax credits provided under Sections 42 and 48 of the Internal Revenue Code. See Note 3 for disclosure of the sale of a majority of Capmark Capital s affordable housing debt platform in 2007.

Capmark Investments LP (Capmark Investments), a subsidiary of Capmark Finance, makes real estate debt and equity investments on behalf of the Company and for third parties, including pension plans, investment funds, insurance companies, other institutions and high net worth individuals. Capmark Investments is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act of 1940.

Capmark Bank (Capmark Bank US), Escrow Bank USA (Escrow Bank) and Capmark Bank Europe p.l.c (Capmark Bank Europe) are the Company s wholly-owned banking subsidiaries. Capmark Bank US and Escrow Bank are industrial banks chartered by the State of Utah. Capmark Bank Europe is an Irish bank. Capmark Bank US accepts deposits in the form of time and money

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

1. Organization and Operations (Continued)

market deposits and issues non-callable and callable fixed rate certificates of deposit in the brokered deposit market. Following the cessation of Escrow Bank s trust operations in 2008 as described below, Capmark Bank US also accepts deposits of principal, interest, escrow and reserve balances that borrowers maintain in custodial accounts for the purpose of paying principal and interest on their loans and funding repairs, tenant improvements, taxes and insurance on the properties that are financed with their loans. Deposits held in a fiduciary capacity are not assets or liabilities of the Company and, accordingly, are not included in the Company s consolidated balance sheet. A portion of these deposits are eligible for investment as deposits at Capmark Bank US at the discretion of its trust department and may provide the Company with an alternative form of financing. The deposits maintained by Capmark Bank US are eligible for insurance by the Federal Deposit Insurance Corporation (the FDIC). Capmark Bank US is subject to regulation and periodic examination by the Utah Department of Financial Institutions and the FDIC and must pay applicable FDIC insurance premiums and comply with applicable capital adequacy requirements, limitations on transactions with affiliates, provisions of the Bank Secrecy Act, the USA PATRIOT Act and Regulation O of the Federal Reserve.

In June 2008, Escrow Bank ceased its trust operations and the trust customers of Escrow Bank appointed Capmark Bank US as their new trustee. Following the cessation of trust operations, Escrow Bank no longer has any daily operations and has requested and received notice from the FDIC of termination of its deposit insurance effective June 30, 2009. Until the termination of deposit insurance is effective, Escrow Bank remains subject to regulation and periodic examination by the FDIC and must pay applicable FDIC insurance premiums and comply with applicable capital adequacy requirements. The Company intends to liquidate Escrow Bank s remaining assets, return the Industrial Bank Charter under which Escrow Bank has operated since inception, and dissolve Escrow Bank. Until such time as Escrow Bank is dissolved, it remains subject to regulation and periodic examination by the Utah Department of Financial Institutions and must comply with limitations on transactions with affiliates, provisions of the Bank Secrecy Act, the USA PATRIOT Act and Regulations of the Federal Reserve.

Capmark Bank Europe is required to comply with various laws, rules and regulations in Ireland, including capital adequacy requirements, administrative notices implementing European Union Directives relating to business activities carried out by credit institutions and supplementary requirements and standards that are from time to time established by financial regulators. In July 2008, Capmark Bank Europe notified the Irish banking regulatory authority that, in connection with the Company s decision to end proprietary lending in Europe, Capmark Bank Europe is commencing cessation of its banking operations. In connection with the wind-down of banking activities, Capmark Bank Europe will voluntarily surrender its banking license once it has repaid all of its deposits and unwound or transferred to a third party all of the obligations under which it is required to hold a banking license. The Company expects that the process of winding down Capmark Bank Europe s banking activities will be completed and the banking license will be relinquished prior to June 30, 2009. Until it relinquishes its license, Capmark Bank Europe is required to comply with the various laws, rules and regulations in Ireland described above. See Note 27 for disclosure of certain regulatory matters.

Historically, the Company has performed certain lending, real estate investment and servicing activities in Europe and Asia. In 2008, the Company ceased proprietary lending and investing activities in Europe and Asia and focused on managing its existing loan, investment and fee-for-services businesses. Although the Company continued to originate loans for third parties and government sponsored entities, in light of market conditions, the Company also substantially reduced proprietary loan originations and investment activities in North America.

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

2. Risks and Uncertainties

Going Concern

As a result of the adverse conditions in the financial and capital markets and general economic conditions throughout 2008, the Company incurred operating losses due principally to fair value adjustments on its loans held for sale, real estate and investment portfolios and an increase in the provision for loan losses on its portfolio of loans held for investment. The combination of pre-tax operating losses and valuation allowances on the Company s deferred tax assets recognized in the fourth quarter of 2008 has contributed to a significant decline in stockholders equity. As a result, the Company was not in compliance with the leverage ratio covenant in the senior credit facility and bridge loan agreement as of the quarter ended December 31, 2008.

In light of adverse market conditions and the Company s operating results as well as the negative effect on its liquidity from the near-term maturity of its bridge loan, the Company entered into discussions with the lenders under its senior credit facility and bridge loan agreement. These discussions have included negotiating modifications to certain terms of both the senior credit facility and bridge loan agreement. As of April 20, 2009, lenders representing approximately 94% of the outstanding loans under the bridge loan agreement have agreed to extend the maturity date of the bridge loan to May 8, 2009. Additionally, the required lenders under the senior credit facility and the bridge loan agreement have agreed to waive the Company s compliance with the leverage ratio covenant as of the quarters ended December 31, 2008 and March 31, 2009 and the requirement to deliver its annual audited financial statements within 110 days after year end. These waivers are effective through May 8, 2009.

Unless the lenders under the senior credit facility and bridge loan agreement continue to waive or eliminate the leverage ratio covenant beyond May 8, 2009, further extend the maturity of the bridge loan agreement and otherwise restructure the senior credit facility and bridge loan agreement, upon expiration of the waivers the Company will default under these agreements and the required lenders under such agreements can immediately declare all loans due and payable. Any such acceleration of the maturity of the Company s debt obligations would permit its senior noteholders and certain other lenders and contractual counterparties to terminate and/or accelerate the maturity of obligations due under other financing instruments and agreements, including the senior notes. If the lenders, noteholders, and/or other counterparties demand immediate repayment of all of its obligations, the Company would likely be unable to pay all such obligations. In such an event, if the Company has not otherwise been able to recapitalize, refinance, or raise additional liquidity by selling some or all of its assets or through some other form of restructuring, it will have to seek to reorganize under Chapter 11 of the United States Bankruptcy Code. Due to these conditions and events, substantial doubt exists about the Company s ability to continue as a going concern. The Company s management believes that access to capital markets is extremely limited in the current economic environment and it is unlikely that it will be able to access new capital if it is unable to complete the restructuring of the senior credit facility and bridge loan agreement.

The Company plans to continue to negotiate with its lenders to complete a restructuring of its senior credit facility and bridge loan agreement. In addition, the Company is performing a review of all of its businesses, including exploring strategic alternatives for such businesses and implementing significant expense reduction initiatives. The Company has engaged financial advisors to assist with its

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

2. Risks and Uncertainties (Continued)

efforts to manage expenses and evaluate its strategic alternatives. There is no assurance that the Company will be able to restructure its borrowing arrangements on acceptable terms, if any, or obtain further waivers to or elimination of its leverage ratio covenant to adequately reduce the risk of default in the near future.

The Company continues to actively manage its assets and intends to reduce its overall debt while maintaining adequate liquidity to support its operations. Further, the Company s management is focused on maintaining appropriate regulatory capital at Capmark Bank US.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The consolidated financial statements do not include any adjustments to reflect possible future effects on the recoverability and classification of assets, or the amounts of liabilities that may result from the outcome of the Company s discussions with the lenders under the senior credit facility and bridge loan agreement, which would affect its ability to continue as a going concern.

Other Risks and Uncertainties

In addition to the risks discussed above, the Company s primary business risks include: (i) liquidity risk, (ii) credit risk, (iii) interest rate and other market risks, and (iv) operational risk. Management of these risks affects both the level and stability of the Company s earnings.

Liquidity risk is the risk the Company will be unable to preserve stable, reliable, and cost-effective funding sources to meet all near-term and projected long-term financial obligations. The Company s external funding sources have consisted primarily of its unsecured senior notes; committed unsecured funding provided by banks, including a senior credit facility, a bridge loan and other bank loans; committed unsecured debt including junior subordinated debentures; secured funding facilities including repurchase agreements and other secured funding facilities; and other uncommitted funding sources, including certificates of deposit issued by Capmark Bank US and other unsecured funding provided by third-party banks. Factors that are significant to the determination of the Company s credit ratings or otherwise affect its ability to raise financing include the level and volatility of earnings, degree of leverage, relative competitive position, risk management policies, cash liquidity, capital adequacy, ability to retain key personnel, and legal, regulatory and tax developments. In the event that any or all of the Company s credit ratings were downgraded, the ability to raise financing could be adversely affected and the cost of capital could increase significantly. In addition, because amounts of interest that are payable on the Company s borrowings under its senior credit facility and bridge loan are determined by, among other factors, reference to its credit ratings, a credit ratings downgrade could adversely impact the Company s financing costs and results of operations. A credit ratings downgrade could also make it more difficult or costly for the Company to enter into hedging transactions and could possibly increase the amount of collateral that the Company would be required to provide counterparties under its secured contractual obligations. Proceeds from the repayment of loans are also a significant external source of funding for the Company. This funding would be negatively impacted by direct and indirect relationships with borrowers who may default.

The Company s ability to access the capital markets and other sources of secured and unsecured funding, which is critical to the Company s ability to do business, has been and could continue to be adversely affected by recent events in the global markets and economy. Global market and economic conditions have been, and continue to be, disrupted and volatile to an unprecedented extent. The

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

2. Risks and Uncertainties (Continued)

Company s cost and availability of funding have been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Due to widespread concerns about the stability of the markets and the strength of counterparties, many lenders have reduced and, in some cases, ceased to provide funding to borrowers. Further or prolonged disruptions in the global markets and economy may further adversely affect the Company s liquidity and financial condition.

The global market and economic conditions have led to an overall reduction in liquidity in the debt capital markets, including sources of liquidity that the Company utilizes, such as securitizations and other sales of commercial mortgage loans, real estate investments and other assets and unsecured and secured debt financing arrangements. The Company has experienced a decline in the fair value of its loans and real estate-related investments that has caused the Company to hold such loans and investments for a longer period of time or to sell them at lower values than anticipated. This has resulted in an increase in the net losses/decrease in the net gains the Company has realized on the sale of these assets and downward valuation adjustments taken on its loan and investment portfolios.

The Company s primary exposure to credit risk arises from its direct and indirect relationships with borrowers who may default and potentially cause the Company to incur losses if it is unable to collect amounts due through loss mitigation strategies, and from institutional counterparties to the extent they do not fulfill their obligations to the Company under the terms of specific contracts or agreements. Changes in credit risk are evaluated in the context of estimating the allowance for loan losses and in estimating the fair values of investment securities and loans held for sale. Negative trends in the financial position of borrowers, values of collateral underlying loans, and delinquencies and defaults on loans may materially adversely affect the Company s results of operations.

The Company s primary exposure to interest rate and other market risks is associated with its portfolio of loans and investment securities as well as fixed-rate borrowings. Changes in the level of interest rates or changes in yield curves, as well as basis risk resulting from changes in the interest rate spread between different financial instruments, could adversely affect the estimated fair value of the Company s portfolio of loans and investment securities and its net income. Changes in foreign currency exchange rates could also adversely affect the Company s earnings and the value of certain assets and liabilities. As discussed in Note 19, the Company manages interest rate and other market risks through the use of derivative instruments and other risk mitigation strategies. The Company s exposure to market risk is also impacted by the amount of real estate and equity investments which the Company owns directly and indirectly due to the depressed fair values and lessening demand for those types of assets.

The Company continues to monitor market conditions and manages its loan origination and real estate investment activities to adapt to the current environment. These actions have included ceasing proprietary lending activities and emphasizing products with better liquidity and lower funding costs, such as agency and third party originations.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, facilities, human factors or external events such as information technology and organizational structure issues, weaknesses in internal controls, human error, fraud, and external threats in the U.S. and internationally. Primary responsibility for the management of operational risk lies with the Company s business segments and support functions, which are required to maintain controls designed to identify, assess and mitigate operational risks for their existing activities. These controls include the Company s systems and processes that relate to theft and fraud, general business practices, technology, the safeguarding of assets and data security, personnel, customers, financial reporting and external service

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

2. Risks and Uncertainties (Continued)

providers. In addition, the Company has developed and continued to enhance specific policies and procedures that are designed to ensure that transactions are properly approved, processed, recorded, reported, monitored/updated and reconciled on a timely basis and that it has adequate business continuity and disaster recovery plans for critical facilities and resources.

3. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expense. The Company s estimates and assumptions are affected by risks and uncertainties associated with credit exposure and interest rate and market spread volatility. The Company has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, reviewed and applied consistently from period to period. Management bases their estimates on historical corporate and industry experience and various other assumptions they believe are appropriate under the circumstances, including market-based inputs when available. Future changes in credit and market trends and conditions may occur which could cause actual results to differ materially from the estimates used in preparing the accompanying consolidated financial statements. Certain of the Company s critical accounting estimates require higher degrees of judgment and are more complex than others in their application. For all of these estimates, future events rarely develop exactly as forecasted and, therefore, routinely require adjustment.

The Company consolidates all wholly-owned and majority-owned subsidiaries that it controls. In certain cases, economic ownership interests and control do not strictly align and there are other specific consolidation criteria that must be applied under GAAP, and in those cases the Company follows the accounting policies discussed below.

The Company sells assets to and has involvement with special purpose entities, some of which are variable interest entities (VIEs). Under the provisions of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, or FIN 46R, a VIE is consolidated by the entity holding the variable interest that will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. The entity that consolidates a VIE is referred to as the primary beneficiary.

The identification of the primary beneficiary involves a number of assumptions and estimates about the economics of the VIE and the variable interest holders. Where the Company has determined that it does not have a sufficiently large variable interest to be a potential primary beneficiary or that it is the only variable interest holder with a sufficiently large interest, the Company determines the primary beneficiary using a qualitative approach based on the estimated economics of the VIE. Otherwise, the Company uses a quantitative approach, allocating estimated cash flows to each variable interest holder based on seniority of each of the cash flow scenarios that are probability weighted and used to determine the VIE s expected losses and expected residual returns.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

For investment partnerships and similar entities (e.g., limited liability corporations) in which the Company serves as general partner or managing member through one of its subsidiaries, the Company follows the guidance in Emerging Issues Task Force (EITF) Issue No. 04-5, Determining whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners have Certain Rights, or EITF 04-5, to determine whether it needs to consolidate these entities. Generally, if the limited partners or non-managing members of these entities have substantive rights to remove the Company as the general partner or managing member, or to cause the entity to be liquidated, or have other substantive participating rights, the Company does not consolidate these entities. If the limited partners or non-managing members do not have such rights, the Company consolidates the entities.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements of subsidiaries outside the United States of America are generally measured using the local currency as the functional currency. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at period-end exchange rates. Income and expense items of foreign subsidiaries are translated into U.S. dollars at average exchange rates prevailing during the reporting period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income, net of tax, a component of stockholders equity.

Deposits held in a fiduciary capacity, primarily related to Capmark Bank US s trust operations, are not assets or liabilities of the Company and, accordingly, are not included in the Company s consolidated balance sheet.

Business Combination

The Sponsor Transactions were accounted for as a purchase as prescribed by Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, or SFAS No. 141, and the purchase price was pushed down to the Company s consolidated financial statements in accordance with SEC Staff Accounting Bulletin No. 54, Application of Push Down Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase. Accordingly, the purchase price paid by the Sponsors plus related purchase accounting adjustments, have been reflected in the Company s consolidated financial statements as of and for the periods beginning March 23, 2006. This resulted in a new basis of accounting that reflects the estimated fair value of the Company s assets and liabilities, to the extent of the combined 79 percent ownership interest acquired by the Sponsors and Management Stockholders. Because of the continuing residual interest retained by GMAC, its 21 percent ownership interest in the Company s assets and liabilities continued to be reflected at its historical basis. Information for all periods prior to March 23, 2006 is presented using the historical basis of accounting.

As a result of the Sponsor Transactions, the period from January 1, 2006 to March 22, 2006, for which the Company s results of operations and cash flows are presented, is reported as the Predecessor period. The periods beginning March 23, 2006, for which the Company s results of operations, financial position, and cash flows are presented, are reported as Successor periods.

Sale of Operations

In February 2007, the Company sold a majority of its affordable housing debt platform to an unaffiliated buyer for approximately $500 million in cash and the buyer also assumed approximately $700 million of related financing obligations. The Company recognized a pre-tax gain on sale of

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

approximately $65.3 million in the year ended December 31, 2007 and reported the gain as a component of other gains (losses), net in the consolidated statement of operations. At the time of the transaction, the Company retained approximately $300 million of investment securities associated with the affordable housing debt platform that were not included in the sale. The earnings and cash flows of the entire affordable housing debt platform are fully consolidated in the consolidated statement of operations and the consolidated statement of cash flows for the year ended December 31, 2007. The affordable housing debt platform was not classified as a discontinued operation because its operations and cash flows could not be clearly distinguished from the rest of the Company. The affordable housing debt platform was included in the North American Affordable Housing business segment. See Note 26 for segment information.

Significant Accounting Policies and Recently Issued Accounting Standards

Fair Value of Financial Instruments

The Company adopted SFAS No. 157, Fair Value Measurements, or SFAS No. 157, on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and enhances disclosures for fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies are required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. Although the Company accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement, the adoption of this statement did not have a material impact on the method in which the Company determines fair value. See Note 18 for additional disclosures required by SFAS No. 157.

The Company also adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, or SFAS No. 159, on January 1, 2008. SFAS No. 159 permits an entity to irrevocably elect fair value for the initial and subsequent measurement of certain financial assets and financial liabilities on an instrument-by-instrument basis. Subsequent changes in fair value of these instruments are recognized in earnings when they occur. SFAS No. 159 required that the difference between the carrying value and the fair value of financial assets and financial liabilities for which the fair value option was elected be recorded as an adjustment to beginning retained earnings in the period of adoption. Effective January 1, 2008, the Company elected fair value accounting for certain loan assets and deposit liabilities not previously carried at fair value. The after-tax cumulative effect from electing the fair value option for the selected financial instruments decreased retained earnings by $9.8 million on January 1, 2008.

Fair Value Hierarchy

In accordance with SFAS No. 157, the Company categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

As required by SFAS No. 157, financial assets and financial liabilities recorded on the Company s consolidated balance sheet are categorized based on whether the inputs to the valuation techniques are observable or unobservable as follows:

Level 1 financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2 financial assets and financial liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; pricing models whose inputs are observable either directly or indirectly for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow (DCF) methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Determination of Fair Value

Under SFAS No. 157, the Company determines fair value based on 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. It is the Company s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy as described above. For assets and liabilities where there exists limited or no observable market data, fair value measurements are based primarily upon management s own estimates, and are calculated based upon the Company s pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the fair value amounts may not be realized in an actual sale or immediate settlement of the asset or liability.

Following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, including those accounted for at fair value prior to the adoption of SFAS No. 159, as well as the general classification of such instruments pursuant to the three-level fair value hierarchy.

Investment Securities

Investment securities classified as trading and available for sale are carried at fair value. Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities. If quoted market prices are not available, then investment securities are classified as Level 2 and fair values are estimated by using pricing models, quoted prices of securities

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

with similar characteristics or DCFs. Examples of instruments which would generally be classified within Level 2 of the valuation hierarchy include certain CMBS, ABS, CDOs and GSE securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain residual interests in securitizations and CDOs, tax-exempt securities, certain Japanese bonds (TMK securities) and other less liquid investment securities. The Company estimates the fair value of residual interests in securitizations based on a DCF analysis. See Note 16 for the assumptions used in the estimation of value of residual interests in securitizations. The Company estimates the fair value of tax-exempt securities in inactive markets using inputs from third-party pricing providers for similar securities and makes qualitative adjustments based on current market conditions. The fair value of TMK securities is estimated based on a DCF analysis using spreads and discount rates the Company believes market participants would use given the current market conditions as well as qualitative adjustments for internal risk ratings, anticipated credit losses and collateral values.

Loans Held for Sale

Loans held for sale consist of domestic and international, fixed and floating rate loans that are secured by commercial and multifamily real estate properties. Loans are typically classified as held for sale at the time of origination when the Company does not intend to hold the loan for the foreseeable future or until maturity or payoff. These loans remain classified as held for sale unless a change occurs in the Company s ability or intent to hold such loans for the foreseeable future or until maturity or payoff. The Company regularly reviews the appropriateness of its loan classifications based on a number of factors, including market demand for the Company s loan products, liquidity needs and corporate objectives.

In connection with the adoption of SFAS No. 159, the Company elected to account for its loans held for sale at fair value. This election allows the offsetting of the changes in fair value of the loans and the derivative instruments used to economically hedge such loans without the administrative burden of complying with the requirements for hedge accounting under SFAS No. 133. The fair values of the Company s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including updated securitization spreads where appropriate and when available, interest rates, whole loan spreads for each property type based on loan-to-value ratios of collateral and other factors, and bids or indications provided by market participants on specific loans that are actively marketed for sale. In addition, the impact of potential extensions, interest-rate floors and unfunded commitments on the Company s floating rate loan portfolio are taken into consideration when determining the fair value for each loan. The Company also considers changes in borrowers credit status and the fair value of collateral in estimating the fair value of certain loans. Although the Company bases its loan valuations on historical and actual observable inputs to the extent possible, the valuations typically require significant judgment and therefore are estimates. Changes in market conditions, borrower credit-worthiness and collateral values between the dates of management s estimates and the dates of disposition of the loans can have a significant impact on the amounts ultimately realized upon disposition. The Company s loans held for sale are classified within Level 2 or Level 3 of the valuation hierarchy.

As of December 31, 2008, loans held for sale for which the fair value option was elected had an aggregate fair value of $3.9 billion and an aggregate unpaid principal balance of $4.8 billion. Interest income on these loans continues to be recorded as a component of interest income in the consolidated statement of operations. Net realized and unrealized losses of $1.0 billion resulting from the changes in

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

fair value of loans held for sale for which the fair value option was elected were recorded during the year ended December 31, 2008, and reported as a component of net (losses) gains on loans in the consolidated statement of operations. In connection with the adoption of SFAS No. 159, the Company no longer defers recognition of placement fees and direct loan origination costs with respect to its loans held for sale because such loans are carried at fair value. Previously, placement fees and direct loan origination costs were deferred as part of the carrying value of the loans and recognized as a component of the net gain or loss on sale of such loans.

Prior to the adoption of SFAS No. 159, for valuation purposes the loans held for sale portfolio was divided into nine distinct pools, based upon geographic location, loan type (fixed or floating rate), and exit strategy. These pools were consistent with the guidance in SFAS No. 65, Accounting for Certain Mortgage Banking Activities. which required that the fair value of a loan should be determined by type of loan, and specifies that either the aggregate or individual loan basis may be used in determining the lower of cost or fair value for each type of loan. The Company utilized the aggregate basis within each of its nine pools. A current fair value for each individual loan was determined with emphasis that the fair value of an asset was a market-based measurement which was determined based upon the assumptions that market participants would use in pricing the loan. The Company accounted for its loans held for sale at the lower of amortized cost or estimated fair value taking into consideration the aggregate value of each of the nine pools. Therefore, the Company s operating results were negatively affected by changes in the fair value if one or more of its loan pools were valued lower than amortized cost.

Interest income on loans held for sale is recorded on an accrual basis. Interest income is accrued until the loans become 90 days contractually delinquent at which time accrued but uncollected interest is reversed against interest income.

Derivative Instruments

Derivative instruments are carried at fair value. Exchange-traded derivative instruments that are valued using quoted market prices are classified within Level 1 of the valuation hierarchy. However, the majority of the Company s derivative instruments are not exchange-traded and are valued using internally developed models that use readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. Such derivatives may include unfunded fixed-rate loan commitments.

Deposit Liabilities Brokered CDs

Upon the adoption of SFAS No. 159, the Company elected to account for all brokered certificates of deposit (Brokered CDs) at fair value. Beginning October 1, 2008, the Company elected to account for newly issued Brokered CDs with original maturities greater than one year at amortized cost and simultaneously enter into interest rate swaps to hedge the deposit liabilities against changes in fair value due to changes in the benchmark interest rate. The Company continues to account for Brokered CDs issued with original maturities of one year or less at fair value. To estimate the fair value of Brokered CDs, cash flows are evaluated taking into consideration any embedded derivative features and then are discounted using the appropriate market rates for the applicable maturities. Brokered CDs are classified within Level 2 of the valuation hierarchy because the valuation inputs are primarily based on readily observable pricing information.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The fair value option for Brokered CDs allows the offsetting of the changes in fair value of the Brokered CDs and the derivative instruments used to economically hedge such deposits. Interest expense on these Brokered CDs continues to be recorded as a component of interest expense in the consolidated statement of operations. Net losses of $105.7 million resulting from the changes in fair value of these deposits were recorded during the year ended December 31, 2008, and reported as a component of other gains (losses), net in the consolidated statement of operations. In connection with the adoption of SFAS No. 159, the Company ceased deferring recognition of issuance costs with respect to its Brokered CDs because such deposits are carried at fair value. Previously, issuance costs were deferred and recognized as a component of interest expense over the term of such deposits. Beginning October 1, 2008, the Company accounts for newly issued Brokered CDs with original maturities greater than one year at amortized cost. Related issuance costs for such long-term Brokered CDs are deferred and recognized as a component of interest expense over the term of such deposits.

Loan Sales and Securitizations

The Company periodically enters into transactions in which it sells financial assets, principally commercial mortgage loans. Upon a transfer of financial assets, the Company sometimes retains or acquires subordinated interests in the related assets. In addition, the Company generally retains servicing rights for all mortgage loans sold or securitized.

Gains and losses on such transactions are recognized according to the guidance in SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125 as amended by SFAS No. 156, Accounting for Servicing of Financial Assets, or together, SFAS No. 140, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

The gain or loss on sale is determined by allocating the carrying value of the underlying mortgage loans between securities or loans sold and the interests retained, including mortgage servicing rights, based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. Whether the Company records a gain or loss on sale depends, in part, on the carrying value of the financial assets involved in the transfer, allocated between the assets sold and the interests retained based on their fair values at the date of transfer.

Due to recent market developments summarized in Note 2, the volume and pricing of loan sales and securitizations declined significantly in 2008, which resulted in the Company incurring realized losses compared to historical recognition of realized gains. Realization of gains or losses on future sales is heavily dependent on the extent and timing of recovery of the markets for commercial mortgage products and changes in other market factors.

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

The allowance for loan losses provides for the risk of losses inherent in the Company s portfolio of loans held for investment. A portion of the allowance for loan losses is used to cover estimated losses on loans that have been specifically identified as being impaired.

In accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15, or SFAS No. 114, impaired loans typically consist of those loans for which it is probable the Company will not be able to collect all contractual principal and interest amounts due. An impaired loan is generally valued based on the estimated fair value of the underlying collateral and includes estimated costs of selling or realizing such collateral on a discounted basis. In addition to specific allowances for impaired loans, the Company also maintains allowances that are based upon a collective evaluation of the non-impaired portion of the portfolio as a whole and estimates such losses in accordance with SFAS No. 5, Accounting for Contingencies, or SFAS No. 5. This analysis considers the Company s past loan loss experience, the current credit composition of the total portfolio, historical credit migration, property type diversification, default and loss severity statistics, and other relevant factors.

The Company utilizes a risk-rating process for measuring credit exposure that combines quantitative analysis and qualitative judgment in order to measure potential loan losses. The Company initially allocates a quantitative risk rating to a loan based on modeling, or other objective, fact-based credit criteria that consider key financial data, such as a loan s debt service coverage ratio, loan-to-value ratio and time to maturity, and collateral characteristics, such as a property s location, type and occupancy. The Company subsequently adjusts its initial quantitative rating based on our assessment of qualitative factors, such as quality of sponsorship, financial reporting, quality and stability of cash flows, loan structure, loan documentation and the loan s performance relative to underwriting.

The allowance for loan losses is increased as necessary by recording a charge to the provision for loan losses in the consolidated statement of operations. Amounts deemed to be uncollectible are charged against the allowance for loan losses. Amounts recovered on previously charged-off loans are added back to the allowance for loan losses.

Uncertainties about the economies in the Company s primary market areas, including the United States, increase uncertainty about management s estimates of the allowance for loan losses. Increases in unemployment and/or low employment, decreases in corporate profits and adverse trends in other key economic indicators may correlate with increasing loan delinquencies and other factors affecting the timing and amounts the Company ultimately realizes on its portfolio of loans held for investment.

Income Recognition and Impairments Relating to Acquired Non-Performing Loans

The Company has acquired non-performing loans, primarily in Asia, with a strategy of restructuring the loans or entering into workouts with borrowers, which may include foreclosure. These loans were typically purchased at a substantial discount to par, reflecting the Company s determination that it is probable all amounts due under the loans governing instruments may not be collected. These loans are accounted for in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, or SOP 03-3. Under SOP 03-3, the excess of the estimated undiscounted principal, interest and other cash flows expected to be collected over the initial investment in the acquired asset is accreted into interest income over the expected life of the asset. These loans are classified as held for investment in the consolidated balance sheet.

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The amount of accretion for such loans or pools of loans is adjusted when there is an increase or decrease in the expected cash flows. Further, the Company assesses impairment on such loans or pools of loans for which there has been a decrease in expected cash flows in accordance with SOP 03-3 and SFAS No. 114. Impairment is measured based on the present value of the expected cash flows from the loan discounted using the loan s effective interest rate or, in specific circumstances, through the estimated fair value of the underlying collateral minus the estimated costs of selling or realizing the underlying collateral. Impairment is recognized as a charge to the provision for loan losses in the consolidated statement of operations.

Derivative Instruments and Hedging Activities

The Company uses derivative instruments in connection with its risk management and investment activities. The Company s primary objective in utilizing derivative instruments is to minimize market risk volatility associated with interest rate and foreign currency risks related to the assets and liabilities of the Company. Minimizing this volatility enables the Company to mitigate the impact of market risk on earnings. Additionally, the Company uses interest rate swaps to more closely match interest rate characteristics of its interest-bearing liabilities with its interest-earning assets. The Company also utilizes derivative instruments to mitigate foreign currency exposure related to foreign currency denominated transactions and its net investments in foreign operations. At times, the Company uses derivative instruments in lieu of cash transactions for investment purposes.

The derivative instruments that the Company has used include swaps, caps, forwards, options, swaptions, spread locks, loan commitments, credit derivatives and treasury-related derivative instruments. These instruments may be exchange-traded or contracted in the over-the-counter market.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS No. 133, as amended and interpreted, among other pronouncements, by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133, or SFAS No. 138, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, or SFAS No. 149, the Company records derivative instruments at estimated fair value on its consolidated balance sheet. Gains and losses resulting from changes in the estimated fair value of such instruments are accounted for depending on whether or not they qualify for hedge accounting.

The Company formally documents its risk management objective and strategy for undertaking various hedge transactions. For transactions that qualify for hedge accounting, this process includes linking the derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets, or pools of similar assets, and specific liabilities in the consolidated balance sheet or to forecasted transactions.

Each designated hedging relationship is expected to be highly effective in offsetting the designated risk during the hedge period. The Company formally assesses, both at inception and on an ongoing basis, whether the derivative instruments used in hedging transactions are highly effective in offsetting changes in estimated fair values or cash flows of the hedged items.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the estimated fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; or (3) the derivative is no longer designated as a hedge instrument because: a) it is unlikely that a forecasted transaction will occur; b) a hedged firm commitment no longer meets the definition of a firm commitment; or c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried in the consolidated balance sheet at its estimated fair value. The hedged asset or liability, if not normally carried at estimated fair value, will no longer be adjusted for changes in estimated fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the derivative will continue to be carried in the consolidated balance sheet at its estimated fair value and any asset or liability that was recorded pursuant to recognition of the firm commitment will be removed from the consolidated balance sheet and recognized as a gain or loss in current period earnings. When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be carried in the consolidated balance sheet at its estimated fair value and gains and losses that were recorded in accumulated other comprehensive income, net of tax, will be recognized immediately in current period earnings. In all situations in which hedge accounting is discontinued, the derivative will be carried at its estimated fair value in the consolidated balance sheet with changes in its estimated fair value recognized in current period earnings.

Classification, Valuation, and Impairment of Investment Securities Including Retained Interests in Securitized Assets

When the Company securitizes mortgage loans in transactions accounted for as a sale in accordance with SFAS No. 140, it may retain an interest in the assets sold. These retained interests may take the form of interest-only, investment grade, subordinate, or unrated securities. The subordinate interests that the Company retains provide a form of credit enhancement for the more highly-rated securities.

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, or SFAS No. 115, the classification of investment securities is based on management s intent with respect to those securities. Investment securities classified as trading are carried at estimated fair value with unrealized gains and losses recognized in current period earnings. Investment securities classified as available for sale are carried at estimated fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, net of tax, which is a component of stockholders equity. Realized gains and losses on the sale of investment securities are determined using the specific identification method and recognized in current period earnings. Interest income is recorded using the interest method which is reviewed and adjusted periodically based on changes in estimated cash flows.

Investment securities classified as available for sale are periodically reviewed for potential impairment in accordance with EITF 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets, or EITF 99-20, and FASB Staff Position (FSP) No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20, or FSP EITF 99-20-1, or

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

EITF 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, or EITF 03-1, and FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, or FSP FAS 115-1 and FAS 124-1, depending on the nature of the security. Impairment is measured using a systematic methodology intended to consider all available evidence. If the carrying value of an investment security exceeds its estimated fair value, the Company evaluates, among other factors, the magnitude and duration of the decline in estimated fair value, the performance of the underlying assets, and the Company s intent and ability to hold the asset until its value recovers. Once a decline in estimated fair value is determined to be other-than-temporary, an impairment charge is recorded in the Company s consolidated statement of operations and a new cost basis is established.

Valuation and Impairment of Mortgage Servicing Rights

In accordance with SFAS No. 140, the Company capitalizes originated mortgage servicing rights based upon their fair value when the related loans are sold. Purchased mortgage servicing rights are recorded at their cost at the time of acquisition, which approximates the fair value of such assets. Subsequent to origination or acquisition, mortgage servicing rights (MSRs) are carried at the lower of amortized cost or estimated fair value. Amortization expense is recorded for each stratum, as discussed below, in proportion to, and over the period of, the projected net servicing cash flows.

MSRs do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, precise terms and conditions vary with each transaction and are not readily available. Accordingly, the Company estimates the fair value of MSRs using DCF models that calculate the present value of estimated future net servicing income. These models consider and incorporate portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company periodically reassesses and adjusts the underlying inputs and assumptions used in the models to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. Generally, valuations of servicing rights for commercial mortgages are less sensitive to change than valuations of servicing rights for residential mortgages, due to lower levels of prepayments and other factors.

MSRs are evaluated for impairment by stratifying the portfolio according to predominant risk characteristics, primarily investor and loan type (e.g., CMBS, agency Fannie Mae s DUS program, agency non-Fannie Mae s DUS program and other). To the extent that the carrying value of an individual stratum exceeds its estimated fair value, the MSR asset is considered to be impaired. Impairment that is considered to be temporary is recognized through the establishment of a valuation allowance, with a corresponding charge to earnings in the period that the impairment is determined to have occurred. If the impairment is determined to be other-than-temporary, the valuation allowance is reduced along with the carrying value of the MSR. Declines in the value of MSRs are most likely to occur in circumstances when both interest rates are declining and commercial real estate credit markets are competitive, or when defaults on underlying loans increase.

Gains and losses on sales of MSRs are recognized when the related sales contracts have been executed and legal title and substantially all risks and rewards of ownership of the servicing rights have passed to the buyer. Gains and losses are determined as the difference between the net sales proceeds received and the carrying value of the servicing rights sold less costs to sell.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Liability for Low-Income Housing Tax Credit Guarantees

The Company syndicated limited partnership interests in affordable housing partnerships. These investments were in the form of limited partner ownership interests that were pooled into funds (upper-tier funds). These funds held limited partner ownership interests in various operating partnerships that develop, own, and operate affordable housing properties throughout the United States. In certain upper-tier funds, the Company has guaranteed a specified rate of return to the investors. Returns to investors in the partnerships are principally derived from flow-through low-income housing tax credits and tax losses generated by underlying operating partnership entities (lower-tier partnerships).

Syndicated affordable housing partnerships that contain a guarantee are reflected in the Company s consolidated financial statements under the financing method in accordance with SFAS No. 66, Accounting for Sales of Real Estate, or SFAS No. 66. More specifically, cash, cash equivalents, restricted cash and equity investments (in the underlying operating partnership entities) of the guaranteed syndicated real estate partnerships are included in the Company s consolidated balance sheet. Liabilities of the guaranteed syndicated real estate partnerships consist primarily of a financing liability, initially equal to the amount of equity contributed by each investor, payable to each tax credit fund investor. The financing liability, included as a component of real estate syndication proceeds and related liabilities in the consolidated balance sheet, is extinguished over the life of the guaranteed syndicated real estate partnerships as annual tax benefits guaranteed to each investor are delivered.

Returns to investors in the partnerships are principally derived from flow-through low-income housing tax credits and tax losses generated by underlying operating partnership entities. The Company is exposed to losses based on its limited partnership interests and to the investors in the guaranteed syndicated real estate partnerships for a specific guaranteed rate of return. The loss exposure represents the potential under-delivery of income tax benefits by the syndicated real estate partnership to the investors. In the event of a shortfall in the delivery of tax benefits to the investors, the Company is required to make cash payments to the investors of the syndicated affordable housing partnerships.

Costs associated with maintaining the guaranteed yield are quantified initially, and then subsequently evaluated on a quarterly basis, in order to ensure that the recorded liability for each guaranteed tax credit fund is sufficient to cover repayment of principal plus the guaranteed yield to the investors. When deficiencies are identified for a tax credit fund, the liability is increased to cover the shortfall associated with that tax credit fund. The loss contingency policy is governed by SFAS No. 5, which requires establishment of a liability for losses when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The SFAS No. 5 liability is reduced as payments are made to settle it. When the Company applied push down accounting on March 23, 2006 as a result of the Sponsor Transactions, the Company recorded an estimate of the fair value of the guarantees, which was in excess of the liability determined under SFAS No. 5. The Company amortizes that excess using a systematic and rational method, which approximates straight-line over the period of delivery of the tax benefits to investors, except that amortization of the liability for a particular fund may be accelerated when certain events occur and result in partial settlement of the guarantee, such as the sale of a lower-tier partnership and related settlement with the guaranteed investors.

The estimate of the fair value of the aforementioned guarantee liability recorded in push down accounting, and periodic estimates of SFAS No. 5 liabilities described above, involve significant

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

estimates with varying degrees of uncertainty. Amounts ultimately realized as income by the Company as the liability for real estate syndication proceeds and related liabilities is reduced are uncertain as to timing, and the total amount realized over time depends on the operating performance of the lower-tier partnerships and the ability of the upper-tier funds to deliver tax credits and, in some cases, guaranteed yields, to investors. The Company has not originated any new lower-tier partnerships since 2005, and the remaining expected lives of the upper-tier funds vary from one to 14 years.

Accounting for Income Taxes

Prior to the Sponsor Transactions, the Company had operated within the General Motors Corporation (GM)-controlled tax group under the principles of a tax-sharing arrangement. Under this arrangement, the Company was generally treated as a standalone taxpayer, except with regard to foreign tax credits and net operating losses. The Company would receive credit for such attributes only if the GM group as a whole could utilize such benefits.

Upon the closing of the Sponsor Transactions, the Company became deconsolidated from the GM-controlled tax group. Therefore, the Company is no longer an eligible member of the GM consolidated tax return for any periods after the date of the Sponsor Transactions. Thus, the Company is now liable for worldwide taxes based solely on its consolidated operations as a standalone taxpayer. Moreover, based on applicable tax rules, certain tax attributes represented by net operating losses and foreign tax credits were specifically allocated by GM to the Company in respect to an intercompany receivable due from GM. These amounts were reclassified as deferred tax assets in the consolidated balance sheet as of the Sponsor Transactions date.

The Company accounts for income taxes under the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes, as amended, or SFAS No. 109. On January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48, which clarifies SFAS No. 109 by defining the confidence level that an income tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effects of a position to be recognized only if it is more-likely-than-not to be sustained solely on its technical merits. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the tax position are to be recognized.

As a result of adopting FIN 48, management reviewed the income tax positions it has recorded in the application of push down accounting and has evaluated the impact of EITF 93-7, Uncertainties Related to Income Taxes in a Purchase Business Combination, or EITF 93-7, as it relates to income tax exposures related to periods prior to the Sponsor Transactions. Under the guidance of EITF 93-7, the Company recorded the impact of adopting FIN 48 on its Predecessor period tax liabilities as an increase to goodwill in the consolidated balance sheet. For its Successor period tax liabilities, the Company recorded the impact of adopting FIN 48 as a cumulative effect adjustment to retained earnings in the consolidated balance sheet. Adjustments to tax liabilities subsequent to the adoption of FIN 48 (e.g., through actual or effective settlement) are recorded through income tax expense or through additional adjustments to goodwill depending on whether the liabilities arose from transactions prior to or after the Sponsor Transactions. The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. See Note 15 for the impact of adopting FIN 48 on the Company s consolidated financial statements.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The Company recognizes tax credits (net of any expected recapture) from its investments in un-syndicated low-income housing tax credit, or LIHTC limited partnership interests and retained interests in syndicated LIHTC partnerships as an investor to the extent they are delivered to a lower-tier LIHTC partnership and reflected on its income tax return. These tax credits are recognized as a reduction to income tax expense in the Company s consolidated statement of operations.

The Company establishes valuation allowances for its deferred tax assets based on a more-likely-than-not threshold. The Company s ability to realize its deferred tax assets depends on its ability to generate sufficient taxable income within the carryback or carryforward periods provided for by law within each applicable tax jurisdiction. Management evaluates all positive and negative evidence, including scheduled reversals of existing deferred tax liabilities, projected future taxable income and tax planning strategies. Management also considers the nature, frequency and severity of recent losses and the duration of statutory carryforward periods. In making such judgments, significant weight is given to evidence that can be objectively verified. Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years.

If the Company generates future taxable income in jurisdictions where it has recorded full valuation allowances, on a sustained basis, management s conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If the Company s operations generate taxable income prior to reaching profitability on a sustained basis, the Company would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing management s conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.

The valuation of deferred tax assets requires significant judgment. The Company s accounting for deferred tax consequences of events that have been recognized in its financial statements and its future taxable income represent management s best estimate of those future events.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash in banks and in overnight investments. The Company also considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents are reported at cost, which approximates fair value. Restricted cash represents cash that is restricted as to withdrawal or usage and includes amounts required to be maintained in escrow under certain of the Company s debt obligations, amounts required to meet certain regulatory liquidity ratios, and cash held by the Company s consolidated low-income housing tax credit funds that is required to be held in accordance with third-party investor agreements.

Loans Held for Investment

Loans held for investment include domestic and international, fixed and floating rate loans secured by real estate which are not expected to be sold, and construction loans for multifamily projects, affordable housing projects and commercial buildings. Such loans are carried at amortized cost, net of deferred origination fees, costs and any associated premiums or discounts, less an allowance for loan losses. The Company believes it has the intent and ability to hold these loans for the foreseeable future or until their maturity or payoff.

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CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Interest income on loans held for investment is accrued as earned. Interest income is generally accrued until the loans become 90 days contractually delinquent at which time accrued but uncollected interest is reversed against interest income and interest income is subsequently recorded when collected. Loans return to an accrual status when principal and interest become current and are anticipated to be fully collected. Loan origination fees and costs are deferred and recognized as yield adjustments over the life of the related loan pursuant to SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17 or SFAS No. 91.

Real Estate Investments

Real estate investments include real estate held for sale, held for investment and acquired through foreclosure. Real estate held for sale consists primarily of domestic and international real estate assets that are expected to be disposed of by sale within one year. The designation and carrying value of such assets are determined in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as amended, or SFAS No. 144. Real estate held for sale is carried at the lower of cost, including impairments, or estimated fair value less costs to sell and is not depreciated. Real estate held for investment consists primarily of office buildings, hotels, retail and distribution centers, vacant land and parking lots. In addition, real estate held for investment consists of real estate owned by general partnerships that operate domestic affordable housing projects where the Company is the general partner or has consolidated the affordable housing projects when it has been determined the Company is the primary beneficiary of the partnerships under FIN 46R. Real estate held for investment is carried at cost less accumulated depreciation and is periodically reviewed for impairment in accordance with SFAS No. 144. Real estate acquired through foreclosure is initially recorded at estimated fair value less costs to sell and subsequently carried at the lower of cost or estimated fair value less costs to sell and any related valuation allowances.

Equity Investments

The Company acquires and holds non-marketable equity positions in certain real estate projects. Such equity positions are in the form of limited partnership and limited liability company investments and are accounted for under the equity method. The Company also holds non-marketable equity investments in commercial mortgage-backed securities (CMBS), mezzanine debt and real estate investment funds accounted for under the equity method. The investments made by certain of these funds are carried by the funds at estimated fair value and, accordingly, the Company s equity in the earnings of the investees includes both net investment income and net realized and unrealized gains and losses. Valuations of the underlying investments in such funds are subject to many of the same risks and uncertainties affecting the valuations of the Company s directly-owned loans and investment securities, and the Company s operating results are affected to the extent of its equity interests in such funds.

The Company also holds non-marketable equity investments in entities that invest in pools of performing and non-performing commercial loans and real estate assets, including non-performing

CAPMARK FINANCIAL GROUP INC.

Notes to Consolidated Financial Statements (Continued)

3. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

commercial and mortgage loans. Non-performing investments are purchased at discounts to par at a market yield that is commensurate with the related risk. Resolutions are typically accomplished through sale of the underlying collateral, discounted payoff, debt restructuring or foreclosure. Income is recognized as earned based on the Company s participation interest in the underlying equity method investment.

Non-marketable equity investments that are not carried at fair value, as described above, are reviewed for impairment. In evaluating whether a decline in value of an equity investment is other-than-temporary, the Company evaluates the investee s ability to generate and sustain an earnings capacity that would support the carrying value of the investment, as well as the Company s ability and intent to hold the investment until the decline in value is recovered. When it is determined that an other-than-temporary impairment has occurred, the Company records a charge for the difference between the investment s carrying value and its fair value.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the estimated fair value of identifiable assets and liabilities acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142, goodwill is reviewed for impairment at the reporting unit level and is not amortized. A reporting unit is an operating segment or one level below an operating segment as that term is defined in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, or SFAS No. 131. The Company reviews goodwill for impairment annually in the fourth quarter. The Company may also review goodwill for impairment more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recorded to the extent that the carrying value of goodwill exceeds its implied fair value, which is determined based on a DCF analysis.

Intangible Assets

The Company holds intangible assets which primarily consist of customer relationships and contracts. These intangible assets were initially recorded at estimated fair value. In accordance with SFAS No. 142, these intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 14 years. The Comp