

Form ADV Part 2A: Firm Brochure

AP COMMERCIAL LLC

4445 Willard Avenue, Suite 1100
Chevy Chase, Maryland 20815

Contact: (301) 232-5400

www.alliancepartners.com

March 20, 2013

Alliance Partners Loan Program

This Brochure provides information about the qualifications and business practices of AP Commercial LLC (“AP Commercial”).

This Brochure relates to advisory services provided by AP Commercial to its clients that participate in the Loan Program (as further described herein) managed by AP Commercial. In the future, AP Commercial may expand its offerings of advisory services beyond the Loan Program. As appropriate, such advisory services will be described in an amendment to this Brochure and/or one or more separate Brochures. AP Commercial is making this annual filing in order to update certain information contained in the Brochure dated as of July 20, 2012.

If you have any questions about the contents of this Brochure, please contact us at (301) 232-5400. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

AP Commercial is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about AP Commercial also is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

AP Commercial was formed in 2011. It filed an initial Form ADV, including its initial Brochure, with the SEC on May 23, 2011 and, more recently, an annual update to its Form ADV on March 30, 2012 and an interim filing on July 20, 2012.

AP Commercial began its advisory activities in June 2011. These activities have consisted to date of providing advisory services to AP Commercial's clients that participate in the Loan Program (as further described herein) as Members of BancAlliance Inc. These are the services that the initial Brochure described AP Commercial as expecting to provide.

The amendments to the Brochure include, without limitation, the following information in Items 4, 5, 7, 8, 11, 15 and 17 (capitalized terms used in this Item 2 without definition have the meanings set forth elsewhere in this Brochure):

- AP Commercial is modifying the Brochure to reflect the specific manner in which clients participate in the Loan Program. Specifically, AP Commercial's initial clients participated in the Loan Program as Members of BancAlliance Inc. While the majority of AP Commercial client's continue to participate as Members, AP Commercial may from time to time enter into an investment advisory relationship with one or more new clients that participate in the Loan Program but are not Members or that receive advisory services other than through participation in the Loan Program.
- AP Commercial is clarifying the manner in which opportunities to acquire assets, whether pursuant to the Loan Program or otherwise, are allocated among various clients, *i.e.*, that such opportunities will be made available on a "side-by-side" basis among both Members and Non-Member clients.
- The Advisory and Services Agreement with respect to Member participants in the Loan Program, to which AP Commercial is a party, was recently amended, with respect to Members by vote of the Board of Directors of BancAlliance, to limit the obligation of Members to pay costs and expenses associated with certain litigation and indemnification claims in any one calendar year to \$25,000.
- AP Commercial is executing, and is causing BancAlliance to execute loan originations and acquisitions in a manner that does not result in AP Commercial having custody of advisory client assets.

In the future, this Item 2 will discuss specific material changes that are made to this Brochure and provide clients with a summary of such changes. AP Commercial will provide clients with a summary of any material changes to this and subsequent Brochures within 90 days of the close of AP Commercial's fiscal year-end. AP Commercial may provide additional interim disclosure about material changes, if and as warranted.

ITEM 3: TABLE OF CONTENTS

<u>Item Number</u>	<u>Item Name</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	4
5	Fees and Compensation	9
6	Performance-Based Fees and Side-by-Side Management	11
7	Types of Clients	11
8	Methods of Analysis, Investment Strategies and Risk of Loss	12
9	Disciplinary Information	21
10	Other Financial Industry Activities and Affiliations	21
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	23
12	Brokerage Practices	27
13	Review of Accounts	28
14	Client Referrals and Other Compensation	28
15	Custody	29
16	Investment Discretion	29
17	Voting Client Securities	29
18	Financial Information	31

ITEM 4: ADVISORY BUSINESS

This Brochure describes the advisory business of AP Commercial as it relates to AP Commercial's provision of services to clients that participate in the Loan Program managed by AP Commercial.

A. General Description of Advisory Firm

AP Commercial is a Delaware limited liability company that was organized in 2011. AP Commercial's principal owner is Alliance Partners LLC. Alliance Partners LLC has engaged in its business since May 2011

B. Advisory Services

Introduction

AP Commercial's current advisory clients include FDIC-insured depository institutions (or holding companies of such institutions). To date, the majority of AP Commercial's clients become parties ("Members") to the membership agreement (the "Membership Agreement") of BancAlliance, a Maryland non-stock corporation. Members include community and regional banks in the United States or their holding companies.

AP Commercial from time to time may accept advisory clients which do not become Members of BancAlliance (collectively, the "Non-Member Clients").

AP Commercial makes available to its clients a program (the "Loan Program") under which clients have the opportunity to acquire participations, assignments or other interests (collectively, "Loan Participations") in loans, capital leases, pools of such loans or leases, and comparable financial instruments ("Loans") that AP Commercial believes meet both its loan eligibility criteria and the eligibility requirements adopted from time to time by its clients (including such criteria adopted by the Board of Directors of BancAlliance on behalf of Member clients as a whole) (collectively, the "Loan Eligibility Criteria").

AP Commercial generally provides advisory services to its clients on a non-discretionary basis. This means that each client decides whether or not to purchase for its portfolio any asset referred to it for consideration by AP Commercial. AP Commercial, as these clients' investment adviser, has no authority to cause a client to acquire or dispose of any asset.

AP Commercial has primary responsibility for administering the Loan Program. As further described below, AP Commercial provides certain advisory and administrative services to its clients (and, with respect to Members, certain administrative services to BancAlliance). Such services are provided to Members pursuant to an advisory and services agreement (the "Advisory and Services Agreement") between AP Commercial and each Member. AP Commercial may enter into separate advisory agreements with Non-Member clients.

The Loan Program is the initial advisory services offered to clients. AP Commercial may from time to time expand its activities to offer additional programs for clients, such as providing opportunities to acquire interests in financial assets other than Loans. AP Commercial may also in the future provide advisory services on a discretionary basis in contrast to its current non-

discretionary services. It is expected that AP Commercial also would provide advisory services to clients in connection with such modifications or additional programs and that the relevant legal agreements, including the Advisory and Services Agreement, would be amended accordingly to encompass any such services.

As appropriate, the services AP Commercial offers to any such other clients will be described in an amendment to this Brochure and/or one or more separate Brochures.

Purpose and Structure of the Loan Program

Purpose

AP Commercial has established the Loan Program to provide clients with opportunities to purchase Loan Participations to which the clients, due to their size, staffing or other factors, typically would not otherwise have access. It is intended that Loans will generally be commercial and consumer loans and capital leases, either originated or acquired by BancAlliance or AP Commercial (or an affiliate thereof) on behalf of its clients. The Loans acquired on the secondary market generally will be acquired at par or near-par value. The Loan Program is designed to enable clients to supplement and diversify their historical lending activities; accordingly, clients are generally expected to hold their acquired Loan Participations until maturity or repayment of the underlying Loans.

Role of AP Commercial

Under the Advisory and Services Agreement, AP Commercial identifies, reviews and, in appropriate cases refers to the clients, opportunities to acquire Loan Participations with respect to Loans that AP Commercial believes initially satisfy the Loan Eligibility Criteria. If a client acquires a Loan Participation, AP Commercial will provide ongoing services to the client regarding the Loan Participation and the underlying Loan. The services provided by AP Commercial to clients in connection with the Loan Program are described in greater detail below in this Item 4.B.

Loan Eligibility Criteria and Sourcing

Any Loan opportunity referred to clients is expected to meet the then-applicable Loan Eligibility Criteria. A Loan opportunity will generally be referred to clients only after being preliminarily approved by the credit committee of AP Commercial.

AP Commercial (or an affiliate) intends to originate Loans or to acquire Loans in the primary and secondary markets. AP Commercial generally expects to have lender-of-record status with respect to any Loan that it acquires or originates, either through an affiliate or through a Lending Entity (defined below).

Client Acquisition of Loan Participations

A client interested in acquiring a Loan Participation in a particular Loan will be required to make a binding commitment to acquire such Loan Participation based on procedures established by AP Commercial from time to time. These commitment procedures may entail each interested client

providing AP Commercial with a range of possible allocation sizes that the client is willing to accept.

If, in the judgment of AP Commercial, sufficient demand for a Loan exists, AP Commercial (acting on behalf of clients or itself) may arrange for the collection of the applicable funding or purchase amounts from the clients, coordinate the Loan purchase documentation and arrange for the origination or acquisition of the Loan. AP Commercial (or an affiliate thereof) may also originate or acquire Loans prior to receiving binding commitments or nonbinding indications of interest from clients. In addition, AP Commercial (or an affiliate thereof) may make available for purchase by clients Loan Participations in Loans it holds that were originally originated or acquired for purposes of distribution to clients. In such situations, the Loan may initially be originated or acquired by AP Commercial (or an affiliate thereof) and subsequently the corresponding Loan Participations sold to clients.

The lender of record with respect to the Loans will generally be either an affiliate of AP Commercial or an entity created for the benefit of a client or a group of clients (a “Lending Entity”). For instance, with respect to commercial loans in which Loan Participations are acquired by Member clients, BancAlliance will ultimately be the lender of record. For other types of Loans and for Non-Member clients, an alternative legal structure may be adopted.

For purposes of effecting the settlement of any such transactions, a Loan may be originated or acquired by AP Commercial (or an affiliate thereof) and subsequently assigned by AP Commercial (or its affiliate) to a Lending Entity. In such situations, interests in the Loan may be transferred initially through the interim sale of a Participation interest to the Lending Entity. In such situations, once some or all clients have acquired their respective Loan Participations from the Lending Entity, the Loan will be assigned to the relevant Lending Entity.. This may result in Members temporarily holding an equivalent subparticipation interest for an interim period during the settlement process.

With respect to Member clients, AP Commercial has agreed, pursuant to the terms of a master loan participation agreement (the “Master Loan Participation Agreement”), to acquire a Loan Participation representing at least a 2% pro rata participation interest in the aggregate amount of the Loan acquired by Member clients. As a result, BancAlliance will sell such 2% interest to an affiliate of AP Commercial (the “Affiliate Holder”) unless such requirement is waived by the Members in interest. This Loan Participation will be sold to the affiliate of AP Commercial on the same pricing terms that apply to Members acquiring Loan Participations in the applicable Loan.

It is intended that any Lending Entity, while ultimately remaining the lender of record or record holder of all Loans underlying the corresponding Loan Participations, will not itself retain any net beneficial interest in those underlying Loans. Beneficial interests in the Loans instead will be held by the clients and by AP Commercial (or an affiliate thereof). The Lending Entity in effect will be a nominee holding only record ownership of each Loan.

Allocations

As discussed in Item 11 under the caption “Allocation,” AP Commercial has adopted policies governing the allocation of Loans among interested clients. Pursuant to this policy (and consistent with direction provided by the Board of Directors of BancAlliance), AP Commercial

treats demand for Loans from Member clients as a collective and allocates a single amount to BancAlliance Members. Where significant client demand exists for a particular Loan, it is possible that individual clients (or Member clients as a collective) will not be allowed to acquire a Loan Participation as large as that for which they committed or, in some cases, any Loan Participation at all.

Separately, the Board of Directors of BancAlliance has adopted a policy on how to allocate Loan opportunities among interested Members and has directed AP Commercial to administer and apply this policy subject to oversight of the Board. It is possible that in cases of high client demand for a particular Loan opportunity, individual Members will not receive a Loan Participation as large as that for which they expressed an interest or, in some cases, any Loan Participation at all.

Manager Discretion

Currently, AP Commercial has no discretionary authority on behalf of clients with respect to the acquisition or disposition of any Loan Participations pursuant to the Loan Program. Each client will independently evaluate and make a case-by-case, independent decision whether to accept any Loan opportunities referred to it by AP Commercial. No client will be obligated to acquire any Loan Participation.

In the future, it is possible that AP Commercial will accept advisory clients pursuant to which it may exercise discretionary investment authority. As appropriate, such services would be described in an amendment to this Brochure and/or one or more separate Brochures.

Advisory and Other Services Provided by AP Commercial in Connection with Loan Program

Under the Advisory and Services Agreement, AP Commercial acts as the manager of the Loan Program and the clients are AP Commercial's advisory clients. AP Commercial provides advisory services to the clients ("Client Advisory Services") to assist the clients in evaluating Loan opportunities. AP Commercial also provides administrative support to clients ("Client Administrative Services") with respect to the outstanding Loan Participations held by Clients. Lending Entities, such as BancAlliance, neither provide advisory services to the clients or other persons, nor receive advisory services from AP Commercial.

Client Advisory Services

Client Advisory Services consist of asset referral and related services; credit evaluation and origination services and ongoing advisory services; and education and training services.

Asset referral and related services include: (1) developing and recommending to the clients policies and procedures pertaining to specific credit asset classes, credit evaluation, portfolio management, risk rating, workouts and restructurings, and other policies related to clients' management of their Loan Participations; and (2) referring Loan opportunities to the clients that AP Commercial believes are consistent with the Loan Eligibility Criteria, including (i) delivering documents to clients with respect to Loan opportunities in a manner to facilitate each client's independent credit evaluation and decision-making, (ii) providing regular updates to clients on new Loan opportunities and the progression of previously identified Loan opportunities through

AP Commercial's internal evaluative processes and (iii) providing regular analysis and updates to clients concerning overall market conditions and asset opportunities.

Credit evaluation and origination services and ongoing advisory services include: (1) providing due diligence, credit evaluation and documentation support to clients consistent with the Loan Eligibility Criteria, including providing upon a client's request material available information relating to a proposed obligor, the recommendation of the AP Commercial credit committee on risk ratings with respect to proposed obligors and recommendations or opinions of AP Commercial with respect to the terms and documentation of a Loan opportunity; (2) facilitating the closing and funding of approved Loans; (3) conducting periodic portfolio reviews of Loan Participations and recommending to relevant clients, where deemed appropriate by the AP Commercial credit committee, adjustments to risk ratings with respect to the applicable obligors; (4) making available to relevant clients reports and analyses with respect to a Loan or the related obligor; and (5) to the extent required by applicable bank regulatory requirements in connection with the Client Advisory Services, providing required technological systems.

Education and training services include the provision of general education and training services to clients relating to overall economic and market conditions and the Loan Program-related activities.

Client Administrative Services

Client Administrative Services consist of servicing, monitoring and other services; and reporting and examination services.

Servicing, monitoring and other services include: (i) effecting the acquisition of Loans in which clients have elected to acquire Loan Participations; (ii) collecting payments due to the relevant Lending Entity with respect to Loans and disbursing such payments to the clients holding the related Loan Participations; (iii) using commercially reasonable efforts to enforce the rights of the Lending Entity (and thus of relevant clients with corresponding Loan Participations) under applicable Loan documents; (iv) keeping accurate records and accounts of Loan assets; (v) making available to relevant clients notices, financial statements and reports of obligors that AP Commercial receives under the relevant credit documents; (vi) making commercially reasonable efforts to verify obligors' compliance with covenants, representations and warranties, and restrictions on eligible collateral under the relevant credit documents; (vii) providing relevant clients with notice of when an obligor has not paid any scheduled installment of principal or interest on a Loan, or when AP Commercial receives notice of a default or event of default under the relevant credit documents; (viii) communicating with an obligor or administrative agent under the relevant credit documents to reconcile any payment shortfalls; (ix) exercising voting and other consensual rights under a Loan in accordance with applicable AP Commercial or client policies and any requirements of the applicable Loan Participations (including in respect of proposed waivers, amendments, workouts and other actions under the applicable credit documents); (x) maintaining or causing to be maintained back-up systems and data storage; (xi) maintaining bank accounts for or on behalf of Lending Entities that are necessary to service payments on the Loans; (xii) maintaining copies of credit documents; and (xiii) performing the obligations of AP Commercial expressly imposed on it under the Master Loan Participation Agreement with respect to particular Loans.

Reporting and examination services include: (i) providing clients with access to the Loan booking, accounting and monitoring system operated by AP Commercial; (ii) providing clients with periodic reporting setting forth balance information with respect to relevant Loans, including delinquency reports, payment information, exception reports and other information; (iii) furnishing any client upon request with a copy of any correspondence or notice sent or received by AP Commercial related to the collection or termination of a Loan in which the client holds a Loan Participation; (iv) furnishing any client upon request with copies of all statements and other correspondence or notices sent to any relevant obligor; and (v) cooperating with client's internal and external auditors and regulatory authorities having jurisdiction over such client, and exchanging information as reasonably requested by individuals responsible for such client's operations, systems and technology, legal affairs and compliance programs.

C. Availability of Customized Services

As described in Item 4.B, a key feature of the Loan Program is that clients make their own decisions whether or not to acquire a Loan Participation in respect of any particular Loan opportunity referred by AP Commercial, with the result that each client controls both its exposure to specific Loans and the size of the Loan Participation portfolio it develops through participation in the Loan Program.

Following approval by the AP Commercial credit committee, AP Commercial will refer each Loan opportunity that it believes meets the applicable Loan Eligibility Criteria to all eligible clients in good standing with AP Commercial. Clients (or, in the case of Members, BancAlliance on behalf of a group of such clients) may have varying Loan Eligibility Criteria. AP Commercial provides clients generally with information and credit analysis concerning each Loan opportunity, as well as due diligence and documentation support. Also, as noted in Item 4.B, AP Commercial may provide to specific clients, upon request, material available information relating to a proposed obligor, the AP Commercial credit committee's recommendation and preliminary analysis on risk ratings with respect to a prospective obligor, and recommendations or opinions of AP Commercial with respect to the terms and documentation of a Loan opportunity.

D. Wrap Fee Programs

Not applicable.

E. Client Assets

AP Commercial manages approximately \$ 370 million of assets, calculated as of March 18, 2013. These assets consist of the value of Loan assets underwritten or managed by AP Commercial for its clients on a non-discretionary basis and its proprietary assets.

ITEM 5: FEES AND COMPENSATION

A. Fees and Compensation

Clients are obligated to pay AP Commercial certain fees in connection with their participation in the Loan Program pursuant to the applicable Advisory and Services Agreement.

Client Fees

It is generally expected that each client will pay fees (“Client Fees”) to AP Commercial. Client Fees include fees associated with the purchase by clients of specific Loan Participations (“Loan Participation Fees”).

Loan Participation Fees

It is generally expected that each client will pay to AP Commercial a Loan Participation Fee that is a percentage (the applicable percentage, the “Loan Fee Rate”) of the average daily outstanding principal amount of each Loan Participation held by such client.

The Loan Fee Rate applicable to a particular Loan Participation is based on various factors, including the projected yield over a target LIBOR rate (such excess, the “Spread Rate”) of that Loan Participation, as determined by AP Commercial at the time the underlying Loan is acquired by the client. The per annum Loan Fee Rates applicable to various ranges of Spread Rates, the methodology used in determining a Spread Rate, any applicable discounts and fees associated with revolving lines of credit are set forth in the applicable and current Advisory and Services Agreement.

It is generally expected that the Loan Fee Rate, once determined, will not be adjusted (except as may reflect a correction to an error in the calculation of a Loan Fee Rate). In certain circumstances, however, AP Commercial may request that clients (or, in the case of Members, BancAlliance) prospectively change the Loan Fee Rate. Such change requires the consent of the affected clients or, in the case of Member clients, the consent of the Board of Directors of BancAlliance. Any changes to the Loan Fee Rate will only affect Loan Participations that are acquired after the date of the change. If AP Commercial has requested that the Loan Fee Rate be changed and AP Commercial and the client(s) fail to agree on a new Loan Fee Rate, then AP Commercial will be permitted to cease identifying, syndicating, originating and/or acquiring potential new Loan opportunities and/or to resign as the manager of the Loan Program (in which case, as further described in Item 8, a “back-up” servicer identified in advance by the Board and AP Commercial may commence providing Loan-related services to the Members). In addition, AP Commercial may in its sole discretion waive or reduce the applicable Loan Participation Fees payable to it under the Advisory and Services Agreement.

With respect to Member clients, it is generally expected that the Loan Participation Fees applicable to any Loan will be the same for all Members (adjusted for client-specific differences such as varying purchase prices). As a result, it is expected that Member-specific waivers or modifications will be agreed to in extremely limited circumstances involving compelling reasons, such as to address a Member’s compliance with regulatory requirements.

B. Payment of Fees

Loan Participation Fees typically are payable by clients on a current basis. In general, AP Commercial is authorized to collect Loan Participation Fees and other cost and expense obligations due from each client either by separate invoice or, for operational convenience, by withholding the required amount(s) from principal, interest or other payments otherwise due to such client under the relevant Loan Participations.

C. Additional Fees and Expenses

Subject to certain limitations, clients are obligated to pay for all costs and expenses incurred by AP Commercial in connection with such client's participation in the Loan Program.

With respect to Member clients, such costs and expenses may include but are not limited to: (a) taxes, governmental fees and charges applicable to BancAlliance and costs of insurance maintained by BancAlliance; (b) expenses with respect to any advisor, auditor, accountant or legal counsel of BancAlliance; and (c) expenses relating to any litigation or other dispute directly or indirectly relating to BancAlliance. In general, the maximum amount of costs and expenses set forth in clauses (a) and (b) above for which any Member may be liable during any given calendar year is \$10,000 and, subject to limitations set forth in the Advisory and Services Agreement, the maximum amount of costs and expenses set forth in clause (c), above, for which any Member may be liable during any calendar year is \$25,000.

Like the Members, any Non-Member client would bear pro rata shares of Loan-related expenses incurred AP Commercial.

See Item 12 for further discussion with respect to fees associated with brokerage practices.

D. Prepayment of Fees

Please see the responses to Items 5.A and 5.B above.

E. Additional Compensation

Not applicable.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

AP Commercial does not charge clients performance-based fees in connection with the Loan Program; rather, as described in Item 5 above, AP Commercial charges each client a fee based on the average daily outstanding principal amount of each Loan asset held by the client.

ITEM 7: TYPES OF CLIENTS

AP Commercial's clients consist of (i) Members that have signed joinders to the Membership Agreement and the BancAlliance Advisory and Services Agreement and (ii) Non-Member Clients.

Members are FDIC-insured depository institutions (or holding companies of such institutions), including community and regional banks in the United States. AP Commercial expects that all Members will be regulated by U.S. federal and state banking regulatory authorities with jurisdiction over the Members' activities.

Each prospective client must be approved and accepted by AP Commercial in its sole discretion.

With respect to Member clients, each prospective client must also satisfy the membership criteria established by BancAlliance, unless such criteria are waived by AP Commercial. AP

Commercial, on behalf of BancAlliance, has authority to determine Members' initial and ongoing satisfaction of these criteria.

The terms of AP Commercial's provision of advisory services to clients are set forth in the applicable advisory services contract and related agreements, to which AP Commercial is a party.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies Used in Formulating Investment Advice or Managing Assets

Asset Classes

Loan opportunities referred by AP Commercial to clients are expected to consist generally of commercial and consumer lending opportunities, including capital leases. AP Commercial expects that commercial Loans will generally be senior secured loans and that Loans acquired on the secondary market will be acquired at par or near-par value. Clients are generally expected to hold their acquired Loan Participations until the maturity or repayment of the underlying Loans.

Loan opportunities may relate to a variety of loan-related asset classes, including, without limitation, the following:

- (i) *Asset-based loans*, which are a type of loan extended based on the liquidation value of underlying collateral and the quality of the borrower's business model, typically featuring a first-lien security interest and collateral-control mechanisms;
- (ii) *Senior secured term loans/leveraged loans*, consisting of low-leverage, senior priority, cash flow-based loans that are secured by the assets of the borrower and associated revolving lines of credit;
- (iii) *Equipment finance loans and leases*, generally involving mid- to large-ticket equipment finance with national and/or captive originators with typical borrower EBITDA of \$25 million to \$1 billion;
- (iv) *Healthcare Finance Loans*, consisting of senior secured loans to healthcare providers that are supported by real estate assets and/or the operating cash flow of the borrowers; and
- (v) *Consumer loans*, generally involving secured and unsecured extensions of credit to consumers.

It is expected that the Loan Eligibility Criteria will change over time, in response to macroeconomic or market conditions, developments in particular borrower sectors, the nature, preferences and number of clients, perceived opportunities and relative risk-adjusted expected returns, demonstrated patterns of client interest in exposure to certain asset categories, potential risk concentration on the part of clients, and other factors.

Methods of Analysis and Loan Approval Process

Sourcing of Potential Loan Opportunities

To identify potential Loan opportunities, AP Commercial relies primarily on internal professionals. AP Commercial screens potential Loan opportunities based on the then-applicable Loan Eligibility Criteria. AP Commercial personnel also may consider various factors relating to a prospective Loan, including, among others, financial measures, company management, borrower capital structure, loan structure, loan size, loan collateral, pricing, yield and sector weightings, industry characteristics and geographic considerations.

Loan sourcing may occur through a variety of channels, including direct origination, joint origination (i.e., “clubbing”) arrangements, secondary market dealers and/or syndication agents.

Initial Asset Profile

AP Commercial’s professionals typically create an “initial asset profile,” or IAP, for each potential Loan opportunity (or, for Loans that involve a programmatic approach such as consumer lending, for each Loan Program opportunity). The IAP, to be prepared prior to AP Commercial’s performance of more extensive credit analysis and due diligence, is intended to be a brief, high-level review of each potential Loan opportunity that AP Commercial has concluded warrants further consideration. IAPs are available for all eligible clients to review via an electronic portal maintained by AP Commercial for the benefit of clients (the “Client Portal”).

Credit Analysis and Due Diligence

In developing its credit analysis, AP Commercial reviews information provided by the borrower and/or any financial institution(s) arranging the loan in question. AP Commercial may perform fundamental credit research and may consider quantitative and/or qualitative factors concerning the prospective borrower or other obligor. Examples of factors considered may include corporate capital structure, operating and revenue trends, cash flow consistency, collateral analysis, financial covenants, debt maturities and liquidity, as well as management quality, competitive position within the industry, the presence of equity sponsors, business fundamentals and legal structure.

To the extent AP Commercial believes a prospective Loan opportunity merits further consideration, AP Commercial conducts a due diligence process with respect to that opportunity. The due diligence process may evaluate, among other things, the prospective obligor’s market position within its operating sector, dependence on access to the capital markets to fund ongoing operations, management quality, the liquidation value of underlying assets in the case of collateralized credits and/or the obligor’s competitive environment. Depending on circumstances, AP Commercial may conduct due diligence through any one or more of the following activities: management meetings; review of the borrower’s financial information; collateral appraisals; review of publicly available information, including industry or company specific reports published by external financial analysts, SEC filings and company reports, media sources, and subscription services; review of materials from and discussions with research analysts and other sources; review of documents in “data rooms;” background checks on management; and/or bank meetings and review of information provided by the loan arranger or agent.

Credit Memorandum and Credit Committee Approval

Upon completion of the analytical and due diligence process described above, the AP Commercial professionals responsible for a particular potential Loan opportunity will prepare a credit memorandum and present it to the AP Commercial credit committee. The credit memorandum will be available for client review via the Client Portal. The AP Commercial credit committee may confer with the internal loan and credit professionals who prepared the credit memorandum, and may request further analysis and/or due diligence before deciding whether or not the prospective Loan opportunity should be referred to eligible clients. A Loan opportunity will not be referred to Clients for their independent approval and commitment unless and until the AP Commercial credit committee has approved the referral.

Independent Client Credit and Funding Decisions

Pursuant to the Loan Program, each client must conduct its own independent analysis and make its own independent credit decision concerning whether or not to purchase any particular Loan asset. No client will be obligated to approve any Loan opportunity referred to it by AP Commercial or to acquire portfolio exposure to any particular Loan.

* * * * *

This Brochure's descriptions of specific advisory services that AP Commercial offers to clients in connection with the Loan Program, and/or of Loan opportunities that AP Commercial expects to refer to clients, should not be understood to limit in any way AP Commercial's future advisory activities. Subject to the terms of its contractual obligations to existing clients, AP Commercial may offer any advisory services it considers appropriate, whether concerning assets similar to or differing from the types that are the subject of the Loan Program, whether pursuant to the Loan Program or otherwise, whether to existing or future clients, and whether or not described in this version of the Brochure.

The Loan opportunities that AP Commercial refers to clients may entail substantial risks and a client's decision to acquire portfolio exposure to any particular Loan has the possibility of resulting in a substantial loss of capital by the client. There can be no assurance that any client will achieve its return objectives.

* * * * *

B, C. Certain Risks

Acquisition of Loan assets in connection with the Loan Program involves a substantial degree of risk. The following risk factors do not purport to be a complete list or explanation of the risks involved with the acquisition of Loan assets or the activities of AP Commercial. For example, they may not address risks associated with certain credit instrument types and certain market risks.

Asset-Related Risks

The asset-acquisition opportunities that AP Commercial provides to clients are subject to a variety of general risks. The Loan opportunities referred by AP Commercial, even to the extent

they consist of senior obligations acquired at par or near par value, may have economic risks as a result of business, financial, market or legal uncertainties. There can be no assurance that AP Commercial (in deciding to refer a Loan opportunity) or a client (in deciding to acquire portfolio exposure to a Loan) will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on a Loan. A variety of factors that are inherently difficult to predict, such as macroeconomic, political or market developments or uncertainties, as well as obligor- or Loan-specific factors (including the size, financial resources and competitive strength of the borrower), may significantly affect the performance of a Loan. In addition, AP Commercial's ability to conduct the Loan Program or otherwise provide asset-acquisition opportunities to clients as currently contemplated may be affected by changes in laws or regulations (including laws or regulations relating to securities, banking activities and/or taxation).

The performance of one or more particular Loans may not be indicative of how a client's entire portfolio will perform. The performance of a client's portfolio of Loan assets over a particular period is not necessarily indicative of the results that may be expected in future periods. Nor should the performance of any particular client's portfolio of Loan assets be expected to match the performance of any other client's portfolio, given that the composition of each client's portfolio will be the result of (i) that client's individual decisions about specific Loans in which to participate and (ii) the allocations of Loan interests among clients. Differences in the composition of clients' respective portfolios also will arise due to the fact that any entity that becomes a Client has the opportunity to acquire only Loan Participations that AP Commercial thereafter refers.

A client may incur losses on its Loan interests. The performance of a client's portfolio of Loan interests will be affected by, among other things, (i) the amount and timing of payments with respect to interest and principal of the underlying Loans (whether through sale, maturity, prepayment, redemption, default or other liquidation or disposition), (ii) the financial condition of the borrowers and (iii) the characteristics of the Loans, including the existence and timing of exercise of any optional or mandatory redemption or repayment features (including applicable redemption or repayment prices), the prevailing level of interest rates, and any actual defaults and the level and timing of recoveries with respect to the Loans. Any of the above factors may be exacerbated, and the performance of Loan interests adversely affected, by macroeconomic factors, including general economic conditions affecting capital markets and their participants (such as the borrowers on the underlying Loans). These macroeconomic factors may include (i) economic downturns and uncertainties affecting specific markets or economies and capital markets worldwide, (ii) the effects of, and disruptions and uncertainties resulting from military conflicts, incidents of terrorism and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes in accounting and financial reporting standards.

The risk profile of a Loan may increase due to post-funding developments. It is possible that holders of Loan assets will experience missed and late payments of interest or principal, failures by borrowers to comply with covenants in their loan agreements and borrower performance below what AP Commercial or the relevant holders expected at the time the underlying Loan was acquired or originated. Any of the events described in the preceding sentence may be an indication that a client's risk of loss with respect to a particular underlying Loan has materially increased. Moreover, the value of a Loan may decline for other reasons that are not possible to

predict. None of BancAlliance, AP Commercial or any other person can provide any assurance as to the performance or repayment of any Loan.

Loans may become non-performing. Loans may become non-performing for a variety of reasons. Non-performing Loans may require workout negotiations or restructurings that may entail, among other things, a reduction in the interest rate, a write-down of principal and/or deferral of payments, any of which could adversely affect the holder of a related Loan interest. Furthermore, the obligor or relevant guarantor may be in bankruptcy or liquidation, which would entail risks relating to contested matters, adversary proceedings and other developments beyond the control of creditors. Although BancAlliance may exercise voting rights with respect to an individual Loan on behalf of the relevant clients, there can be no certainty that BancAlliance will be able to exercise a sufficient percentage of voting rights to affect the outcome of such vote. Please see Item 17 for further information about AP Commercial's policies regarding voting in respect of Loans.

Collateralized Loans entail risks in foreclosure. Even if a Loan is secured by collateral, holders of the related Loan interest may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each critically important. AP Commercial cannot guarantee that collateral or other creditor's rights will be adequate to protect a client's interests. Nor can AP Commercial assure clients that claims may not be asserted that might interfere with enforcement of creditors' rights. In the event of a foreclosure, the liquidation proceeds upon the sale of collateral may not satisfy the entire outstanding balance of principal and interest on the Loan, resulting in a loss to the holders of related Loan assets. Any costs or delays involved in effectuating a foreclosure of the Loan or a liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss.

The judicial theory of "lender liability" may expose clients to legal risks. In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. AP Commercial cannot assure holders of Loan interests that lender liability claims will not be made against them or that holders will not be subject to significant liability if a claim of this type is made.

Risks Relating to AP Commercial's Performance

Clients have a limited basis for evaluating the Loan Program and AP Commercial's performance as an adviser. AP Commercial and BancAlliance have been in operation for less than two years. This limits clients' ability to evaluate the Loan Program or AP Commercial's activities as an adviser, which involves the provision of asset identification, credit analysis and other advisory and administrative services.

It may prove difficult for AP Commercial to identify and source a sufficient quantity of appropriate Loan opportunities. AP Commercial expects to encounter competition from other lenders and finance providers as it attempts to acquire or originate Loans. There is no assurance that AP Commercial will be able to provide clients with credit opportunities of a quality, type or

quantity that will satisfy their objectives under the Loan Program. It is possible that competition for appropriate credit opportunities may increase, thus reducing the number or adversely affecting the terms of Loan opportunities. There can be no assurance that AP Commercial will be able to identify or make available Loan opportunities satisfying the Loan Eligibility Criteria or that such opportunities will satisfy the rate of return objectives of AP Commercial's clients.

AP Commercial's due diligence and credit approval processes may fail properly to identify or evaluate all material information relating to a Loan. Credit analysis and due diligence are inherently complex and subjective. There is no assurance that AP Commercial's procedures for obtaining and evaluating the information necessary to decide whether a prospective Loan opportunity should be referred to clients will identify all material risks and other relevant factors relating to any particular Loan.

AP Commercial and BancAlliance are exposed to operational risks, including the risk of systems failure and the risk of employee fraud. The commercial finance industry is highly dependent on communications and information systems and is exposed to many types of operational risk, including the risk of fraud by employees or other parties, record-keeping errors, errors resulting from faulty computer or telecommunication systems, computer failure, and damage to computer and telecommunication systems caused by internal or external events. Any of these events could have a material and adverse effect on AP Commercial's clients.

AP Commercial is reliant upon proper staffing and key personnel. AP Commercial must employ and retain management and skilled staff to provide the services that are central to the provision of the services contemplated under the Loan Program. The failure to employ and retain sufficient numbers of appropriately skilled management and staff could delay, prevent or negatively affect the provision of AP Commercial's services. AP Commercial is particularly dependent upon the efforts, experience, contacts and skills of its senior management team. The loss of any such individual could have a material adverse effect on AP Commercial or the quality of services provided pursuant to the Loan Program, and such loss could occur at any time due to resignation, death, disability or other reasons.

BancAlliance, AP Commercial and/or the operation of the Loan Program could be subject to banking-related regulation. Financial services institutions operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations, as well as supervision, examination and enforcement by regulatory authorities at various governmental levels. While none of BancAlliance, AP Commercial and their affiliates is expected to be a bank or a bank holding company, it is possible that, as a result of the nature of services provided under the Loan Program, they will be subject to supervision by federal or state bank regulatory authorities with jurisdiction over one or more Clients. In addition, in the future BancAlliance may consider seeking designation as a Bank Services Company, which would directly subject it to the supervisory jurisdiction of one or more federal or state regulatory authorities. Failure to comply with any applicable U.S. federal or state banking laws, rules or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of material adverse consequences to BancAlliance, AP Commercial and/or the operation of the Loan Program, including civil penalties, fines, suspension or expulsion, and termination of deposit insurance.

U.S. federal and state banking laws and regulations can and do change significantly from time to time, and may be changed in ways that could have a material adverse impact upon the business

plans of BancAlliance and AP Commercial or the appropriateness of the Loan Program for certain clients. For example, capital requirements may be increased, or permissible lending may be limited. Insured financial institutions also undergo periodic examinations by one or more regulatory agencies, which may subject them to changes in asset valuations, in amounts of required loan and lease loss allowances and in operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination. AP Commercial can give no assurance that applicable laws and regulations or responsible bank examiners will be favorably disposed to the Loan Program, and a negative view of the Loan Program on the part of bank regulators could materially adversely affect the ability of BancAlliance and AP Commercial to offer or continue the Loan Program as currently contemplated.

AP Commercial may make Loan opportunities available to Non-Member clients. The Loan Program documents acknowledge that AP Commercial may provide advisory or other services to Non-Member clients, including managed account clients or members of membership-based organizations substantially similar to BancAlliance. Among other possibilities, AP Commercial could offer Non-Member clients opportunities to acquire interests in Loans also referred to as Members.

Risks Specific to BancAlliance

The terms of the Loan Program, including future fees payable by Members to AP Commercial, may be amended prospectively without consent of the Members. With the consent of AP Commercial, the Board of Directors of BancAlliance prospectively may amend the terms of the Loan Program. Such amendments to the terms of the Loan Program would not require the consent of the Members and could include, among other possibilities, changes to the Loan Eligibility Criteria or increases or decreases in the fees charged to Members. Any such fee increases would affect only Loan Participations or the utilization of new services that were acquired or commenced after the fee increase had occurred and each Member had been notified of such increase.

The BancAlliance Advisory and Services Agreement may be terminated by the Members in only limited circumstances and, if terminated without cause, BancAlliance will be wound down. The Members and BancAlliance have limited rights to terminate the Advisory and Services Agreement. If BancAlliance terminates the BancAlliance Advisory and Services Agreement for "cause" (as defined in the Advisory and Services Agreement, including certain instances of gross negligence or willful misconduct by AP Commercial), the "back-up" servicer described below will enter into an agreement with BancAlliance for the provision of services to Members under the Loan Program. If BancAlliance terminates the BancAlliance Advisory and Services Agreement without cause, BancAlliance and the Program will enter into wind-down. In addition, BancAlliance and AP Commercial may agree jointly to commence the wind-down of the Program, in which case AP Commercial has the right to terminate the BancAlliance Advisory and Services Agreement one year after the wind-down has begun.

The BancAlliance Advisory and Services Agreement may be terminated by AP Commercial in certain circumstances in which event services to Members would be curtailed. After June 1, 2014, AP Commercial may choose to terminate the relevant BancAlliance Advisory and Services Agreement pursuant to its terms. With respect upon 12 months' written notice to BancAlliance, AP Commercial also may choose to terminate the BancAlliance Advisory and Services

Agreement at any time, upon shorter notice, if BancAlliance changes certain policies, if BancAlliance has not agreed to AP Commercial's request for an increase in the Loan Fee Rate or if BancAlliance has entered wind-down. Upon such termination, Members and BancAlliance would rely on an agreement with a "back-up" servicer previously identified by AP Commercial. Accordingly, it is possible that the Loan Program, including the advisory and other services rendered to Members and the fees payable by Members thereunder, may become managed on relatively short notice by a party that has been approved by the Board but not by individual Members.

AP Commercial may have potential or actual conflicts of interest. AP Commercial may have potential or actual conflicts of interests relating to its provision of services to Members and other clients. These potential or actual conflicts could relate to, among other possible matters: allocations of Loan opportunities; AP Commercial's provision of advisory services to other clients with objectives similar to those of the Members; and/or AP Commercial's devotion of time to pursuing advisory or other activities on behalf of Non-Member Clients. While AP Commercial has adopted and intends to adhere to policies and procedures designed to identify and mitigate such potential or actual conflicts, it is possible that AP Commercial's conflict-mitigation efforts will not eliminate all potential negative effects on clients, including Members receiving advisory services in connection with the Loan Program. Please see Items 10 and 11 below.

AP Commercial has the authority to determine whether a Member continues to satisfy the eligibility criteria for ongoing participation in the Loan Program. For a Member to begin and continue participating in the Loan Program, AP Commercial must determine, in its sole and absolute discretion, that such Member satisfies the eligibility criteria for participation in the Loan Program, as established and modified from time to time by the Board of Directors of BancAlliance. If AP Commercial determines that a Member no longer satisfies the applicable eligibility criteria, AP Commercial may designate such Member as an "Inactive Member" and/or terminate such Member's participation in the Loan Program. The consequences of such designation or termination are discussed below.

A Member that is designated as an "Inactive Member" continues to pay Loan Participation Fees on Loan interests it continues to hold. AP Commercial, in its sole and absolute discretion, may deem any Member an "Inactive Member" if AP Commercial has determined that certain circumstances described in the Membership Agreement apply. These circumstances include, among others, the Member materially breaching any provision of the Membership Agreement, the Member failing to satisfy the then-applicable Member eligibility criteria, or the Member having notified BancAlliance that it does not wish to acquire additional Loan Participations. Inactive Members will retain Loan-related voting rights available to Members generally and will continue to receive Member Administrative Services, but will not receive further Member Advisory Services and will remain obligated to pay Loan Participation Fees on the Loan Participations they continue to hold.

In certain circumstances, a Member can be designated a "Terminated Member." AP Commercial will designate a Member a "Terminated Member" upon the occurrence of all of the following: (i) such Member has notified BancAlliance and AP Commercial that it no longer wishes to participate in the Loan Program, or such Member has become an Inactive Member; (ii) such Member does not then hold any Loan Participations; and (iii) such Member has fully satisfied all of its obligations then due under the Loan Program, including the payment of all fees

then owed by such Member and its fulfillment of all binding commitments to acquire Loan Participations. A Terminated Member will continue to be responsible for its obligations as a Member that arose before or relate to a period before such Member's termination date, and any obligations under the Loan Program documents that explicitly survive a Member's termination (including certain confidentiality obligations).

AP Commercial has influence over BancAlliance's Board of Directors. The Board consists of two directors nominated by AP Commercial and nine directors elected by the Members. A nominee of AP Commercial serves as the Board's chair and AP Commercial must consent to the nomination of any director candidate proposed by Members. As a result of this ongoing influence of AP Commercial, the composition of and decisions made by the Board might not reflect the preferences of all individual Members.

AP Commercial's liability to Members is contractually limited and Members have indemnification obligations to AP Commercial. The BancAlliance Advisory and Services Agreement provides that unless AP Commercial has breached any terms of a Loan Program document or has committed gross negligence or willful misconduct under a Loan Program document, it will not be liable to any Member for any loss relating to a Member's acquisition of a Loan Participation or to any other acts or omissions by AP Commercial in its provision of services to Members. This limitation on liability means that AP Commercial will have no liability to Members for, among other things, any decline in the value of any Loan Participation, the unenforceability of any loan agreement or other credit document, the unenforceability of any security interest over collateral, or any failure by a borrower to meet its payment or other obligations under a loan agreement. In addition, the BancAlliance Advisory and Services Agreement and the BancAlliance Membership Agreement provide that each Member will indemnify AP Commercial and BancAlliance against claims, losses or other liabilities arising due to the breach by such Member of the terms of a Loan Program document or such Member's gross negligence or willful misconduct under a Loan Program document, except to the extent such liabilities result solely from the gross negligence or willful misconduct of AP Commercial or BancAlliance, as applicable.

Transfer restrictions may impede a Member's ability to exit its exposure to a Loan. The Master Loan Participation Agreement contains restrictions and procedures that limit the liquidity of Loan Participations. For example, a Member is only allowed to assign all (not a portion) of any particular Loan Participation; a Member is only allowed to assign a Loan Participation to another Member or to a Non-Member that is an FDIC-insured depository institution (or a bank holding company of such an institution); and BancAlliance must consent to the assignment.

Risks Related to the Loan Program

AP Commercial's clients may be exposed to nonpublic information about borrowers, which may limit clients' ability to trade in Loan interests or securities or other instruments issued by those borrowers. The flow of Loan- and borrower-related information that AP Commercial makes available to clients may include material nonpublic information or otherwise confidential information about the companies that are the borrowers under or obligors on the Loans. As a result, clients may be restricted, potentially for significant periods of time, from trading in certain instruments, including Loan interests or securities or other instruments issued by such borrowers.

If AP Commercial decides to terminate its role as manager of the Loan Program, the services to BancAlliance Members under the Loan Program will be provided by a “back-up” servicer which may provide more limited services. Upon such termination, BancAlliance will enter into an agreement with a “back-up” servicer previously identified by AP Commercial and the Board of BancAlliance for the future provision of services to clients under the Loan Program. The back-up servicer will seek the consent of clients to its provision of advisory services to clients only to the extent as may be required by law. The back-up servicer may lack the incentives or capacity to perform the services to the extent and quality level of AP Commercial.

In the event of BancAlliance’s bankruptcy, creditors might challenge the “true sale” nature of Loan Participations granted by BancAlliance. BancAlliance intends that its grants of Loan Participations to AP Commercial’s clients will be respected as “true sales” for purposes of U.S. bankruptcy law. For this and other reasons, BancAlliance expects to have only minimal net assets at all times. If BancAlliance entered bankruptcy and a court found any Loan Participations not to be true sales, such Loan Participations would be the property of BancAlliance rather than of AP Commercial’s clients and the Loan Participations potentially could be available to satisfy claims against BancAlliance by BancAlliance’s creditors.

*AP Commercial’s advisory services are non-discretionary, which means that clients remain fully responsible for their own Loan evaluations, credit analyses and asset acquisition decisions. AP Commercial performs due diligence and credit analysis with respect to each prospective Loan opportunity, and any prospective Loan opportunity must be approved by the AP Commercial credit committee before it is referred to clients. The Client Advisory Services also include AP Commercial’s provision to clients of certain education and training services. Nonetheless, each client is ultimately responsible for its own decision whether or not to acquire any particular Loan interest. Accordingly, the quality of a client’s own credit and risk evaluation capabilities will be critical, and analytical misjudgments or inadequacies on a client’s part may expose it to unanticipated risk or loss on one or more Loan interests. This risk may be exacerbated to the extent a client is acquiring Loan interests in types of credit assets with which it has limited or no previous experience. **AP Commercial does not guarantee or make any assurances as to the performance of or economic returns to be realized in respect of any Loan or other credit asset, or as to whether the economic returns on any Loan or other credit asset will be sufficient to repay the amounts owed to any client in respect thereof.***

ITEM 9: DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a client’s or prospective client’s evaluation of AP Commercial’s advisory business or the integrity of AP Commercial’s management.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status

Not applicable.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status

Not applicable.

C. Material Relationships or Arrangements with Related Persons who are Industry Participants

AP Commercial may be deemed to be under the control of each of Mr. John Delaney and Mr. Jason Fish by virtue of their membership on AP Commercial's management committee. Mr. Delaney is not an employee of AP Commercial and Mr. Fish is a part-time employee of AP Commercial. By virtue of its relationships with Mr. Delaney and Mr. Fish, one financial industry participant may be deemed to be under common control with AP Commercial.

Mr. Delaney and Mr. Fish have material ownership interests in Congressional Bank, a community bank headquartered in Bethesda, Maryland. Mr. Delaney is co-chairman and Mr. Fish is a director of Congressional Bank. Mr. Delaney's and Mr. Fish's responsibilities with Congressional Bank could require them to devote material professional time that otherwise might be spent pursuing their responsibilities at AP Commercial.

AP Commercial's senior management personnel generally are required only to devote so much of their time to providing services to AP Commercial's clients as is reasonably necessary in good faith.

In addition, Congressional Bank is a Member of the Loan Program and thus a client of AP Commercial. While this fact gives rise to the appearance of potential conflicts of interest with AP Commercial's other clients, the AP Commercial policies by which Loan opportunities are identified, underwritten and allocated to Members of BancAlliance ameliorate the risk of any actual conflicts.

D. Material Conflicts of Interest Relating to Other Investment Advisers

Not applicable.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

In accordance with Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), AP Commercial has adopted a code of ethics (the “Code of Ethics”). The Code of Ethics establishes standards of business conduct that all AP Commercial Personnel (defined to include any managing member, partner or employee of AP Commercial and any person who provides investment advice or support on behalf of AP Commercial and is under AP Commercial’s direct or indirect supervision or control) must follow.

The Code of Ethics is predicated on the principle that AP Commercial owes a fiduciary duty to its clients. Accordingly, the Code of Ethics provides that at all times, AP Commercial Personnel must: avoid placing the interests of AP Commercial, its affiliates and AP Commercial Personnel ahead of client interests; help AP Commercial to identify and disclose to clients, when appropriate, potential and actual conflicts; adhere to the personal investing standards set forth in the code of ethics; avoid taking advantage of their position to the detriment of clients; maintain the integrity and independence of AP Commercial’s advisory process; and maintain full compliance with applicable laws, including the Advisers Act.

In addition to the elements required by Rule 204A-1, the Code of Ethics includes, among other provisions, restrictions that prohibit AP Commercial Personnel from trading certain instruments for their personal accounts without first obtaining pre-clearance, serving on the boards of directors of any outside companies except with the approval of the Chief Compliance Officer of AP Commercial, or receiving or offering gifts or entertainment worth a substantial monetary value from or to persons doing business with AP Commercial.

The Code of Ethics states that AP Commercial will provide a copy thereof to all AP Commercial Personnel, with a requirement that they provide to AP Commercial a written acknowledgment that they have received the Code of Ethics. Clients or prospective clients may obtain a copy of AP Commercial’s code of ethics upon request by contacting AP Commercial.

Conflicts of Interest Generally

AP Commercial and its affiliates at times may have potential or actual conflicts of interest with respect to AP Commercial’s clients and their holdings. These conflicts of interest may be between or among clients or between AP Commercial and its clients. AP Commercial anticipates that it will resolve potential or actual conflicts of interest without input from disinterested third parties. AP Commercial has adopted policies and procedures designed to make sure any such conflicts are resolved in an equitable manner.

While AP Commercial currently provides advisory services to clients in connection with the Loan Program, it is possible that in the future AP Commercial will provide other advisory services, whether discretionary or non-discretionary, to Non-Member clients. Such clients may have lending or investment programs that are different from, are similar to or overlap with the activities of Members under the Loan Program. AP Commercial and its affiliates may have conflicts of interest in allocating their time and resources with respect to the Loan Program

among varying clients. Moreover, AP Commercial may seek to provide advisory services in addition to the Loan Program, whether to Members and/or to Non-Member Clients. AP Commercial may charge clients different management fees and incentive fees and/or allocations due to circumstances such as different contractual rates.

AP Commercial's current or future clients may have similar or overlapping lending or investment strategies and parameters, their lending or investment programs are likely to differ due to, among other reasons, various lending or investment restrictions and types of investors. AP Commercial may give advice, provide services or take action with respect to one or more clients that may differ from the advice given, services provided or the timing or nature of action taken with respect to other clients. The lending opportunities or portfolio strategies that AP Commercial may use for one or more clients could conflict with the transactions and strategies made available or employed by AP Commercial in providing advisory services to other clients and could affect the prices and availability of the loans and other financial instruments that those clients acquire or hold.

AP Commercial's current or future clients may have conflicting interests with respect to their holdings, including with respect to performance, liquidity, timing, taxes and other objectives. The conflicting interests of individual clients may relate to, or arise from, among other things, the nature of credit extensions or investments made by clients, the structuring or the acquisition of credit extensions or investments and the timing of disposition of credit extensions or investments. For example, certain clients may from time to time be selling loan positions or other holdings that other clients may continue to hold and/or purchase. AP Commercial may refer to certain clients opportunities to purchase different classes of debt or equity of the same issuer or borrowers. These and other investments may be deemed to create conflicts of interest, particularly because AP Commercial may take certain actions for some clients that may have an adverse effect on other clients (including in connection with restructuring and reorganization situations). Such conflicts also may arise, without limitation, with respect to the nature or structuring of credit extensions or investments that may be more beneficial for one or more clients than for other clients. Performance results may vary, perhaps substantially, among clients.

To address these potential conflicts of interests in its material relationships, AP Commercial has adopted policies and procedures, including the Code of Ethics and allocation and voting policies.

Cross-Trades

AP Commercial does not have discretion to cause purchases or sales of Loan Participations, including transfers of any previously acquired Loan Participation, on the part of clients. Accordingly, AP Commercial does not expect to engage in "cross-trades" in connection with the Loan Program.

From time to time, AP Commercial may be alerted by a client that it desires to exit its exposure to a particular Loan. AP Commercial may assist such a client in identifying one or more other clients or other parties who may be interested in obtaining the relevant Loan interest. AP Commercial will not provide advice regarding any such transfer, nor will AP Commercial exercise any discretion over any client's decision as to whether or not to acquire a Loan interest from another client. AP Commercial will not receive any separate compensation in connection with any transfers of Loan interests by clients.

Principal Trades

AP Commercial and its affiliates may, from time to time, acquire Loans or Loan Participations in Loans which subsequently will be made available for purchase by clients. Non-Member clients may acquire such Loans or Loan Participations directly from AP Commercial (or an affiliate thereof) or from a Lending Entity. Members would acquire from BancAlliance, which is also a Lending Entity. In the event that a Member or a Non-Member client acquires a Loan Participation from a Lending Entity, the Loan or Loan Participation held by AP Commercial (or its affiliate) will be transferred by assignment or a participation interest to the Lending Entity, in part or in full, and an offsetting Loan Participation will be sold by the Lending Entity to the client. The two contemporaneous transactions will be at the same price, which will be reflective of the then fair value of the Loan. Clients explicitly consent to AP Commercial (or its affiliate) acting in this principal capacity in the applicable advisory and services agreement and at the time of the transaction. AP Commercial will not enter into such transactions with the intention of realizing trading gains or otherwise selling Loan Participations at a price greater than fair value. In such transactions, AP Commercial will comply with the requirements of Section 206(3) of the Advisers Act, if applicable, including that AP Commercial will notify the relevant client in writing of the transaction details and obtain the consent of the relevant client.

As described in Item 4.B, the Affiliate Holder also will acquire contemporaneously and retain for its own account no less than a 2% Loan Participation in respect of each Loan that is originated by or acquired on behalf of Member clients under the Loan Program (unless such requirement is waived).

In addition, it is possible that if a client indicates to AP Commercial (or an affiliate thereof) that it wishes to sell a Loan Participation previously purchased under the Loan Program, AP Commercial (or an affiliate) may offer to purchase that Loan Participation from the client through procedures designed to ensure that the transaction occurs on a fair-value basis. In those and other circumstances in which AP Commercial or its affiliates purchase Loan Participations or other interests from a client for its own account, AP Commercial will comply with the requirements of Section 206(3) of the Advisers Act, if applicable, including that AP Commercial will notify the relevant client in writing of the transaction and obtain the consent of the relevant client.

Further, AP Commercial may refer to clients Loan opportunities relating to borrowers in which AP Commercial's related persons already hold loan interests or other credit exposures. For example, it is conceivable that AP Commercial might present to clients a Loan opportunity relating to a borrower that had previously been the subject of a Loan opportunity, such that the Affiliate Holder would already hold a Loan Participation relating to that borrower. In the case of such a Loan Participation being held by the Affiliate Holder, a conflict generally should not arise because, among other reasons, AP Commercial and its related persons have no discretion over clients' acquisitions of Loan Participations.

Allocation

The allocation of a Loan opportunity to clients is governed by policies adopted by AP Commercial. AP Commercial's current policies with respect to allocation of a Loan opportunity provide, among other things, as follows:

- AP Commercial will adhere to the specific allocation policies and procedures adopted by its Management Committee that govern the allocation of Loan opportunities among clients.
- With respect to each Loan product or type, AP Commercial will establish which clients are eligible to be allocated Loans of that product or type.
- AP Commercial expects to seek an amount of a Loan reflective of the sum of amounts sought on behalf of specified eligible clients or groups of clients (the “Commitment Amount”). The amount actually received is the Available Loan.
- In general, the Available Loan should be allocated to each interested client or group of clients, pro rata and subject to any applicable minimum and maximum amounts, based on the ratio of the Available Loan divided by the Commitment Amount.
- Consistent with the intent of the policy to allocate Loans fairly to clients, AP Commercial has the discretion to adjust allocations.

To the extent such amount is allocated to a group of clients, such as Members, AP Commercial will further sub-allocate that amount pursuant to policies and procedures applicable to that group, if any, such as the BancAlliance Member Loan Allocation Policy. Among other things, that policy provides:

- any Member may commit to acquire a Loan Participation in any Loan opportunity referred to it by AP Commercial; each Member that approves a specific Loan opportunity referred to it by AP Commercial must indicate its affirmative interest in purchasing a Loan Participation; for each Loan Participation in which the Member expresses an interest, the Member must indicate its preferred dollar amount of the Loan Participation; for each Loan opportunity referred to the Members, AP Commercial will tally all of the preferred dollar Loan Participation amounts and will attempt, if possible, to deliver to each Member its preferred dollar amount allocation; and in cases of opportunities that are oversubscribed or undersubscribed, AP Commercial will follow specific procedures that are directed to ensuring that allocations among Members are made on an equitable basis.
- As described in Item 4.B above, AP Commercial will allocate to the Affiliate Holder a Loan Participation initially equal to no less than 2% of the total dollar value of each Loan in which Members acquire Loan Participations. The Affiliate Holder will acquire this Loan Participation whether or not an opportunity is oversubscribed or undersubscribed.

AP Commercial may allocate to the Managed Accounts a portion of the Loan interests allocable in respect of any Loan being acquired or originated on behalf of Members. The allocation to the Managed Accounts will be made pursuant to the AP Commercial Allocation Policy approved by the Management Committee. It is expected that such allocations will be made on similar terms as those applicable to Members acquiring Loan Participations.

Personal Trading

AP Commercial may refer to clients Loan assets of borrowers that have issued securities or other instruments in which AP Commercial or its affiliates or their respective employees have already invested. Conflicts of interest may arise if AP Commercial or its affiliates or employees refer a particular transaction because of a financial interest held by any such person in such securities or instruments. As mentioned above in this Item 11 under “Code of Ethics,” AP Commercial has implemented policies relating to personal account trading by AP Commercial Personnel that are designed to reduce, monitor and resolve conflicts of interest presented by such trading activities and to ensure such trading activities are carried out in accordance with applicable law and regulatory requirements. For example, AP Commercial Personnel are subject to AP Commercial’s personal trading pre-clearance policy, which is designed generally to prevent personal trading in securities in which AP Commercial has deemed itself restricted from transacting.

ITEM 12: BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

AP Commercial may use brokers or dealers to acquire Loans on behalf of clients. There are no limitations on which broker-dealer is used or on the commission rates paid. However, Loan acquisitions are allocated to brokers and dealers consistent with AP Commercial’s fiduciary duty of best execution. The factors considered may include, but are not limited to: a dealer’s quality of execution, reputation, financial strength and stability, ability to effect the transactions, its facilities, reliability, access to primary and secondary markets, overall cost of trade, nature of the loan, desired timing of the transaction and size of the trade, and the receipt of brokerage or research services which are of benefit to clients.

1. Research and Other Soft Dollar Benefits

The research or brokerage products and services provided to AP Commercial by broker-dealers generally may include, without limitation, information on the economy, industries, asset classes, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting relevant asset classes, technical market action, credit analysis, risk measurement analysis, performance analysis, and/or post-trade services or communication services related to executing and settling transactions. Such research services may be received in the form of written reports, telephone contacts, personal meetings with analysts, or otherwise. In addition, such research services may be provided in the form of access to various computer-generated data, computer software, and meetings arranged with corporate and industry spokespersons, economists, academics, and government representatives.

Research obtained from brokers may be used by AP Commercial to service all its clients, including Members or other clients that have not participated in the transaction generating the commission. AP Commercial anticipates that brokerage firms generally will not charge AP Commercial a separate fee for research, brokerage and certain other services, and AP Commercial does not intend to negotiate “execution only” commission rates; thus, AP Commercial may be deemed to be paying for research, brokerage or other services provided by a broker that are included in the commission rate. While the continued provision of such services

to AP Commercial is not conditioned on AP Commercial directing any particular level of transactions to these brokerage firms, such services are provided without separate charge in consideration of AP Commercial's use of such brokerage firms to execute transactions for BancAlliance on behalf of all clients that have determined to fund a Loan opportunity. AP Commercial receives a benefit in this instance because AP Commercial does not have to produce or pay for such research products or services, and AP Commercial may have an incentive to select or recommend a broker-dealer based on AP Commercial's interest in receiving such services rather than the clients' interest in receiving the most favorable execution.

2. Brokerage for Client Referrals

Not applicable.

3. Directed Brokerage

Not applicable.

B. Order Aggregation

AP Commercial, in originating or acquiring a Loan on behalf of BancAlliance, the Managed Accounts or other clients is implicitly aggregating the orders of multiple clients. All participating clients will bear, however, through their respective purchases of Loan interests, their pro rata shares of the same Loan.

ITEM 13: REVIEW OF ACCOUNTS

AP Commercial affords clients ongoing electronic access, through the Client Portal, to Loan monitoring data and periodic reporting setting forth balance information with respect to outstanding Loans relevant to the particular client. This information may include delinquency reports, payment information, exception reports and other relevant information determined from time to time by AP Commercial.

AP Commercial's credit professionals, under the supervision of the Chief Credit Officer, conducts periodic reviews of outstanding Loans through the date of review. Each periodic review will address with respect to each Loan the continued appropriateness of the risk rating that AP Commercial has assigned to each Loan, the borrower's record of covenant compliance and other topics as may be considered relevant by AP Commercial. A review of Loans other than on a periodic basis may be triggered by unusual activity or special circumstances on a case-by-case basis. AP Commercial makes available to clients on an ongoing basis via the Client Portal information about the performance of outstanding Loans. In addition, AP Commercial expects to provide clients with annual reports on Loan performance.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients

Not applicable.

B. Compensation to Non-Supervised Persons for Client Referrals

AP Commercial may from time to time enter into agreements with independent third parties to assist in identifying potential clients or to refer such potential clients to AP Commercial. Such agreements generally are expected to require AP Commercial to pay the third party a fee in cash, equity or a combination of both in regard to each identified prospective client that becomes a client and actively participates in the Loan Program. Payment of such fees would not be conditioned on referring or recommending specific assets or types of assets to clients or obtaining assets through or from specific third parties. Any agreement providing for direct or indirect cash payments by AP Commercial to a person that is a “solicitor” as defined in Rule 206(4)-3 under the Advisers Act will comply with that rule and any other applicable regulatory requirements.

ITEM 15: CUSTODY

AP Commercial does not have custody of client assets for purposes of Rule 206(4)-2 in that it provides advice with respect to lending activities, including the origination and acquisition of Loans, which are uncertificated privately placed “securities” and are not negotiable instruments. Clients treat this as a lending activity as opposed to an investment activity. AP Commercial does not have discretion with respect to participation in loans by clients. Alliance Partners merely implements credit decisions made by clients.

The Loans with regard to which AP Commercial advises its clients are owned directly by its clients and are maintained directly as loans on their books and records. Such Loans are not instruments in an “account” maintained with AP Commercial. Clients do not deposit or maintain cash balances with AP Commercial (in an account or otherwise) pending deployment in such loans. Accordingly, AP Commercial does not have the authority to deduct fees from any client accounts.

AP Commercial facilitates the flow of funds to and from Lending Entities such as BancAlliance and clients that are customary pursuant to the terms of participation agreements between such entities and each client and which are in ordinary course of acquiring or managing Loan participations. As a result, cash amounts ultimately originating from or destined to clients pass through BancAlliance bank accounts over which AP Commercial has authority. These transient amounts represent loan funding amounts by clients due to the relevant Lending Entity or principal and interest payments on Loan participations due to clients from the Lending Entity pursuant to the respective participation agreement. In either case, the cash transits out of the the Lending Entity account to the clients approximately contemporaneously with its receipt by the Lending Entity.

ITEM 16: INVESTMENT DISCRETION

Not applicable.

ITEM 17: VOTING CLIENT SECURITIES

Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Because the Loan Program relates only to credit assets such as bank loans, it typically will not give rise to proxy

voting in connection with securities. AP Commercial anticipates that there will be circumstances under which the Lending Entity, as the lender of record, will undertake to vote on behalf of Loan Participation holders under a loan agreement. This is because the credit documents underlying many Loans may limit the voting rights of participation holders (as opposed to the lender of record) to a narrow set of significant matters such as changes in principal, interest rate, maturity and/or collateral.

Voting Arrangements

With respect to any matters under the loan agreements or related credit documents as to which lenders are afforded the opportunity to vote, consent or elect (a “Vote”), the Loan Program documentation provides as follows: (i) with respect to purely ministerial matters (such as correcting an error or ambiguity in a credit document), BancAlliance, as the lender of record, may Vote or refrain from Voting as it determines in its sole discretion; (ii) when a Vote being solicited is, by the terms of the relevant credit documents (and any relevant agent bank procedures), divisible in respect of the Loan Participations, BancAlliance will cast its Vote(s) as directed by each Member holding relevant Loan Participations; and (iii) when a Vote being solicited is, by the terms of the relevant credit documents (and any relevant agreement bank procedure), not divisible in respect of the Loan Participations but may be made only in respect of all loans held by BancAlliance under the loan agreement, BancAlliance will cast its Vote as directed by a majority vote of Members holding relevant Loan Participations (on a one-vote-per-Member basis); provided, however, if a default or event of default has occurred and is continuing under the loan agreement, then BancAlliance will cast its vote as directed by a 75% supermajority of the relevant Members (on a one-vote-per-Member basis). In the case of any directions given by Members to BancAlliance on how to Vote, BancAlliance will deem the Affiliate Holder to have given those same directions.

Accordingly, with respect to possible material voting matters under loan agreements or related credit documents (such as proposed amendments or waivers), AP Commercial will not exercise discretion over the voting decisions of either (i) BancAlliance, to the extent BancAlliance exercises voting rights as a lender of record or (ii) Members, to the extent Members have direct voting rights or give voting instructions to BancAlliance.

AP Commercial will provide Members with its views concerning proposed amendments, waivers, consents, modifications, restructurings and similar matters in respect of credit agreements related to the Loans underlying Loan Participations held by the Members. In doing so, AP Commercial will act in accordance with its fiduciary duty as an investment adviser. In addition, AP Commercial will administer Members’ elections with respect to, or voting decisions related to, instructing BancAlliance how to vote as the lender of record concerning proposed amendments, waivers, consents, modifications and restructurings in respect of credit agreements. These elections will be made solely as directed by the terms of the Advisory Services Agreement and the Master Loan Participation Agreement.

Conflicts of Interest

The voting arrangements described above may give rise to apparent or actual conflicts of interest. For example, in the case of a Vote that is not divisible among Loan participation holders, different Members could have differing preferences regarding how BancAlliance should vote. The procedure described above for giving instructions to BancAlliance may result in

BancAlliance voting in a way that is unsatisfactory to those Members that do not agree with the majority (or supermajority).

In addition, the Affiliate Holder will be deemed to vote with the majority (or super majority) of those clients providing an instruction in a timely manner concerning non-divisible voting matters. In the absence of a majority, (e.g., a tie vote), the Affiliate Holder may vote its preference (i.e., breaking the tie vote), which may result in BancAlliance voting in a manner that is unsatisfactory to those Members in the resulting minority.

Similarly, AP Commercial (or an affiliate thereof), the Managed Accounts or other clients of AP Commercial may directly or indirectly hold interests in the same Loans as BancAlliance. In such situation, BancAlliance (or its affiliate), the Managed Accounts or such other client may exercise a vote separate and apart from the BancAlliance vote in such Loan, and which may be cast contrary to the vote of BancAlliance.

An apparent conflict of interest also might arise on the part of AP Commercial in connection with its provision to Members of its views concerning non-divisible voting matters. For example, AP Commercial could appear to have an incentive to color the views it gives to Members on a Voting matter in order to retain or enhance its relationship with (and receipt of fees from) future Non-Member clients if the Non-Member clients express to AP Commercial a desire for a particular Voting outcome.

AP Commercial has developed voting policies and procedures designed to address apparent or actual conflicts of interest that may arise between different clients, or between AP Commercial and its clients. These procedures may include, in appropriate cases, disclosure of the potential conflict to the relevant clients or the implementation by AP Commercial's management committee of other measures to address the potential conflict based on the management committee's judgment of what is in the best interest of the relevant clients.

Clients may obtain a copy of AP Commercial's voting policies and procedures upon request. Clients may obtain information about BancAlliance's Loan-related voting records via the Member Portal (or as otherwise set forth in the advisory agreement with any particular Non-Member client).

ITEM 18: FINANCIAL INFORMATION

Not applicable.