UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number: 001-35543

Western Asset Mortgage Capital Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**27-0298092**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

Western Asset Mortgage Capital Corporation

385 East Colorado Boulevard

Pasadena, California 91101

(Address of Registrant s principal executive offices)

(626) 844-9400

(Registrant s telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

As of July 29, 2015, there were 41,919,801 shares, par value $0.01, of the registrant s common stock issued and outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(in thousands except share and per share data)

		June 30, 2015		December 31, 2014
Assets:				
Cash and cash equivalents	$	22,190	$	47,222
Mortgage-backed securities and other securities, at fair value ($3,819,932 and $4,362,532 pledged as collateral, at fair value, respectively)		3,855,416		4,385,723
Residential Whole-Loans, at fair value ($22,184 and $7,220 pledged as collateral, at fair value, respectively)		22,184		7,220
Commercial Whole-Loans, at fair value		8,743		
Linked transactions, net, at fair value				20,627
Investment related receivable		470		162,837
Accrued interest receivable		40,853		27,309
Due from counterparties		231,669		184,757
Derivative assets, at fair value		99,931		73,256
Other assets		1,048		326
Total Assets	$	4,282,504	$	4,909,277
Liabilities and Stockholders Equity:				
Liabilities:				
Borrowings under repurchase agreements	$	3,406,360	$	3,875,721
Accrued interest payable		34,840		17,573
Investment related payables		450		166,608
Due to counterparties		8,510		12,180
Derivative liability, at fair value		217,311		180,280
Accounts payable and accrued expenses		2,609		1,794
Payable to related party		3,384		2,705
Dividend payable		26,829		29,204
Total Liabilities		3,700,293		4,286,065
Commitments and contingencies				
Stockholders Equity:				
Common stock, $0.01 par value, 500,000,000 shares authorized, 41,919,801 and 41,719,801 shares issued and outstanding, respectively		419		417
Preferred stock, $0.01 par value, 100,000,000 shares authorized and no shares outstanding				
Additional paid-in capital		762,410		760,925
Retained earnings (accumulated deficit)		(180,618)		(138,130)
Total Stockholders Equity		582,211		623,212
Total Liabilities and Stockholders Equity	$	4,282,504	$	4,909,277

See notes to unaudited consolidated financial statements.

Table of Contents

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited)

(in thousands except share and per share data)

	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Net Interest Income:				
Interest income	$ 41,029	$ 44,604	$ 81,835	$ 68,034
Interest expense	6,577	5,971	12,979	9,361
Net Interest Income	34,452	38,633	68,856	58,673
Other Income (Loss):				
Interest income on cash balances and other income (loss), net	(611)	24	1,773	12
Realized gain (loss) on sale of Mortgage-backed securities, other securities and Whole-Loans, net	4,281	(11,278)	11,749	(7,562)
Other loss on Mortgage-backed securities and other securities	(4,316)	(2,999)	(8,967)	(4,708)
Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net	(42,849)	114,117	(14,439)	145,208
Gain on linked transactions, net		688		2,907
Gain (loss) on derivative instruments, net	13,154	(66,677)	(35,148)	(126,583)
Other Income (Loss), net	(30,341)	33,875	(45,032)	9,274
Operating Expenses:				
General and administrative (includes $781, $479, $1,460 and $1,067 non-cash stock based compensation, respectively)	3,125	2,375	5,999	4,450
Management fee related party	2,679	2,559	5,372	4,364
Total Operating Expenses	5,804	4,934	11,371	8,814
Net income (loss) available to Common Stock and participating securities	$ (1,693)	$ 67,574	$ 12,453	$ 59,133
Net income (loss) per Common Share Basic	$ (0.05)	$ 1.68	$ 0.29	$ 1.76
Net income (loss) per Common Share Diluted	$ (0.05)	$ 1.68	$ 0.29	$ 1.76
Dividends Declared per Share of Common Stock	$ 0.64	$ 0.67	$ 1.31	$ 1.34

See notes to unaudited consolidated financial statements.

Table of Contents

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (Unaudited)

(in thousands except shares and share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated) Deficit	Total
	Shares	Par			
Balance at December 31, 2014	41,719,801	$ 417	$ 760,925	$ (138,130)	$ 623,212
Grants of restricted stock	200,000	2	(2)		
Vesting of restricted stock			1,460		1,460
Net income				12,453	12,453
Dividends on common stock			27	(54,941)	(54,914)
Balance at June 30, 2015	41,919,801	$ 419	$ 762,410	$ (180,618)	$ 582,211

See notes to unaudited consolidated financial statements.

Table of Contents

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the six months ended June 30, 2015	For the six months ended June 30, 2014, as Revised (See Note 2)
Cash flows from operating activities:		
Net income	$ 12,453	$ 59,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization and (discount accretion) on Mortgage-backed securities, other securities and Whole-Loans, net	3,596	4,214
Amortization of deferred financing costs	34	
Restricted stock amortization expense	1,460	1,067
Premium amortization for MAC interest rate swaps	(738)	
Interest payments and basis recovered on MAC interest rate swaps	919	
Premium on purchase of Residential Whole-Loans	(332)	
Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net	14,439	(145,208)
Mark-to-market adjustments on linked transactions		(590)
Mark-to-market adjustments on derivative instruments	24,406	109,342
Other loss on Mortgage-backed securities and other securities	8,967	4,708
Realized (gain) loss on sale of Mortgage-backed securities, other securities and Whole-Loans, net	(11,749)	7,562
Realized loss on sale of Interest-Only Strips accounted for as derivatives, net	2	1,144
Realized loss on termination of MAC interest rate swaps containing an other-than-insignificant financing element	8,514	
Realized gain on sale of TBAs, net	(6,477)	(22,561)
Realized loss on sale of swaptions, net	3,723	5,908
Realized loss on forward contracts	846	
Realized loss on futures	459	16,495
Realized gain on linked transaction, net		(1,290)
Gain on foreign currency transactions, net	(1,738)	
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(13,544)	(14,439)
Increase in other assets	(554)	(474)
Increase in accrued interest payable	17,267	10,105
Increase in accounts payable and accrued expenses	815	346
Increase in payable to related party	679	916
Net cash provided by operating activities	63,447	36,378
Cash flows from investing activities:		
Purchase of Mortgage-backed securities and other securities	(473,683)	(3,490,944)
Purchase of securities underlying linked transactions		(25,141)
Proceeds from sale of Mortgage-backed securities and other securities	824,828	1,692,817
Principal payments and basis recovered on Mortgage-backed securities and other securities	210,145	137,908
Principal payments and basis recovered on securities underlying linked transactions		3,777
Purchase of Residential Whole-Loans	(16,993)	

Principal payments on Residential Whole-Loans		2,563		
Purchase of Commercial Whole-Loans		(8,750)		
Net settlements of TBAs		8,664		22,561
Proceeds from currency swaps				25,160
Payment on termination of futures		(459)		(16,495)
Proceeds from sale of interest rate swaptions		25,621		
Premium for MAC interest rate swaps, net		(3,245)		13,245
Interest payments and basis recovered on MAC interest rate swaps		(705)		
Premium for interest rate swaptions, net		(29,344)		(323)
Net cash provided by (used in) investing activities		538,642		(1,637,435)
Cash flows from financing activities:				
Proceeds from issuance of common stock				205,380
Proceeds from private placement of common stock (concurrent with initial public offering)				9,653
Payment of offering costs				(244)
Proceeds from repurchase agreement borrowings		9,412,084		11,780,555
Proceeds from repurchase agreement borrowings underlying linked transactions				75,809
Repayments of repurchase agreement borrowings		(9,911,821)		(10,238,568)
Repayments of repurchase agreement borrowings underlying linked transactions				(124,714)
Proceeds from forward contracts		153,085		
Repayments of forward contracts		(153,931)		
Premium for MAC interest rate swaps containing an other-than-insignificant financing element				9,539
Payments on termination of MAC interest rate swaps containing an other-than-insignificant financing element		(18,414)		
Interest payments and basis recovered on MAC interest rate swaps containing an other-than-insignificant financing element		(214)		
Payments made for deferred financing costs		(202)		
Due from counterparties, net		(46,912)		(79,825)
Due to counterparties, net		(3,670)		(46,425)
Dividends on common stock		(57,289)		(37,581)
Net cash provided by (used in) financing activities		(627,284)		1,553,579
Effect of exchange rate changes on cash and cash equivalents		163		
Net decrease in cash and cash equivalents		(25,032)		(47,478)
Cash and cash equivalents beginning of period		47,222		48,525
Cash and cash equivalents end of period	$	22,190	$	1,047
Supplemental disclosure of operating cash flow information:				
Interest paid	$	13,402	$	7,755
Supplemental disclosure of non-cash financing/investing activities:				
Principal payments on Mortgage-backed securities and other securities, not settled	$	22	$	(237)
Mortgage-backed securities and other securities sold, not settled	$		$	35,615
Mortgage-backed securities and other securities purchased, not settled	$		$	(5,106)
Mortgage-backed securities recorded upon unlinking of linked transactions	$		$	(62,435)
Net unsettled TBAs	$	(2)	$	
Deferred offering costs payable	$		$	142
Repurchase agreements, not settled	$		$	(9,806)
Repurchase agreements underlying linked transactions, not settled	$		$	15,198
Currency swaps, not settled	$		$	(25,160)
Dividends and distributions declared, not paid	$	26,829	$	27,951

See notes to unaudited consolidated financial statements.

Table of Contents

Western Asset Mortgage Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

(in thousands- except share and per share data)

The following defines certain of the commonly used terms in these Notes to Consolidated Financial Statements: Agency or Agencies refer to a federally chartered corporation, such as the Federal National Mortgage Association (Fannie Mae or FNMA) or the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC), or an agency of the U.S. Government, such as the Government National Mortgage Association (Ginnie Mae or GNMA); references to MBS refer to mortgage backed securities, including residential mortgage-backed securities or RMBS , commercial mortgage-backed securities or CMBS , and Interest-Only Strips (as defined herein); Agency MBS refer to RMBS, CMBS and Interest-Only Strips issued or guaranteed by the Agencies while Non-Agency MBS refer to RMBS, CMBS and Interest-Only Strips that are not issued or guaranteed by the Agencies; references to ARMs refers to adjustable rate mortgages; references to Interest-Only Strips refer to interest-only (IO) and inverse interest-only (IIO) securities issued as part of or collateralized with MBS; references to Residential Whole-Loans and Commercial Whole-Loans (collectively Whole Loans) refer to individual mortgage loans secured by single family and commercial properties, respectively.

Note 1 Organization

Western Asset Mortgage Capital Corporation and subsidiaries (are collectively referred to throughout this report as the Company) are a real estate finance company. At the Company s launch in May 2012, its initial investment strategy focused primarily on Agency RMBS (including TBAs as defined herein). Over time, the Company expanded its investment strategy to include Non-Agency RMBS and subsequently, Agency and Non-Agency CMBS, including Non U.S. CMBS. In addition, and to a significantly lesser extent, the Company has invested in other securities including certain Agency obligations and Whole-Loans that are not technically MBS and in asset-backed securities (ABS). These changes in the Company s investment strategy, including future changes, are based on the Manager s perspective of which mix of portfolio assets it believes provide the Company with the best risk-reward opportunities at any given time.

The Company is externally managed by Western Asset Management Company (WAM , or the Manager), an investment advisor registered with the Securities and Exchange Commission (SEC). WAM is a wholly-owned subsidiary of Legg Mason, Inc. The Company operates and has elected to be taxed as a real estate investment trust or REIT commencing with its taxable year ended December 31, 2012.

In light of the aforementioned developments and given the Manager s current market outlook and investment view, while it can be expected that Agency RMBS will continue to be a significant part of the Company s portfolio, Agency RMBS will not necessarily be our primary investment in the future. Going forward, the Manager may vary the allocation among various asset classes subject to maintaining the Company s qualification as a REIT and maintaining its exemption from the Investment Company Act of 1940 (the 1940 Act). These restrictions limit the Company s ability to invest in non-real estate assets and/or assets which are not secured by real estate. Accordingly, the Company s portfolio will continue to be principally invested in MBS and other real estate related assets.

Table of Contents

Note 2 Revision of Previously Issued Financial Statements for Errors Affecting Certain Items Presented in the Statements of Cash Flows and Notes to Financial Statements

As previously reported in the Company s annual report on Form 10-K for the year ended December 31, 2014, during the process of preparing the Company s 2014 financial statements, the Company discovered that the treatment of premiums received on the market agreed coupon (MAC) interest rate swaps and treatment of proceeds and repayment on rehypothecation of non-cash collateral in its Statements of Cash Flows and a voluntary disclosure surrounding the breakdown between realized and unrealized portion of the change in fair value for derivative instrument were not presented in accordance with GAAP. The Company has evaluated the impact of these errors and has concluded that individually and in the aggregate, these errors were not material to any previously issued financial statements. However, the Company has elected to revise the Statement of Cash Flows for the six months ended June 30, 2014 and the voluntary disclosure for the three and six months ended June 30, 2014 in these quarterly financial statements on Form 10-Q to correct the aforementioned errors. The corrections resulted in a reclassification of premiums received and periodic interest payments on interest rate swaps previously reported in cash flows from operating activities and the reclassification of proceeds and repayments on rehypothecation of non-cash collateral previously reported as repurchase agreement proceeds and repayments (as indicated in the tables below). In accordance with the Company s accounting policies, proceeds and repayments on rehypothecation of non-cash collateral is reported on a net basis in Due to counterparties, net. These revisions had no effect on net income, shareholders equity, net change in cash, or total assets, of the Company reported for these periods.

Statements of Cash Flows (summarized) for the six months ended June 30, 2014:

	For the six months ended June 30, 2014		
Dollars in thousands	As Originally Reported	Adjustments	Revised
Statement of Cash Flows (effect on individual line items)			
Net income	$ 59,133	$	$ 59,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Mark-to-market adjustments on derivative instruments	132,126	(22,784)	109,342
All other items	(132,097)		(132,097)
Net cash provided by operating activities	59,162	(22,784)	36,378
Cash flows from investing activities:			
Premium for MAC interest rate swaps, net		13,245	13,245
All other items	(1,650,680)		(1,650,680)
Net cash used in investing activities	(1,650,680)	13,245	(1,637,435)
Cash flows from financing activities:			
Proceeds from repurchase agreement borrowings	11,783,312	(2,757)	11,780,555
Repayments of repurchase agreement borrowings	(10,241,325)	2,757	(10,238,568)
Premium for MAC interest rate swaps containing an other-than-insignificant financing element		9,539	9,539
All other items	2,053		2,053
Net cash provided by financing activities	1,544,040	9,539	1,553,579

Net increase (decrease) in cash and cash equivalents		(47,478)				(47,478)
Cash and cash equivalents beginning of period		48,525				48,525
Cash and cash equivalents end of period	$	1,047	$		$	1,047

7

Table of Contents

The below tables summarize the effect of interest rate swaps, interest rate swaptions, foreign currency swaps, foreign currency forwards, options, futures contracts, Agency and Non-Agency Interest-Only Strips as derivatives and TBAs reported in a voluntary disclosure surrounding the breakdown between realized and unrealized portion of the change in fair value for derivative instruments for the three and six months ended June 30, 2014 (dollars in thousands - summarized):

As Originally Reported

	Three months ended June 30, 2014				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ 15,996	$ (6,083)	$	$ (84,619)	$ (74,706)
All other items with no changes	(2,487)	6,140	(4,507)	8,883	8,029
Total	$ 13,509	$ 57	$ (4,507)	$ (75,736)	$ (66,677)

Adjustments

Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (22,784)	$	$	$ 22,784	$
All other items with no changes					
Total	$ (22,784)	$	$	$ 22,784	$

Revised

Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (6,788)	$ (6,083)	$	$ (61,835)	$ (74,706)
All other items with no changes	(2,487)	6,140	(4,507)	8,883	8,029
Total	$ (9,275)	$ 57	$ (4,507)	$ (52,952)	$ (66,677)

(1) Contractual interest income (expense), net on derivative instruments includes interest settlement paid or received.

As Originally Reported

	Six months ended June 30, 2014				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ 15,998	$ (13,936)	$	$ (130,115)	$ (128,053)
All other items with no changes	(986)	14,566	(10,099)	(2,011)	1,470
Total	$ 15,012	$ 630	$ (10,099)	$ (132,126)	$ (126,583)

Adjustments

Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (22,784)	$	$	$ 22,784	$
All other items with no changes					
Total	$ (22,784)	$	$	$ 22,784	$

Revised

Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (6,786)	$ (13,936)	$	$ (107,331)	$ (128,053)
All other items with no changes	(986)	14,566	(10,099)	(2,011)	1,470
Total	$ (7,772)	$ 630	$ (10,099)	$ (109,342)	$ (126,583)

(1) Contractual interest income (expense), net on derivative instruments includes interest settlement paid or received.

Table of Contents

Note 3 Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated financial statements include the Company s accounts and those of its consolidated subsidiary. The consolidated financial statements also include the consolidation of certain trusts that each meet the definition of a variable interest entity (VIE) related to the acquisition of Residential Whole-Loans in which the Company has determined itself to be the primary beneficiary of each such trust. Each trust has issued a trust certificate to the Company which is collateralized by pools of Residential Whole-Loans held by such trust. The Company includes the underlying Residential Whole-Loans owned by the trusts in Residential Whole-Loans at fair value on the Consolidated Balance Sheets and has eliminated the intercompany trust certificates in consolidation. The Company records interest income earned on the Residential Whole-Loans in Interest income on the Consolidated Statements of Operations. The Company records the initial underlying assets and liabilities of the consolidated trusts at their fair value upon consolidation into the Company and, as such, a gain or loss would be recorded upon consolidation if appropriate. Upon consolidation of the VIEs, the Company recorded no gain or loss upon consolidation. Refer to Note 6 - Variable Interest Entities for additional information regarding the impact of consolidation of the trusts. All intercompany amounts between the Company and its subsidiary and consolidated trusts have been eliminated in consolidation.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary have been made to present fairly the Company s financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (SEC) on March 16, 2015. The results of operations for the period ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year or any future period.

The Company currently operates as one business segment.

Cash and Cash Equivalents

The Company considers all highly-liquid short term investments with original maturities of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents are exposed to concentrations of credit risk. The Company places its cash and cash equivalents with what it believes to be high credit quality institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Classification of mortgage-backed securities, other securities and Residential and Commercial Whole-Loans and valuations of financial instruments

Mortgage-backed securities, other securities and Residential and Commercial Whole-Loans - Fair value election

The Company has elected the fair value option for all of its MBS, other securities, and Residential and Commercial Whole-Loans at the date of purchase, which permits the Company to measure these securities and Whole-Loans at fair value with the change in fair value included as a component of earnings. In the Manager s view, this election more appropriately reflects the results of the Company s operations for a particular reporting period, as financial asset fair value changes are presented in a manner consistent with the presentation and timing of the fair value changes of economic hedging instruments.

Balance Sheet Presentation

The Company s purchases and sales of mortgage-backed securities and other securities are recorded on the trade date, which results in an investment related payable (receivable) for MBS and other securities purchased (sold) for which settlement has not taken place as of the balance sheet date. In addition, the Company s TBAs which have matured but have not settled as of the balance sheet date result in an investment related payable (receivable). The Company s MBS, other securities and Residential Whole-Loans are pledged as collateral against borrowings under repurchase agreements. Other than MBS and other securities which were accounted for as linked transactions through December 31, 2014, described below, the Company s MBS and other securities are included in Mortgage-backed securities and other securities at fair value and Investment related receivables on the Consolidated Balance Sheets, with the fair value of such MBS and other securities pledged disclosed parenthetically. Residential and Commercial Whole-Loan purchases and sales are recorded on the settlement date and are included in Residential Whole-Loans at fair value and Commercial Whole-Loans at fair value on the Consolidated Balance Sheets, respectively, with the fair value of such Residential Whole-Loans pledged disclosed parenthetically.

Table of Contents

Valuation of financial instruments

The Company discloses the fair value of its financial instruments according to a fair value hierarchy (Levels I, II, and III, as defined below). In accordance with GAAP, the Company is required to provide enhanced disclosures regarding instruments in the Level III category (which require significant management judgment), including a separate reconciliation of the beginning and ending balances for each major category of assets and liabilities. GAAP establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements. GAAP further specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level I   Quoted prices in active markets for identical assets or liabilities.

Level II   Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level III   Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable, for example, when there is little or no market activity for an investment at the end of the period, unobservable inputs may be used.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels are determined by the Company at the end of the reporting period.

When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company consults with independent pricing services or obtains third party broker quotes. If independent pricing service, or third party broker quotes are not available, the Company determines the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayment and credit losses.

Valuation techniques for MBS, Residential and Commercial Whole-Loans and other securities may be based upon models that consider the estimated cash flows of the security or the Whole-Loan. Depending on the asset and the underlying collateral, the primary inputs to the model may include yields for Agency To-Be-Announced securities (also known as TBAs), Agency MBS, the U.S. Treasury market and floating rate indices such as the London interbank offered rate or LIBOR, the Constant Maturity Treasury rate and the prime rate as a benchmark yield. In addition, the model may incorporate the current weighted average maturity and additional pool level information such as prepayment speeds, default frequencies and default severities, if applicable. To the extent such inputs are observable and timely, these assets are categorized as Level II of the fair value hierarchy; otherwise, unless alternative pricing information as described above is available, they are categorized as Level III.

While linked transactions, described below, were treated as derivatives for GAAP through December 31, 2014, the securities underlying the Company s linked transactions were valued using similar techniques to those used for the Company s securities portfolio. The value of the underlying security was then netted against the carrying amount (which approximates fair value) of the repurchase agreement at the valuation date. Additionally, TBA instruments are similar in substance to the Company s Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

The Company determines the fair value of derivative financial instruments by obtaining quotes from third party pricing services, whose pricing is subject to review by the Manager s pricing committee. In valuing its over-the-counter interest rate derivatives, such as swaps and swaptions, and its currency derivatives, such as swaps and forwards, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. The majority of the Company s interest rate swaps are cleared through a central clearing house and subject to the clearing house margin requirements. The Company s agreements with its derivative counterparties also contain netting provisions; however the Company has elected to report its interest rate swaps and swaptions and currency swaps and forwards on a gross basis. No credit valuation adjustment was made in determining the fair value of interest rate and/or currency derivatives for the periods ended June 30, 2015 and December 31, 2014.

Table of Contents

Fair value under GAAP represents an exit price in the normal course of business, not a forced liquidation price. If the Company is forced to sell assets in a short period to meet liquidity needs, the prices it receives can be substantially less than their recorded fair values. Furthermore, the analysis of whether it is more likely than not that the Company will not be required to sell assets in an unrealized loss position before recovery of its amortized cost basis, the amount of such expected required sales, and the projected identification of which assets will be sold is also subject to significant judgment, particularly in times of market illiquidity.

Any changes to the valuation methodology will be reviewed by the Company and its Manager to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, the Company will continue to refine its valuation methodologies. The Company utilizes and follows the pricing methodology and fair value hierarchy employed by its Manager, including its review and challenge process. The methods used by the Company may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company anticipates that its valuation methods will be appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments can result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

All valuations received from independent pricing services are non-binding. The Company primarily utilizes independent third party pricing services as the primary source for valuing the Company s assets.

The Company generally receives one independent pricing service price for each investment in the Company s portfolio. The Manager has established a quarterly process to review and validate the pricing received from the independent pricing services and has a process for challenging prices received from the independent pricing services when necessary. The Company utilizes our Manager s policies in this regard. The Company s and the Manager s quarterly review of the independent third party pricing data may consist of a review of the daily change in the prices provided by the independent pricing vendor which exceed established tolerances or comparisons to executed transaction prices. The Manager s pricing group, which functions independently from its portfolio management personnel, corroborates the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager s pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that the Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, our Manager generally challenges the independent pricing service price.

In addition, to ensure proper fair value hierarchy, The Company and the Manager review the methodology and data used by the third party pricing service to understand whether observable market data is being utilized in the vendor s pricing methodology. Generally, this review is conducted annually, however ad-hoc reviews of the pricing methodology and the data does occur. The review of the assumptive data received from the vendor includes comparing key inputs. In addition, as part of the Company s regular review of pricing, the Manager s pricing group may have informal discussions with the independent pricing vendor regarding their evaluation methodology or the market data utilized in their determination as well as performing back-testing with regard to the sale of securities. The conclusion that a price should be overridden in accordance with the Manager s pricing methodology may impact the fair value hierarchy of the security for which such price has been adjusted.

Interest income recognition and Impairment

Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase

Interest income on mortgage-backed and other securities is accrued based on the respective outstanding principal balances and corresponding contractual terms. Premiums and discounts associated with Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, are amortized into interest income over the estimated life of such securities using the effective yield method. Adjustments to premium and discount amortization are made for actual prepayment activity. The Company estimates prepayments at least quarterly for its securities and, as a result, if prepayments increase (or are expected to increase), the Company will accelerate the rate of amortization on premiums or discounts and make a retrospective adjustment to historical amortization. Alternatively, if prepayments decrease (or are expected to decrease), the Company will reduce the rate of amortization on the premiums or discounts and make a retrospective adjustment to historical amortization.

The Company s conversion to a new accounting system in the calculation methodology used to determine the amortization of bond premium as of April 1, 2014, resulted in a cumulative retrospective change in estimate of approximately $1.2 million. The impact of the change in estimate had no impact on Net income and was limited to an increase of approximately $1.2 million to Interest income and an equal offsetting reduction to Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statement of Operations for the three months ended June 30, 2014. The Company does not believe the aforementioned change in estimate has had a material impact to subsequent periods or will in the future.

The Company assesses its Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, communications (if any) from the trustee of securitization regarding the credit quality of the security, the severity and duration of the impairment, the cause of the impairment, and the Company s intent not to sell the security and whether it is more likely than not that Company will not be required to sell the security until recovery of its amortized cost basis. An other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other loss on Mortgage-backed securities and other securities.

The determination as to whether an other-than-temporary impairment exists is subject to management estimates based on consideration of both factual information available at the time of assessment as well as the Company s estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of an other-than-temporary impairment constitutes an accounting estimate that may change materially over time.

Finally, certain of the Company s MBS and other securities that are in an unrealized loss position at June 30, 2015 are also not considered other-than-temporarily impaired because the Company has no intent to sell these investments, it is more likely than not that the Company will not be required to sell the investment before recovery of its amortized cost basis and the Company is not required to sell the security for regulatory or other reasons.

Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives

Interest income on Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives are recognized based on the effective yield method. The effective yield on these securities is based on the projected cash flows from each security, which is estimated based on the Company s observation of the then current information and events, where applicable, and will include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Where appropriate, the Company may include in its cash flow projections the U.S Department of Justice s settlements with the major residential mortgage originators, regarding certain lending practices. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on such securities. Actual maturities of the securities are affected by the contractual lives of the underlying collateral, periodic payments of scheduled principal, and prepayments of principal. Therefore, actual maturities of the securities will generally be shorter than stated contractual maturities.

Table of Contents

Based on the projected cash flow of such securities purchased at a discount to par value, the Company may designate a portion of such purchase discount as credit protection against future credit losses and, therefore, not accrete such amount into interest income. The amount designated as credit discount may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit discount is more favorable than forecasted, a portion of the amount designated as credit discount may be accreted into interest income prospectively.

In addition, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in the Company s Consolidated Statements of Operations as Other loss on Mortgage-backed securities and other securities.

Securities denominated in a foreign currency contain additional risk in that the amortized cost basis for those securities may not be recovered due to declines in currency exchange rates. The Company considers the length of time that the security s fair value has declined due to the decline in foreign exchange rates, when assessing other-than temporary impairment.

The determination as to whether an other-than-temporary impairment exists is subject to management estimates based on consideration of both factual information available at the time of assessment as well as the Company s estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of an other-than-temporary impairment constitutes an accounting estimate that may change materially over time.

Finally, certain of the Company s MBS and other securities that are in an unrealized loss position at June 30, 2015 are also not considered other-than-temporarily impaired because the Company has no intent to sell these investments, it is more likely than not that the Company will not be required to sell the investment before recovery of its amortized cost basis and the Company is not required to sell the security for regulatory or other reasons.

Residential and Commercial Whole-Loans

The Company records its purchases of Residential and Commercial Whole-Loans as the amount paid to the seller plus any fees paid or less any fees received. All other costs incurred in connection with acquiring Residential and Commercial Whole-Loans or committing to purchase Residential and Commercial Whole-Loans are charged to expense as incurred. The Company amortizes or accretes any premium or discount over the life of the related loan utilizing the effective interest method, based on the contractual payment terms of the loan. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record a loss accrual as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

13

Table of Contents

Sales of securities and Whole-Loans

Sales of securities and Whole-Loans are driven by the Company s portfolio management process. The Company seeks to mitigate risks including those associated with prepayments and will opportunistically rotate the portfolio into securities and/or other assets the Company s Manager believes have more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes. Realized gains or losses on sales of securities and Whole-Loans, including Agency Interest-Only Strips not characterized as derivatives, are included in the net Realized gain (loss) on sale of Mortgage-backed securities, other securities and Whole-Loans, net line item on the Consolidated Statements of Operations, and are recorded at the time of disposition. Realized gains losses on Interest-Only Strips which are characterized as derivatives are included in Gain (loss) on derivative instruments, net line item in the Consolidated Statements of Operations. Prior to January 1, 2015, realized gains or losses on sales of securities which were part of a linked transaction were included in Gain (loss) on linked transactions, net. The cost of positions sold is calculated using the specific identification method.

Investments in an unrealized loss position at the end of each reporting period are evaluated by the Company s Manager to determine whether the Company has the intent to sell such investments. To the extent the Company has no intent as of the end of such reporting period to sell such investments and it is more likely than not that the Company will not be required to sell the investment before recovery of its amortized cost basis, such unrealized loss is included in Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net in the Consolidated Statements of Operations. Otherwise, when the Company has determined its intent to sell such securities, the unrealized loss is characterized as a realized loss and included in Other loss on Mortgage-backed securities and other securities on the Consolidated Statements of Operations. The Company has identified eleven securities with an unpaid principal balance of approximately $106.0 million which it intended to sell that were in an unrealized loss position at June 30, 2015, and as a result, the Company recognized an impairment charge of approximately $1.4 million on Agency RMBS which is included in Other loss on Mortgage-backed securities and other securities.

Foreign currency transactions

The Company has and expects to continue to enter into transactions denominated in foreign currency from time to time. At the date the transaction is recognized, the asset and/or liability will be measured and recorded using the exchange rate in effect at the date of the transaction. At each balance sheet date, such foreign currency assets and liabilities are re-measured using the exchange rate in effect at the date of the balance sheet, resulting in unrealized foreign currency gains or losses. Unrealized foreign currency gains or losses on MBS and other assets are recorded in Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statement of Operations. In addition, the Company evaluates whether an other-than-temporary impairment is deemed to have occurred on MBS and other assets denominated in a foreign currency. Cash flows from MBS and other assets denominated in foreign currencies are received in a foreign currency, and as a result, the Company may incur a loss due to changes in foreign exchange rates even when all contractual cash flows are received. These adjustments are reflected in the Consolidated Statements of Operations as Other loss on Mortgage-backed securities and other securities. Unrealized and realized foreign currency gains or losses on borrowings under repurchase agreements are recorded in Interest income on cash balances and other income (loss), net on the Consolidated Statement of Operations. Interest income from investments denominated in a foreign currency and interest expense on borrowings denominated in a foreign currency are recorded at the average rate of exchange during the period.

Variable Interest Entities (VIEs   )

VIEs are defined as entities in which equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity   s activities or are not exposed to the entity   s losses or entitled to its residual returns. VIEs are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE   s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination of the requirement to consolidate a VIE and the requirement to disclose information about the Company   s involvement in a VIE can sometimes involve complex and subjective analyses. Ongoing assessments of whether an enterprise is the primary beneficiary of a VIE is required.

Due from counterparties/Due to counterparties

Due from counterparties represents cash posted by the Company with its counterparties as collateral for the Company s interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. Due to counterparties represents cash posted with the Company by its counterparties as collateral under the Company s interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. Included in the due from counterparties and/or due to counterparties are daily variation margin settlement amounts with counterparties which are based on the price movement of the Company s futures contracts. In addition, as provided below, Due to counterparties may include non-cash collateral, which the Company has the obligation to return, and which the Company has either sold or pledged. To the extent the Company receives collateral other than cash from its counterparties such assets are not included in the Company s Consolidated Balance Sheets. Notwithstanding the foregoing, if the Company either rehypothecates such assets or pledges the assets as collateral pursuant to a repurchase agreement, the cash received and the corresponding liability are reflected on the Consolidated Balance Sheets.

Derivatives and hedging activities

Subject to maintaining its qualification as a REIT for U.S. federal income tax purposes, the Company utilizes derivative financial instruments, including interest rate swaps, interest rate swaptions, mortgage put options, currency forwards, futures contracts, TBAs and Agency and Non-Agency Interest-Only Strips to hedge the interest rate and currency risk associated with its portfolio and related borrowings. Derivatives, subject to REIT requirements, are used for hedging purposes rather than speculation. The Company determines the fair value of its derivative positions and obtains quotations from third parties, including the Chicago Mercantile Exchange or CME, to facilitate the process of determining such fair values. If the Company s hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities and to measure those instruments at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives are classified as either hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). If the Company does not elect hedge accounting for a derivative instrument, which the Company has not, fair value adjustments are recorded in earnings immediately.

The Company elected not to apply hedge accounting for its derivative instruments. Accordingly, the Company records, the change in fair value of its derivative instruments, which includes net interest rate swap payments (including accrued amounts) and net currency payments (including accrued amounts) related to interest rate swaps and currency swaps, respectively in Gain (loss) on derivative instruments, net in its Consolidated Statements of Operations. In the Company s Consolidated Statements of Cash Flows, premiums received and paid on termination of its interest rate swaps, excluding interest rate swaps containing an other-than-insignificant financing element and the unamortized premium of market agreed coupon or MAC interest rate swaps, are included in cash flows from operating activities. Notwithstanding the foregoing, proceeds and payments on settlement of swaptions, mortgage put options, futures contracts and TBAs are included in cash flows from investing activities. Proceeds and payments on settlement of forward contracts are reflected in cash flows from financing activities in the Company s Consolidated Statement of Cash Flows. While payments made at the time of entering MAC interest rate swaps are included in cash flows from investing activities, payments received by the Company upon entering MAC interest rate swaps are included in either cash flows from investing activities or cash flows financing activities, depending on whether or not the derivative instrument includes an other-than-insignificant financing element. For MAC interest rate swaps containing an other-than-insignificant financing element, all cash flows over the life of the derivative are treated as cash flows from financing activities. Return and recovery of basis activity for MAC interest rate swaps is included in cash flows from investing activities for swaps not containing an other-than-insignificant financing element in the Company s Consolidated Statement of Cash Flows. For Agency and Non-Agency Interest-Only Strips accounted for as derivatives, the purchase, sale and recovery of basis activity is included with MBS and other securities under cash flows from investing activities in the Company s Consolidated Statement of Cash Flows.

The Company evaluates the terms and conditions of its holdings of Agency and Non-Agency Interest-Only Strips, interest rate swaptions, currency forwards, futures contracts and TBAs to determine if these instruments have the characteristics of an investment or should be considered a derivative under GAAP. In determining the classification of its holdings of Interest-Only Strips, the Company evaluates the securities to determine if the nature of the cash flows has been altered from that of the underlying mortgage collateral. Generally, Interest-Only Strips for which the security represents a strip off of a mortgage pass through security will be considered a hybrid instrument classified as a MBS investment on the Consolidated Balance Sheets utilizing the fair value option. Alternatively, those Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives at fair value. Accordingly, Agency and Non-Agency Interest-Only Strips, interest rate swaptions, currency forwards, futures contracts and TBAs having the characteristics of derivatives are accounted for at fair value with such changes recognized in Gain (loss) on derivative instruments, net in its Consolidated Statements of Operations, along with any interest earned or paid (including accrued amounts). The carrying value of the Agency and Non-Agency Interest-Only Strips, accounted for as derivatives, is included in Mortgage-backed securities on the Consolidated Balance Sheets. The carrying value of interest rate swaptions, currency forwards, futures contracts and TBAs is included in Derivative assets or Derivative liabilities on the Consolidated Balance Sheets.

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. An embedded derivative is separated from the host contact and accounted for separately when all of the guidance criteria are met. Hybrid instruments that are remeasured at fair value through earnings, including the fair value option are not bifurcated. Derivative instruments, including derivative instruments accounted for as liabilities, are recorded at fair value and are re-valued at each reporting date, with changes in the fair value together with interest earned or paid (including accrued amounts) reported in the Gain (loss) on derivatives instruments, net in the Consolidated Statements of Operations. While accounted for as derivative instruments through December 31, 2014, linked transactions, including changes in fair value and interest earned or paid (including accrued amounts) were reported separately in our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows. See Warrants below.

Repurchase agreements and Reverse Repurchase agreements

Mortgage-backed securities and other securities sold under repurchase agreements are treated as collateralized financing transactions, unless they meet sales treatment. Securities financed through a repurchase agreement remain on the Company s Consolidated Balance Sheets as assets and cash received from the lender is recorded in the Company s Consolidated Balance Sheets as a liability, unless such transaction was accounted for as a linked transaction prior to January 1, 2015, as described below. Interest payable in accordance with repurchase agreements is recorded as accrued interest payable on the Consolidated Balance Sheets. Interest paid (including accrued amounts) in accordance with repurchase agreements is recorded as interest expense, unless the repurchase agreement was accounted for as a linked transaction prior to January 1, 2015, as described below. The Company reflects all proceeds from repurchase agreement borrowings and repayment of repurchase agreement borrowings which are not linked transactions, including transactions pertaining to collateral received with respect to certain swap transactions, on a gross basis on the Consolidated Statements of Cash Flows.

The Company may borrow securities under reverse repurchase agreements to deliver a security owned and sold by the Company but pledged to a different counterparty under a separate repurchase agreement when in the Manager s view terminating the outstanding repurchase agreement is not in the Company s interest. Cash paid to the borrower is recorded in the Company s Consolidated Balance Sheets as an asset. Interest receivable in accordance with reverse repurchase agreements is recorded as accrued interest receivable on the Consolidated Balance Sheets. The Company reflects all proceeds on reverse repurchase agreement and repayment of reverse repurchase agreement, on a net basis on the Consolidated Statements of Cash Flows. Upon sale of a pledged security, the Company recognizes an obligation to return the borrowed security on the Consolidated Balance Sheet in Due to Counterparty. The Company establishes haircuts to ensure the market value of the underlying asset remains sufficient to protect the Company in the event of default by the counterparty. Realized gains and losses associated with the sale of the security are recognized in Realized gain (loss) on sale of Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statement of Cash Flows.

Linked transactions

Prior to January 1, 2015, in instances where the Company acquired a security through a repurchase agreement with the same counterparty from which the security was purchased, the Company evaluated such transaction in accordance with GAAP. This guidance in effect prior to January 1, 2015 required that if the initial transfer of a financial asset and repurchase financing were entered into contemporaneously with, or in contemplation of, one another, such purchase and financing would be considered linked unless all of the criteria found in the guidance were met at the inception of the transaction. If the transaction met all of the conditions, the initial transfer would be accounted for separately from the repurchase financing, and the Company would record the security and the related financing on a gross basis on its Consolidated Balance Sheets with the corresponding interest income and interest expense being reported in the Consolidated Statements of Operations. If the transaction was determined to be linked, the Company would record the initial transfer and repurchase financing on a net basis and record a forward commitment to purchase the security as a derivative instrument. Through December 31, 2014, such forward commitment was recorded at fair value in Linked transactions, net, at fair value on the Consolidated Balance Sheets with subsequent changes through December 31, 2014 in fair value recognized in Gain (loss) on linked transactions, net on its Consolidated Statements of Operations. The Company refers to these transactions as Linked Transactions. Prior to January 1, 2015, when or if a transaction was no longer considered to be linked, the security and related repurchase financing were reported on a gross basis. The unlinking of a transaction caused a realized event in which the fair value of the security as of the date of unlinking, became the cost basis of the security. The difference between the fair value on the unlinking date and the existing cost basis of the security was the realized gain or loss. Recognition of effective yield for such security was calculated prospectively using the new cost basis. For linked transactions, the Company reflected purchases and sales of securities within the investing section of the Consolidated Statements of Cash Flows. Proceeds from repurchase agreements borrowings and repayments of repurchase agreement borrowings were reflected in the financing section of the Consolidated Statements of Cash Flows. Starting in 2015, GAAP no longer requires the segregation and treatment of linked transactions as derivatives. Accordingly, starting in January 2015, the Company reports such securities and the corresponding repurchase agreement on a gross basis on its Consolidated Balance Sheets and with the corresponding interest income and interest expense reported in its Consolidated Statements of Operations. See Recent accounting pronouncements for details.

Table of Contents

Share-based compensation

The Company accounts for share-based compensation to its independent directors, to any employee, to its Manager and to employees of its Manager and its affiliates using the fair value based methodology prescribed by GAAP. Compensation cost related to restricted common stock issued to the Company s independent directors including any such restricted stock which is subject to a deferred compensation program, and any employee of the Company is measured at its fair value at the grant date, and amortized into expense over the service period on a straight-line basis. Compensation cost related to restricted common stock issued to the Manager and to employees of the Manager, including officers of the Company who are employees of the Manager and its affiliates is initially measured at fair value at the grant date, and amortized into expense over the vesting period on a straight-line basis and re-measured on subsequent dates to the extent the awards are unvested.

Warrants

For the Company s warrants, the Company uses a variation of the adjusted Black-Scholes option valuation model to record the financial instruments at their relative fair values at issuance. The warrants issued with the Company s common stock in the private placement to certain accredited institutional investors on May 15, 2012, were evaluated by the Company and were recorded at their relative fair value as a component of equity at the date of issuance. See Derivatives and hedging activities above.

Income taxes

The Company operates and has elected to be taxed as a REIT commencing with its taxable year ended December 31, 2012. Accordingly, the Company will generally not be subject to corporate U.S. federal or state income tax to the extent that the Company makes qualifying distributions to stockholders, and provided that the Company satisfies, on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the Company lost its REIT qualification. Accordingly, the failure to qualify as a REIT could have a material adverse impact on the Company s results of operations and amounts available for distribution to stockholders.

The dividends paid deduction for qualifying dividends paid to stockholders is computed using the Company s taxable income as opposed to net income reported on the consolidated financial statements. Taxable income, generally, will differ from net income reported on the consolidated financial statements because the determination of taxable income is based on tax provisions and not GAAP.

The Company may create and elect to treat certain subsidiaries as Taxable REIT Subsidiaries (TRS). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes, and its value may not exceed 25% of the value of the Company. While a TRS may generate net income, a TRS can declare dividends to the Company, which will be included in the Company s taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at the TRS level, no distribution is required and it can increase book equity of the consolidated entity. As of

June 30, 2015, the Company has a single wholly owned subsidiary, which it has elected to treat as a TRS.

Table of Contents

The Company evaluates uncertain tax positions, if any, and classifies interest and penalties, if any, related to unrecognized tax benefits, if any, as a component of the provision for income taxes. In addition, the Company evaluates the performance of the TRS each period to determine the need for a provision for income taxes.

Offering costs

Offering costs borne by the Company in connection with its IPO and concurrent private placement completed on May 15, 2012 as well as its follow-on public stock offering completed on October 3, 2012 and its follow-on public stock offering and concurrent private placement completed on April 9, 2014 (inclusive of the partial exercise of the greenshoe which was completed on May 7, 2014) are reflected as a reduction of additional paid-in-capital.

Earnings per share

GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating securities as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity. The Company s participating securities are not allocated a share of the net loss, as the participating securities do not have a contractual obligation to share in the net losses of the Company.

The remaining earnings are allocated to common stockholders and participating securities, to the extent that each security shares in earnings, as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding common shares and all potential common shares assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential common shares.

Comprehensive Income (Loss)

The Company has none of the components of comprehensive income (loss) and therefore comprehensive income (loss) is not presented.

Accounting standards applicable to emerging growth companies

The JOBS Act contains provisions that relax certain requirements for emerging growth companies , which includes the Company. For as long as the Company is an emerging growth company, which may be up to five full fiscal years, unlike other public companies, the Company will not be required to: (i) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act; (ii) provide an auditor s attestation report on management s assessment of the effectiveness of the Company s system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act; (iii) comply with any new requirements adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; or (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012, unless the SEC determines otherwise. The Company currently takes advantage of some of these exemptions. The Company s qualification for remaining an emerging growth company under the five full fiscal years expires on December 31, 2017. However, the Company will no longer qualify for such exemption if its gross revenues for any year equals or exceeds $1.0 billion, the Company issues more than $1.0 billion in non-convertible debt during the three previous years, or if the Company is deemed to be a large accelerated filer.

As noted above, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. The Company intends to take advantage of such extended transition period. Since the Company will not be required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies, its financial statements may not be comparable to the financial statements of companies that comply with public company effective dates. If the Company were to elect to comply with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Table of Contents

Recent accounting pronouncements

Accounting Standards Adopted in 2015

In April 2014, the Financial Accounting Standards Board issued updated guidance that changes the requirements for reporting discontinued operations. Under the new guidance, a discontinued operation is defined as a disposal of a component of an entity or group of components of an entity that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The guidance is effective prospectively as of the first quarter of 2015 for a public company and for certain non-for-profit entities, with early adoption permitted for new disposals or new classifications as held-for-sale. The guidance is effective for other entities for annual periods beginning on or after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015. The new guidance does not have a material impact on the Company s consolidated financial statements.

In June 2014, the Financial Accounting Standards Board issued guidance that changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. These transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. In addition, the guidance requires additional disclosures. The guidance for a public company is effective for the first interim or annual period beginning after December 15, 2014. Other entities may elect to apply the requirements for interim periods beginning after December 31, 2014. Certain disclosures under this guidance do not take effect for a public company until the first period beginning after March 15, 2015 and do not take effect for other companies beginning for annual periods commencing after December 31, 2014 and for interim periods beginning after December 15, 2015. Through December 31, 2014, the Company accounted for certain transfers as forward agreements under the previous guidance, which were classified as linked transactions. The new guidance requires the Company to record these transfers as secured borrowings. The implementation of the new guidance resulted in an increase to Mortgage-backed securities and other securities, at fair value of approximately $52.5 million, an increase in Borrowings under repurchase agreements of approximately $31.9 million and a decrease in Linked transactions, net, at fair value of approximately $20.6 million in the Company s Consolidated Balance Sheets as of January 1, 2015. Further, the implementation of the new guidance resulted in a cumulative-effect adjustment of zero to retained earnings as of January 1, 2015.

Accounting Standards to be Adopted in Future Periods

In May 2014, the Financial Accounting Standards Board issued guidance that changes an entity s recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires improved disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In applying the new guidance, an entity may use either a retrospective approach to each prior reporting period or a retrospective approach with the cumulative effect recognized at the date of initial application. For a public company, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted for a public entity. For all other entities, the standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2015. With certain restrictions, a nonpublic entity may elect to apply the guidance earlier. The new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In August 2014, the Financial Accounting Standards Board issued guidance that will require an entity s management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. According to the new guidance, substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued. The term probable is used consistently with its current use in U.S. GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt about the entity s ability to continue as a going concern, including whether management s plans that are intended to mitigate those conditions will alleviate the substantial doubt when implemented. The guidance is effective for annual periods ending after December 15, 2016. The effective date is the same for both public companies and all other entities. Early application is permitted. The Company s first assessment under the new guidance will be completed for the year ending December 31, 2016.

Table of Contents

In January 2015, the FASB issued guidance to simplify income statement presentation by eliminating the concept of extraordinary items. U.S. GAAP currently requires that a company separately classify, disclose and present extraordinary events and transactions. The guidance eliminates the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. The existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The new guidance also requires similar separate presentation of items that are both unusual and infrequent. The standard is effective for periods beginning after December 15, 2015. The effective date is the same for both public companies and all other entities. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application. If adopted prospectively, both the nature and amount of any subsequent adjustments to previously reported extraordinary items must be disclosed. The Company has not elected to early adopt this guidance. The new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In February 2015, the FASB issued guidance to simplify and reduce the number of consolidation models through the elimination of an indefinite deferral for certain entities and by placing more emphasis on risk of loss when determining a controlling financial interest. The guidance affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The standard is effective for a public company for fiscal years, and for interim periods within fiscal years beginning after December 15, 2015. The standard is effective for other entities for fiscal years beginning after December 31, 2016, and for interim periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company has not elected to early adopt this guidance. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements when adopted.

In April 2015, the FASB issued guidance to amend the presentation of debt issuance cost related to a recognized debt liability. Under the new guidance, the debt issuance costs will be presented in the balance sheet as a direct deduction from the carrying amount of the recognized debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected under the new guidance. The standard is effective for a public company for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The standard is effective for other entities for the fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The guidance should be applied on a retrospective basis. The balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon adoption, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). The Company has not elected to early adopt this guidance. The new guidance is not expected to have a material impact on the Company s consolidated financial statements.

Table of Contents

Note 4 Fair Value of Financial Instruments

Fair Value Accounting Elections

The Company s MBS and other securities are designated as available-for-sale and the Company has elected the fair value option for all of its MBS and other securities. In addition, the Company has designated its Residential and Commercial Whole-Loans as held-for-investment and has elected the fair value option. As a result, all changes in the fair value of MBS, other securities and Residential and Commercial Whole-Loans are reflected in the results of operations.

Financial Instruments carried at Fair Value

The following tables present the Company s financial instruments carried at fair value as of June 30, 2015 and December 31, 2014, based upon the valuation hierarchy (dollars in thousands):

	June 30, 2015 Fair Value			
	Level I	Level II	Level III	Total
Assets				
Agency RMBS:				
20-Year mortgage	$	$ 1,161,864	$	$ 1,161,864
30-Year mortgage		1,241,963		1,241,963
Agency RMBS Interest-Only Strips		149,749		149,749
Agency and Non-Agency Interest-Only Strips accounted for as derivatives, included in MBS		75,332	4,015	79,347
Non-Agency RMBS		331,178	250,499	581,677
Agency and Non-Agency CMBS		351,396	131,884	483,280
Other securities		91,547	65,989	157,536
Residential Whole-Loans			22,184	22,184
Commercial Whole-Loans			8,743	8,743
Subtotal		3,403,029	483,314	3,886,343
Derivative assets		99,931		99,931
Total	$	$ 3,502,960	$ 483,314	$ 3,986,274
Liabilities				
Derivative liabilities	$ 19	$ 217,292	$	$ 217,311
Total	$ 19	$ 217,292	$	$ 217,311

	December 31, 2014 Fair Value			
	Level I	Level II	Level III	Total
Assets				

Agency RMBS:								
20-Year mortgage	$		$	1,120,031	$		$	1,120,031
30-Year mortgage				1,790,219				1,790,219
Agency RMBS Interest-Only Strips				188,506				188,506
Agency and Non-Agency Interest-Only Strips accounted for as derivatives, included in MBS				83,773		4,456		88,229
Non-Agency RMBS				490,093		176,479		666,572
Agency and Non-Agency CMBS				320,171		103,069		423,240
Other securities				101,523		7,403		108,926
Residential Whole-Loans						7,220		7,220
Subtotal				4,094,316		298,627		4,392,943
Derivative assets		451		72,805				73,256
Non-Agency RMBS linked transactions						1,596		1,596
Non-Agency CMBS linked transactions, including Non U.S.						16,152		16,152
Other securities linked transactions						2,879		2,879
Total	$	451	$	4,167,121	$	319,254	$	4,486,826
Liabilities								
Derivative liabilities	$	1,191	$	179,089	$		$	180,280
Total	$	1,191	$	179,089	$		$	180,280

Table of Contents

The following tables present additional information about the Company s financial instruments, which are measured at fair value on a recurring basis for which the Company has utilized Level III inputs to determine fair value:

$ in thousands	Mortgage-backed securities and other securities Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Beginning balance	$ 398,881	$ 56,441	$ 291,407	$ 15,681
Fair value of securities previously accounted for as linked transactions			52,484	
Transfers into Level III from Level II	32,143	17,823	37,499	37,291
Transfers from Level III into Level II	(18,228)	(16,703)	(3,996)	(16,703)
Purchases	66,665	93,564	156,326	113,418
Sales and settlements	(22,523)	(23,442)	(72,247)	(23,442)
Principal repayments	(2,364)	(19)	(4,709)	(19)
Total net gains / (losses) included in net income				
Realized gains/(losses), net	(9)	2,861	4,461	2,861
Other loss on Mortgage-backed securities	(1,547)		(2,741)	
Unrealized gains/(losses), net(1)	1,225	857	(827)	2,371
Premium and discount amortization, net	(1,856)	(798)	(5,270)	(874)
Ending balance	$ 452,387	$ 130,584	$ 452,387	$ 130,584

(1) For Mortgage-backed securities and other securities classified as Level III at June 30, 2015, the Company recorded gross unrealized gains of approximately $4.7 million and $7.6 million and gross unrealized losses of approximately $5.6 million and $7.6 million, for the three and six months ended June 30, 2015, respectively. For Mortgage-backed securities and other securities classified as Level III at June 30, 2014, the Company recorded gross unrealized gains of approximately $1.1 million and $1.3 million and gross unrealized losses of approximately $377 thousand and $377 thousand, for the three and six months ended June 30, 2014, respectively. These gains and losses are included in Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statements of Operations.

$ in thousands	Residential Whole-Loans Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Beginning balance	$ 17,860	$	$ 7,220	$
Transfers into Level III from Level II				
Transfers from Level III into Level II				
Purchases	6,865		16,747	
Sales and settlements				
Principal repayments	(2,542)		(1,997)	

Total net gains / (losses) included in net income								
Realized gains/(losses), net								
Other loss on Mortgage-backed securities								
Unrealized gains/(losses), net(1)		67				313		
Premium and discount amortization, net		(66)				(99)		
Ending balance	$	22,184	$		$	22,184	$	

(1) For Residential Whole-Loans classified as Level III at June 30, 2015, the Company recorded gross unrealized gains of approximately $172 thousand and $363 thousand and gross unrealized losses of approximately $59 thousand and $50 thousand, for the three and six months ended June 30, 2015, respectively. These gains and losses are included in Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statements of Operations. The Company did not hold any Residential Whole-Loans for the three and six months ended June 30, 2014.

Table of Contents

$ in thousands	Commercial Whole-Loans Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Beginning balance	$ 8,900	$	$	$
Transfers into Level III from Level II				
Transfers from Level III into Level II				
Purchases			8,750	
Sales and settlements				
Principal repayments				
Total net gains / (losses) included in net income				
Realized gains/(losses), net				
Other loss on Mortgage-backed securities				
Unrealized gains/(losses), net(1)	(157)		(7)	
Premium and discount amortization, net				
Ending balance	$ 8,743	$	$ 8,743	$

(1) For Commercial Whole-Loans classified as Level III at June 30, 2015, the Company recorded gross unrealized gains of $0 and $0 and gross unrealized losses of approximately $157 thousand and $7 thousand, for the three and six months ended June 30, 2015, respectively. These gains and losses are included in Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net on the Consolidated Statements of Operations. The Company did not hold any Commercial Whole-Loans for the three and six months ended June 30, 2014.

$ in thousands	Derivative assets Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Beginning balance	$	$ 126	$	$
Transfers into Level III from Level II				126
Transfers out Level III into Level II				
Purchases				
Sales and settlements				
Principal repayments				
Total net gains/(losses) included in net income				
Realized gains/(losses), net		(1,163)		(1,163)
Other loss on Mortgage-backed securities				
Unrealized gains/(losses), net		1,037		1,037
Premium and discount amortization, net				
Ending balance	$	$	$	$

Table of Contents

	Derivative liabilities							
$ in thousands	**Three months ended June 30, 2015**		**Three months ended June 30, 2014**		**Six months ended June 30, 2015**		**Six months ended June 30, 2014**	
Beginning balance	$		$		$		$	
Transfers into Level III from Level II								
Transfers out Level III into Level II								
Purchases								
Sales and settlements								
Principal repayments								
Total net gains/(losses) included in net income								
Realized gains/(losses), net								
Other loss on Mortgage-backed securities								
Unrealized gains/(losses), net				863				863
Premium and discount amortization, net								
Ending balance	$		$	863	$		$	863

Transfers between hierarchy levels during operations for the three months and six months ended June 30, 2015 and June 30, 2014 were based on the lack of availability of sufficient observable inputs to meet Level II versus Level III criteria. The leveling of these assets was based on information received from a third party pricing service which utilized unobservable inputs, along with the back-testing of historical sales transactions performed by the Manager.

The Company primarily utilizes independent third party pricing services as the main source for valuing the Company s assets. All valuations received from independent pricing services are non-binding. The Company generally receives one independent pricing service price for each investment in its portfolio. The Manager has established a process to review and validate the pricing received from the independent pricing service on a quarterly basis and has a process for challenging prices received from the independent pricing service when necessary. The Company utilizes its Manager s policies in this regard. The Company s and the Manager s quarterly review of the independent third party pricing data may consist of a review of the daily change in the prices provided by the independent pricing vendor which exceed established tolerances or comparisons to executed transaction prices. The Manager s pricing group, which functions independently from its portfolio management personnel, corroborates the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager s pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that the Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, the Manager generally challenges the independent pricing service price. In addition, to ensure proper fair value hierarchy, the Company and the Manager review the methodology used by the third party pricing service to understand whether observable market data is being utilized in the vendor s pricing methodology. Such review is conducted no less than annually. In addition, as part of the Company s regular review of pricing, the Manager s pricing group may throughout the year have incremental discussions with the independent pricing vendor regarding their evaluation methodology or the market data utilized in their determination as well as performing back testing with regard to the sale of certain assets.

Other Fair Value Disclosures

Due from counterparties and Due to counterparties on the Company s Consolidated Balance Sheets are reflected at cost which approximates fair value.

The fair value of the repurchase agreements is based on an expected present value technique. This method discounts future estimated cash flows using rates the Company determined best estimate current market interest rates that would be offered for loans with similar characteristics and credit quality. The use of different market assumptions or estimation methodologies could have a material effect on the fair value amounts. At June 30, 2015, the Company s borrowings under repurchase agreements had a fair value of approximately $3.4 billion and a carrying value of approximately $3.4 billion. Inputs used to arrive at the fair value of the repurchase agreement borrowings are generally observable, and therefore, they would be considered a Level II fair value measurement.

Table of Contents

Note 5 Mortgage-Backed Securities and other securities

The following tables present certain information about the Company s investment portfolio at June 30, 2015 and December 31, 2014 (dollars in thousands). Real estate securities and other securities that are accounted for as a component of linked transactions as of December 31, 2014 are not reflected in the tables set forth in this note. See Note 10 for further details.

	June 30, 2015						
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain (Loss), net	Estimated Fair Value	Net Weighted Average Coupon (1)
Agency RMBS:							
20-Year mortgage	$ 1,105,811	$ 57,177	$	$ 1,162,988	$ (1,124)	$ 1,161,864	3.6%
30-Year mortgage	1,152,022	92,492		1,244,514	(2,551)	1,241,963	4.2%
Agency RMBS Interest-Only Strips	N/A	N/A	N/A	138,809	10,940	149,749	3.9%(2)
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives (3)	N/A	N/A	N/A	N/A	N/A	79,347	2.8%(2)
Non-Agency RMBS	650,158	(13,972)	(147,946)	488,240	6,049	494,289	3.8%
Non-Agency RMBS Interest-Only Strips	N/A	N/A	N/A	73,105	14,283	87,388	6.2%(2)
Agency and Non-Agency CMBS	533,881	(38,653)	(13,963)	481,265	(1,124)	480,141	5.3%
Agency CMBS Interest-Only Strips	N/A	N/A	N/A	2,923	216	3,139	4.7%(2)
Other securities (4)	132,087	6,049	(3,022)	157,131	405	157,536	4.9%
Total	$ 3,573,959	$ 103,093	$ (164,931)	$ 3,748,975	$ 27,094	$ 3,855,416	4.1%

	December 31, 2014						
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain (Loss), net	Estimated Fair Value	Net Weighted Average Coupon (1)
Agency RMBS:							
20-Year mortgage	$ 1,054,864	$ 56,616	$	$ 1,111,480	$ 8,551	$ 1,120,031	3.6%
30-Year mortgage	1,657,640	127,876		1,785,516	4,703	1,790,219	4.1%
Agency RMBS Interest-Only Strips	N/A	N/A	N/A	178,162	10,344	188,506	4.0%(2)
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives (3)	N/A	N/A	N/A	N/A	N/A	88,229	2.9%(2)
Non-Agency RMBS	759,068	6,941	(178,883)	587,126	9,791	596,917	3.6%
Non-Agency RMBS Interest-Only Strips	N/A	N/A	N/A	61,144	8,511	69,655	6.1%(2)
Agency and Non-Agency CMBS	449,617	(31,216)	(3,124)	415,277	3,848	419,125	5.3%
Agency CMBS Interest-Only Strips	N/A	N/A	N/A	4,017	98	4,115	4.8%(2)
Other securities (4)	102,323	699		110,425	(1,499)	108,926	4.6%
Total	$ 4,023,512	$ 160,916	$ (182,007)	$ 4,253,147	$ 44,347	$ 4,385,723	4.0%

(1) Net weighted average coupon as of June 30, 2015 and December 31, 2014 is presented, net of servicing and other fees.

(2) Interest-Only Strips and Interest-Only Strips accounted for as derivatives have no principal balances and earn contractual interest based on a notional balance. The notional balance is used solely to determine interest distributions on interest-only class of securities.

(3) Interest on these securities is reported as a component of Gain (loss) on derivative instruments, net on the Consolidated Statements of Operations.

(4) Other securities include residual interests in asset-backed securities which have no principal balance and an amortized cost of approximately $22.0 million and $7.4 million as of June 30, 2015 and December 31, 2014, respectively.

Table of Contents

As of June 30, 2015 and December 31, 2014 the weighted average expected remaining term to the expected maturity of the MBS and other securities investment portfolio, excluding linked transactions was 7.0 years and 6.7 years, respectively.

The components of the carrying value of the Company s real estate securities and other securities are as follows (dollars in thousands):

	June 30, 2015	December 31, 2014
Principal balance	$ 3,573,959	$ 4,023,512
Amortized cost of Interest-Only Strips and residual interests	236,854	250,726
Carrying value of Agency and Non-Agency Interest-Only Strips accounted for as derivatives	79,347	88,229
Unamortized premium	179,132	218,561
Unamortized discount	(76,039)	(57,645)
Discount designated as Credit Reserve and OTTI	(164,931)	(182,007)
Gross unrealized gains	69,217	75,444
Gross unrealized losses	(42,123)	(31,097)
Fair value	$ 3,855,416	$ 4,385,723

The following tables present the changes in the components of the Company s purchase discount and amortizable premium on its Non-Agency RMBS, Non-Agency CMBS and other securities for the three and six months ended June 30, 2015 and June 30, 2014 (dollars in thousands):

	Three months ended June 30, 2015		
	Discount Designated as Credit Reserve and OTTI	Accretable Discount(1)	Amortizable Premium(1)(2)
Balance at beginning of period	$ (163,892)	$ (111,802)	$ 76,443
Accretion of discount		4,112	
Amortization of premium			(2,151)
Realized credit losses	2,327		
Purchases	(3,509)	(15,175)	4,751
Sales		323	(1,072)
Net impairment losses recognized in earnings	(1,862)		
Transfers/release of credit reserve	2,005	(10,865)	8,860
Balance at end of period	$ (164,931)	$ (133,407)	$ 86,831

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions in the non-accretable discount results in a corresponding reduction in the amortizable premium.

	Six months ended June 30, 2015		
	Discount Designated as Credit Reserve and	Accretable Discount(1)	Amortizable Premium(1)(2)

	OTTI					
Balance at beginning of period(3)	$	(184,327)	$	(107,197)	$	86,815
Accretion of discount				9,266		
Amortization of premium						(4,879)
Realized credit losses		4,995				
Purchases		(34,096)		(63,473)		6,808
Sales		53,815		37,175		(11,018)
Net impairment losses recognized in earnings		(5,391)				
Transfers/release of credit reserve		73		(9,178)		9,105
Balance at end of period	$	(164,931)	$	(133,407)	$	86,831

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions in the non-accretable discount results in a corresponding reduction in the amortizable premium.

(3) Included in the beginning balance are mortgage-backed securities and other securities with discount designated as credit reserve and OTTI of approximately $2.3 million, accretable discount of approximately $1.4 million and amortizable premium of approximately $4.6 million which were previously accounted for as linked transactions through December 31, 2014.

Table of Contents

	Three months ended June 30, 2014		
	Discount Designated as Credit Reserve and OTTI	**Accretable Discount (1)**	**Amortizable Premium**
Balance at beginning of period	$ (96,949)	$ (53,916)	$ 58,213
Accretion of discount		2,288	
Amortization of premium			(199)
Realized credit losses	1,075		
Purchases	(111,998)	(89,407)	53,258
Sales	4,692	24,461	
Net impairment losses recognized in earnings	(1,999)		
Unlinking of Linked Transactions			
Transfers/release of credit reserve	(1,195)	9,206	(8,011)
Balance of end of period	$ (206,374)	$ (107,368)	$ 103,261

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

	Six months ended June 30, 2014		
	Discount Designated as Credit Reserve and OTTI	**Accretable Discount (1)**	**Amortizable Premium**
Balance at beginning of period	$ (79,898)	$ (71,295)	$ 20,625
Accretion of discount		7,544	
Amortization of premium			(3,668)
Realized credit losses	1,770		
Purchases	(131,725)	(95,088)	59,941
Sales	19,411	46,432	
Net impairment losses recognized in earnings	(2,476)		
Unlinking of Linked Transactions	(13,889)	(297)	32,132
Transfers/release of credit reserve	433	5,336	(5,769)
Balance of end of period	$ (206,374)	$ (107,368)	$ 103,261

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

The following tables present the fair value and contractual maturities of the Company s securities portfolio at June 30, 2015 and December 31, 2014 (dollars in thousands)**:**

	June 30, 2015				
	< or equal to 10 years	**> 10 years and < or equal to 20 years**	**> 20 years and < or equal to 30 years**	**> 30 years**	**Total**
Agency RMBS:					
20-Year mortgage	$	$ 1,161,864	$	$	$ 1,161,864
30-Year mortgage			1,241,963		1,241,963
Agency RMBS Interest-Only Strips		47,459	102,290		149,749

Agency and Non-Agency Interest-Only Strips, accounted for as derivatives		15,072	47,969	16,306	79,347
Non-Agency RMBS	15	54,246	121,306	318,722	494,289
Non-Agency RMBS Interest-Only Strips			22,078	65,310	87,388
Agency and Non-Agency CMBS	66,975	52,300	126,746	234,120	480,141
Agency CMBS Interest-Only Strips	3,139				3,139
Other securities	80,164		48,953	28,419	157,536
Total	$ 150,293	$ 1,330,941	$ 1,711,305	$ 662,877	$ 3,855,416

Table of Contents

	December 31, 2014				
	< or equal to 10 years	**> 10 years and < or equal to 20 years**	**> 20 years and < or equal to 30 years**	**> 30 years**	**Total**
Agency RMBS:					
20-Year mortgage	$	$ 1,120,031	$	$	$ 1,120,031
30-Year mortgage			1,790,219		1,790,219
Agency RMBS Interest-Only Strips		52,975	135,531		188,506
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives		17,123	53,452	17,654	88,229
Non-Agency RMBS	22	26,632	193,852	376,411	596,917
Non-Agency RMBS Interest-Only Strips			30,217	39,438	69,655
Agency and Non-Agency CMBS	43,286	52,135	82,055	241,649	419,125
Agency CMBS Interest-Only Strips	4,115				4,115
Other securities	65,128		36,395	7,403	108,926
Total	$ 112,551	$ 1,268,896	$ 2,321,721	$ 682,555	$ 4,385,723

The following tables present the gross unrealized losses and estimated fair value of the Company s MBS and other securities by length of time that such securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015								
	Less than 12 Months			**12 Months or More**			**Total**		
	Fair Value	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**
Agency RMBS:									
20-Year mortgage	$ 372,060	$ (6,955)	64	$ 109,464	$ (3,072)	13	$ 481,524	$ (10,027)	77
30-Year mortgage	73,326	(1,647)	18	444,372	(15,101)	88	517,698	(16,748)	106
Agency RMBS Interest-Only Strips	8,289	(275)	4	1,942	(111)	1	10,231	(386)	5
Non-Agency RMBS	253,526	(4,255)	36	10,557	(135)	2	264,083	(4,390)	38
Agency and Non-Agency CMBS	212,441	(7,151)	34	9,253	(196)	3	221,694	(7,347)	37
Other securities	80,077	(1,613)	8	20,888	(1,612)	1	100,965	(3,225)	9
Total	$ 999,719	$ (21,896)	164	$ 596,476	$ (20,227)	108	$ 1,596,195	$ (42,123)	272

	December 31, 2014								
	Less than 12 Months			**12 Months or More**			**Total**		
	Fair Value	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**
Agency RMBS:									
20-Year mortgage	$ 1,475	$ (10)	1	$ 422,287	$ (5,426)	54	$ 423,762	$ (5,436)	55
30-Year mortgage	2,893	(93)	5	882,482	(18,358)	126	885,375	(18,451)	131
Agency RMBS Interest-Only Strips	20,756	(587)	11				20,756	(587)	11
	112,505	(1,090)	20	11,564	(149)	2	124,069	(1,239)	22

Non-Agency RMBS									
Non-Agency RMBS Interest-Only Strips	5,081	(411)	1				5,081	(411)	1
Agency and Non-Agency CMBS	173,139	(1,716)	34				173,139	(1,716)	34
Other securities	62,345	(3,257)	6				62,345	(3,257)	6
Total	$ 378,194	$ (7,164)	78	$ 1,316,333	$ (23,933)	182	$ 1,694,527	$ (31,097)	260

The Company identified eleven securities with an unpaid principal balance of approximately $106.0 million which it intended to sell that were in an unrealized loss position at June 30, 2015, and as a result, the Company recognized an impairment charge of approximately $1.4 million on Agency RMBS which is included in Other loss on Mortgage-backed securities and other securities.

The Company assesses its Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, communications (if any) from the securitization trustee regarding the credit quality of the security, the severity and duration of the impairment, the cause of the impairment, and the Company s intent not to sell the security and that it is more likely than not that the Company will not be required to sell the security until recovery of its amortized cost. In addition, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other loss on Mortgage-backed securities and other securities.

Table of Contents

For Non-Agency MBS and other securities rated below AA at the time of purchase and Agency and Non-Agency Interest-Only Strips, excluding Interest-Only Strips classified as derivatives, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the beneficial interest is less than its carrying amount. Other than for plain-vanilla variable rate Non-Agency MBS, the Company does not bifurcate the loss between credit loss and loss attributed to change in interest rates, therefore, the entire loss is recorded as other-than-temporary. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other loss on Mortgage-backed securities and other securities. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. If an other-than-temporary impairment is recognized as a result of this analysis, the yield is maintained at the current accretion rate. The last revised estimated cash flows are then used for future impairment analysis purposes. The Company s prepayment speed estimate was the primary assumption used to determine other-than temporary-impairments for Interest-Only Strips, excluding Agency and Non-Agency Interest-Only Strips accounted for as derivatives, for the three and six months ended June 30, 2015 and June 30, 2014.

With respect to the Company s securities portfolio, OTTI is generally recorded when the credit quality of the underlying collateral deteriorates and or the schedule payments are faster than previously projected. The credit deterioration could be as a result of, but not limited to, increased projected realized losses, foreclosures, delinquencies and the likelihood of the borrower being able to make payments in the future. Generally, a prepayment occurs when a loan has a higher interest rate relative to current interest rates and lenders are willing to extend credit at the lower current interest rate or the underlying collateral for the loan is sold or transferred. Other-than-temporary-impairments are reported as Other loss on Mortgage-backed securities and other securities in the Company s Consolidated Statement of Operations.

The following table presents the other-than-temporary impairments the Company recorded on its securities portfolio (dollars in thousands):

	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Agency RMBS	$ 2,056	$ 1,000	$ 3,178	$ 2,232
Non-Agency RMBS	364	1,888	3,030	2,365
Non-Agency CMBS	1,498	111	2,098	111
Other securities	398		661	
Total	$ 4,316	$ 2,999	$ 8,967	$ 4,708

The Company has made investments in certain Non-Agency RMBS inverse floaters. These securities coupon rates have an inverse relationship to a benchmark rate. When the benchmark interest rate increases the coupon payment rate will decrease because the benchmark interest rate is deducted from the coupon payment. The Company has generally purchased these securities at a premium. Accelerated prepayments on these securities could result in an economic loss, as the Company would not recover the upfront premium. The premiums are amortized into income using the effective interest rate method. As of June 30, 2015 and June 30, 2014, the Company held $94.0 million and $73.7 million, respectively, in Non-Agency RMBS inverse floaters.

Table of Contents

The following tables present components of interest income on the Company s MBS and other securities (dollars in thousands):

	For the three months ended June 30, 2015		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 34,038	$ (12,505)	$ 21,533
Non-Agency RMBS	11,433	(1,881)	9,552
Agency and Non-Agency CMBS	7,452	(50)	7,402
Other securities	1,539	663	2,202
Total(1)	$ 54,462	$ (13,773)	$ 40,689

(1) Interest income on the Consolidated Statements of Operations includes coupon interest, net premium/discount amortization and interest income of $227 thousand, $(66) thousand and $161 thousand on Residential Whole-Loans, respectively and coupon interest, net premium amortization and interest income of $179 thousand, $0 and $179 thousand on Commercial Whole-Loans.

	For the six months ended June 30, 2015		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 71,489	$ (27,912)	$ 43,577
Non-Agency RMBS	23,302	(4,308)	18,994
Agency and Non-Agency CMBS	14,354	525	14,879
Other securities	2,806	1,094	3,900
Total(1)	$ 111,951	$ (30,601)	$ 81,350

(1) Interest income on the Consolidated Statements of Operations includes coupon interest, net premium/discount amortization and interest income of $344 thousand, $(112) thousand and $232 thousand on Residential Whole-Loans, respectively and coupon interest, net premium amortization and interest income of $253 thousand, $0 and $253 thousand on Commercial Whole-Loans.

	For the three months ended June 30, 2014		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income

Agency RMBS	$	44,683	$	(13,937)	$	30,746
Non-Agency RMBS		9,327		(516)		8,811
Agency and Non-Agency CMBS		3,694		291		3,985
Other securities		948		114		1,062
Total	$	58,652	$	(14,048)	$	44,604

	For the six months ended June 30, 2014					
	Coupon Interest		Net (Premium Amortization/ Amortization Basis) Discount Amortization		Interest Income	
Agency RMBS	$	74,457	$	(26,000)	$	48,457
Non-Agency RMBS		13,692		121		13,813
Agency and Non-Agency CMBS		3,741		468		4,209
Other securities		1,340		215		1,555
Total	$	93,230	$	(25,196)	$	68,034

Table of Contents

The following tables present the sales of the Company s MBS and other securities (dollars in thousands):

	For the three months ended June 30, 2015			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS	$ 208,249	$ 3,545	$ (680)	$ 2,865
Agency and Non-Agency CMBS	63,345	863	(9)	854
Other securities	16,365	562		562
Total	$ 287,959	$ 4,970	$ (689)	$ 4,281

	For the six months ended June 30, 2015			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 509,981	$ 3,833	$ (3,577)	$ 256
Non-Agency RMBS	207,594	9,761	(174)	9,587
Agency and Non-Agency CMBS	90,888	1,351	(9)	1,342
Other securities	16,365	562		562
Total	$ 824,828	$ 15,507	$ (3,760)	$ 11,747

(1) Includes gross realized gains of $(2) thousand for Agency Interest-Only Strips, accounted for as derivatives, as a result of the settlement of prior year sales in January 2015.

	For the three months ended June 30, 2014			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 1,323,065	$ 8,997	$ (35,201)	$ (26,204)
Non-Agency RMBS	136,913	9,267	(45)	9,222
Agency and Non-Agency CMBS	73,059	367	(2)	365
Other securities	78,932	5,064		5,064
Total	$ 1,611,969	$ 23,695	$ (35,248)	$ (11,553)

(1) Includes proceeds for Agency Interest-Only Strips, accounted for as derivatives, of approximately $20.2 million, gross realized gains of $437 thousand and gross realized losses of $712 thousand.

	For the six months ended June 30, 2014			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 1,336,352	$ 9,013	$ (36,070)	$ (27,057)
Non-Agency RMBS	240,089	13,502	(580)	12,922
Agency and Non-Agency CMBS	73,059	367	(2)	365
Other securities	78,932	5,064		5,064
Total	$ 1,728,432	$ 27,946	$ (36,652)	$ (8,706)

(1) Includes proceeds for Agency Interest-Only Strips, accounted for as derivatives, of approximately $31.4 million, gross realized gains of $437 thousand and gross realized losses of approximately $1.6 million.

Note 6 Variable Interest Entities

The Company consolidates a VIE when it is determined that the Company is the primary beneficiary of such VIE. The Company determined that it was the primary beneficiary of a number of trusts because it was involved in certain aspects of the design of each trust, has certain oversight rights on defaulted Residential Whole-Loans and has other significant decision making powers. In addition, the Company has the obligation to absorb losses and the right to receive benefits from the trusts that could potentially be significant to the trusts. The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company s initial consolidation assessment. The consolidated trusts include 90 performing Residential Whole-Loans, which had no evidence of deteriorated credit quality upon consolidation. The following table presents a summary of the assets and liabilities of the Residential Whole-Loan trusts included in the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (dollars in thousands). Intercompany balances have been eliminated for purposes of this presentation.

	June 30, 2015	December 31, 2014
Residential Whole-Loans, at fair value	$ 22,184	$ 7,220
Accrued interest receivable	173	40
Total assets	$ 22,357	$ 7,260
Accounts payable and accrued expenses	$ 42	$ 153
Total liabilities	$ 42	$ 153

Table of Contents

The Company s risk with respect to its investment in each trust is limited to its direct ownership in the trust. The Residential Whole-Loans held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company for the trust certificates issued by the trusts. The assets of a consolidated trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any additional financial support to the trusts for the three and six months ended June 30, 2015. The Company did not deconsolidate any trusts during the three and six months ended June 30, 2015.

The following table presents in the components of the carrying value of Residential Whole-Loans as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Principal balance	$ 21,465	$ 7,034
Unamortized premium	337	111
Unamortized discount	(25)	(18)
Gross unrealized gains	424	94
Gross unrealized losses	(17)	(1)
Fair value	$ 22,184	$ 7,220

The following tables present certain information about the Company s Residential Whole-Loans investment portfolio at June 30, 2015 and December 31, 2014 (dollars in thousands):

June 30, 2015						
Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original Loan to Value	Weighted Average Original FICO Score(1)	Weighted Average Life to Maturity (years)	Weighted Average Coupon Rate
4.01 5.00%	9	$ 3,468	59.9%	711	2.7	4.6%
5.01 6.00%	71	16,241	57.5%	741	1.4	5.3%
6.01 7.00%	9	1,536	66.1%	703	1.6	6.5%
7.01 8.00%	1	220	75.0%	665	1.7	7.5%
Total	90	$ 21,465	58.7%	731	1.6	5.3%

(1) The original FICO score is not available for 13 loans with a principal balance of approximately $3.3 million at June 30, 2015. The Company has excluded those loans from the weighted average computation.

December 31, 2014						
Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original Loan to Value	Weighted Average Original FICO Score	Weighted Average Life to Maturity (years)	Weighted Average Coupon Rate
4.01 5.00%	5	$ 3,387	63.8%	744	4.2	4.8%
5.01 6.00%	3	1,001	74.0%	742	3.0	5.8%
6.01 7.00%	7	2,044	70.6%	713	4.1	6.6%
7.01 8.00%	3	381	66.6%	669	4.4	7.3%
8.01 9.00%	1	221	75.0%	665	2.1	8.5%

Total	19	$ 7,034	67.7%	728	3.9	5.7%

The following tables present the U.S. states in which the collateral securing our Residential Whole-Loans at June 30, 2015 and December 31, 2014 based on principal balance is located (dollars in thousands):

	June 30, 2015	
	State Concentration	**Principal Balance**
California	69.9%	15,003
Massachusetts	8.3	1,775
Washington	6.9	1,487
Florida	6.8	1,461
West Virginia	3.0	646
Other	5.1	1,093
Total	100.0%	$ 21,465

	December 31, 2014	
	State Concentration	**Principal Balance**
California	58.1%	$ 4,085
Florida	23.8	1,675
West Virginia	9.2	649
New Jersey	4.7	327
Virginia	2.1	149
Pennsylvania	2.1	149
Total	100.0%	$ 7,034

Table of Contents

Note 7 Commercial Whole-Loans, at fair value

The Company acquired its first Commercial Whole-Loan, with a loan to value of 67% at acquisition during the first quarter 2015. The Commercial Whole-Loan is a performing first mortgage loan with collateral located in California and with a maturity of January 2016, subject to extension under the existing terms of the promissory note. The loan has a net coupon rate of 8.25%, a principal balance of approximately $8.8 million and a fair value of approximately $8.7 million at June 30, 2015. The loan was not impaired and the Company has no unfunded commitment at June 30, 2015.

Note 8 Borrowings under Repurchase Agreements

As of June 30, 2015, the Company had master repurchase agreements with 25 counterparties. As of June 30, 2015, the Company had borrowings under repurchase agreements with 20 counterparties. One of the Company s existing repurchase agreement counterparties and its affiliate has communicated their intention to exit the repurchase market in 2015. The Company had no outstanding borrowings with these two counterparties as of June 30, 2015. The following tables summarize certain characteristics of the Company s repurchase agreements at June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015		
Securities Pledged	**Repurchase Agreement Borrowings**	**Weighted Average Interest Rate on Borrowings Outstanding at end of period**	**Weighted Average Remaining Maturity (days)**
Agency RMBS	$ 2,521,435	0.43%	39
Non-Agency RMBS	407,910	1.64%	41
Agency and Non-Agency CMBS	364,277	1.61%	46
Other securities and Residential Whole-Loans(1)	112,738	1.90%	118
Total	$ 3,406,360	0.75%	43

(1) Includes repurchase agreement borrowings of $17.0 million on Residential Whole-Loans owned through trust certificates. The trust certificates are eliminated upon consolidation.

	December 31, 2014		
Securities Pledged	**Repurchase Agreement Borrowings**	**Weighted Average Interest Rate on Borrowings Outstanding at end of period**	**Weighted Average Remaining Maturity (days)**
Agency RMBS	$ 2,994,351	0.40%	32
Non-Agency RMBS	473,942	1.54%	49
Agency and Non-Agency CMBS	325,864	1.55%	29
Other securities and Residential Whole-Loans(1)	81,564	1.55%	34

Total	$	3,875,721	0.66%	34

(1) Includes repurchase agreement borrowings of $4.9 million on Residential Whole-Loans owned through trust certificates. The trust certificates are eliminated upon consolidation.

Table of Contents

For the three and six months ended June 30, 2015, the Company had average borrowings under its repurchase agreements of approximately $3.6 billion and $3.8 billion, respectively, had a maximum month-end balance during the periods of approximately $3.6 billion and $4.0 billion, respectively. The Company had accrued interest payable at June 30, 2015 of approximately $3.1 million. For the three and six months ended June 30, 2014, the Company had average borrowings under its repurchase agreements of approximately $4.1 billion and $3.7 billion, respectively, and had a maximum month-end balance during the three and six months ended of approximately $4.2 billion and $4.2 billion, respectively. In addition, at June 30, 2015, the Company had entered into repurchase agreement borrowings of approximately $17.6 million, which settled on July 2, 2015, with a weighted average interest rate of 1.54%, a weighted average contractual maturity of 92 days and secured by collateral of approximately $23.5 million. These borrowings are recorded as a liability in the Company s Consolidated Balance Sheets when settled.

The repurchase agreements bear interest at a contractually agreed-upon rate and typically have terms ranging from one month to three months. The Company s repurchase agreement borrowings are accounted for as secured borrowings when the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective lenders retain the right to determine the fair value of the underlying collateral. A reduction in the value of pledged assets requires the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, and is referred to as a margin call. The inability of the Company to post adequate collateral for a margin call by a counterparty, in a timeframe as short as the close of the same business day, could result in a condition of default under the Company s repurchase agreements, thereby enabling the counterparty to liquidate the collateral pledged by the Company, which may have a material adverse effect on the Company s financial position, results of operations and cash flows. During 2015 and 2014, the Company rehypothecated pledged U.S. Treasury securities it received from its repurchase agreement and interest rate swap counterparties as incremental collateral in order to increase the Company s cash position. The maximum amount of repurchase borrowings for the rehypothecated U.S. Treasury securities was $0 and $530 thousand during the three and six months ended June 30, 2015 and $0 during the three and six months ended June 30, 2014, respectively. At June 30, 2015 and June 30 2014, the Company did not have any rehypothecated U.S. Treasury securities.

Volatility in the mortgage markets may create additional stress on the overall liquidity of the Company due to the long-term nature of its assets and the short-term nature of its liabilities. In an instance of severe volatility, or where the additional stress on liquidity resulting from volatility is sustained over an extended period of time, the Company could be required to sell assets, possibly even at a loss, to generate sufficient liquidity to satisfy collateral and margin requirements which could have a material adverse effect on the Company s financial position, results of operations and cash flows. All of the Company s repurchase agreement counterparties are either U.S. financial institutions or the U.S. broker-dealer subsidiaries of foreign financial institutions.

Further, if the Company is unable to renew, replace or expand repurchase financing with other sources of financing on substantially similar terms it may have a material adverse effect on the Company s financial position, results of operations and cash flow, due to the long term nature of the Company s investments and relatively short-term maturities of the Company s repurchase agreements. Certain of the repurchase agreements provide the counterparty with the right to terminate the agreement if the Company does not maintain certain equity and leverage metrics, the most restrictive of which include a limit on leverage based on the composition of the Company s portfolio. The Company was in compliance with the terms of such financial tests as of June 30, 2015.

At June 30, 2015 and December 31, 2014, repurchase agreements collateralized by MBS and other securities had the following remaining maturities:

(dollars in thousands)	June 30, 2015	December 31, 2014
Overnight	$	$
1 to 29 days	1,688,832	2,034,282
30 to 59 days	647,983	1,302,439
60 to 89 days	986,933	484,109
90 to 119 days	21,956	40,127
Greater than or equal to 120 days	60,656	14,764
Total	$ 3,406,360	$ 3,875,721

Table of Contents

As discussed in Note 3, for any transactions determined to be linked through December 31, 2014, the initial transfer and repurchase financing will be recorded as a forward commitment to purchase assets. At December 31, 2014, the Company had repurchase agreements of approximately $31.9 million that were accounted for as linked transactions. Linked repurchase agreements are not included in the tables above. See Note 10 for details.

At June 30, 2015, the following table reflects amounts of collateral at risk under its repurchase agreements greater than 10% of the Company s equity with any counterparty (dollars in thousands):

	June 30, 2015		
Counterparty	**Amount of Collateral at Risk, at fair value**	**Weighted Average Remaining Maturity (days)**	**Percentage of Stockholders Equity**
RBC (Barbados) Trading Bank Corporation	$ 111,684	50	19.2%
Credit Suisse Securities (USA) LLC	76,147	87	13.1
UBS Securities LLC	73,305	47	12.6

Note 9 Collateral Positions

The following tables summarize the Company s collateral positions, with respect to its borrowings under repurchase agreements, derivatives and clearing margin account at June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015		
	Assets Pledged- Fair Value	**Accrued Interest**	**Fair Value of Assets Pledged and Accrued Interest**
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 2,608,602	$ 10,631	$ 2,619,233
Non-Agency RMBS	585,599	1,162	586,761
Agency and Non-Agency CMBS	496,971	3,220	500,191
Other securities (1)	150,944	362	151,306
Cash (2)	57,815		57,815
Cash collateral for derivatives (2):	173,854		173,854
Total	$ 4,073,785	$ 15,375	$ 4,089,160

(1) Other securities include the fair value of Residential Whole-Loans owned through trust certificates pledged of $22.2 million as of June 30, 2015.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

	December 31, 2014		
	Assets Pledged- Fair Value	Accrued Interest	Fair Value of Assets Pledged and Accrued Interest
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 3,158,544	$ 12,685	$ 3,171,229
Non-Agency RMBS	670,526	1,511	672,037
Agency and Non-Agency CMBS	431,938	2,077	434,015
Other securities (1)	108,743	144	108,887
Cash (2)	25,727		25,727
Cash collateral for derivatives (2):	159,030		159,030
Total	$ 4,554,508	$ 16,417	$ 4,570,925

(1) Other securities include the fair value of Residential Whole-Loans owned through trust certificates pledged of $7.2 million as of December 31, 2014.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

A reduction in the value of pledged assets typically results in the repurchase agreement counterparties, derivative counterparties and clearing margin counterparty initiating a daily margin call. At June 30, 2015 and December 31, 2014, MBS and other securities, including Whole-Loans, held by counterparties as security for repurchase agreements totaled approximately $3.8 billion and approximately $4.4 billion, respectively. Cash collateral held by counterparties at June 30, 2015 and December 31, 2014 was approximately $231.7 million and approximately $184.8 million, respectively. Cash posted by counterparties at June 30, 2015 and December 31, 2014, was approximately $8.5 million and approximately $12.2 million, respectively. In addition, at June 30, 2015 and December 31, 2014, the Company held securities of $0 and approximately $530 thousand, respectively, received as collateral from its repurchase agreement counterparties to satisfy margin requirements. The Company has the ability to repledge collateral received from its repurchase counterparties.

Table of Contents

Note 10 Derivative Instruments

The Company s derivatives currently include interest rate swaps, interest rate swaptions, futures contracts, TBAs, currency swaps and forwards, linked transactions (prior to January 1, 2015) and Agency and Non-Agency Interest-Only Strips that are classified as derivatives, and options.

Interest rate swaps and interest rate swaptions

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company s primary source of debt funding is repurchase agreements and the Company enters into derivative financial instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with these rates on its borrowings. To mitigate the effect of changes in these interest rates, the Company enters into interest rate swap agreements, which help to mitigate the volatility in the interest rate exposures and their related cash flows. Interest rate swaps generally involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. Notwithstanding the foregoing, in order to manage its hedge position with regard to its liabilities, the Company on occasion will enter into interest rate swaps which involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. The Company also enters into forward starting swaps and interest rate swaptions to help mitigate the effects of changes in interest rates on a portion of its borrowings under repurchase agreements. Interest rate swaptions provide the Company the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. On occasion the Company may enter into a MAC interest rate swap in which it may receive or make a payment at the time of entering such interest rate swap to compensate for the out of the market nature of such interest rate swap. Similar to all other interest rate swaps, these interest rate swaps are also subject to margin requirements as previously described.

While the Company has not elected to account for its interest rate swap derivative instruments as hedges under GAAP, it does not use interest rate swaps and swaptions for speculative purposes, but rather uses such instruments to manage interest rate risk and views them as economic hedges. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings together with periodic net interest settlement amounts.

The Company s interest rate swaps, interest rate swaptions, currency swaps and forwards, futures contracts, TBA derivative instruments, options and linked transactions consisted of the following at June 30, 2015 and December 31, 2014 (dollars in thousands):

				June 30, 2015	
Derivative Instrument	**Designation**	**Consolidated Balance Sheets Location**	**Notional Amount**	**Fair Value, excluding**	**Accrued Interest**

				accrued interest	**Payable (receivable)**
Interest rate swaps, assets	Non-Hedge	Derivative assets, at fair value	$ 8,332,700	$ 89,753	$ 2,480
Interest rate swaptions, assets	Non-Hedge	Derivative assets, at fair value	105,000	35	
Foreign currency swaps, asset	Non-Hedge	Derivative assets, at fair value	25,160	7,148	(390)
Foreign currency forward contracts, asset	Non-Hedge	Derivative assets, at fair value	12,030	275	
TBA securities, assets	Non-Hedge	Derivative assets, at fair value	2,090,000	2,720	
Total derivative instruments, assets				99,931	2,090
Interest rate swaps, liability	Non-Hedge	Derivative liability, at fair value	12,515,470	(209,495)	4,497
Futures contract, liability	Non-Hedge	Derivative liability, at fair value	6,500	(19)	
Foreign currency forward contracts, liability	Non-Hedge	Derivative liability, at fair value	9,324	(240)	
TBA securities, liabilities	Non-Hedge	Derivative liability, at fair value	2,530,000	(7,557)	
Total derivative instruments, liabilities				(217,311)	4,497
Total derivative instruments				$ (117,380)	$ 6,587

Table of Contents

			December 31, 2014		
Derivative Instrument	Designation	Consolidated Balance Sheets Location	Notional Amount	Fair Value, excluding accrued interest	Accrued Interest Payable (receivable)
Interest rate swaps, assets	Non-Hedge	Derivative assets, at fair value	$ 3,283,100	$ 51,170	$ (6,718)
Interest rate swaptions, assets	Non-Hedge	Derivative assets, at fair value	105,000	178	
Futures contracts, assets	Non-Hedge	Derivative assets, at fair value	592,000	451	
Foreign currency swaps, asset	Non-Hedge	Derivative assets, at fair value	25,160	3,857	
Foreign currency forward contracts, asset	Non-Hedge	Derivative assets, at fair value	23,822	143	
TBA securities, assets	Non-Hedge	Derivative assets, at fair value	2,915,000	17,457	
Total derivative instruments, assets				73,256	(6,718)
Interest rate swaps, liability	Non-Hedge	Derivative liability, at fair value	4,648,870	(166,288)	11,490
Futures contract, liability	Non-Hedge	Derivative liability, at fair value	592,000	(1,191)	
Foreign currency forward contracts, liability	Non-Hedge	Derivative liability, at fair value	33,560	(446)	
TBA securities, liabilities	Non-Hedge	Derivative liability, at fair value	2,590,000	(12,355)	
Total derivative instruments, liabilities				(180,280)	11,490
Linked transactions (1)	Non-Hedge	Linked transactions, net, at fair value	54,117	20,627	(400)
Total derivative instruments				$ (86,397)	$ 4,372

(1) Notional amount represents the current face of the securities comprising the linked transactions.

The following tables summarize the average fixed pay rate and average maturity for the Company s interest rate swaps as of June 30, 2015 and December 31, 2014 (excludes interest rate swaptions) (dollars in thousands):

		June 30, 2015			
Remaining Interest Rate Swap Term	Notional Amount	Fair Value Asset (Liability), net	Average Fixed Pay Rate	Average Maturity (Years)	Forward Starting
1 year or less	$ 639,300	$ (472)	0.5%	0.7	%
Greater than 1 year and less than 3 years	2,758,200	(6,964)	0.9	1.7	
Greater than 3 years and less than 5 years	2,749,400	(18,433)	1.8	4.6	
Greater than 5 years	6,151,470	(70,673)	2.5	9.9	35.8
Total	$ 12,298,370	$ (96,542)	1.9%	6.4	17.9%

		December 31, 2014			
Remaining Interest Rate Swap Term	Notional Amount	Fair Value Asset (Liability), net	Average Fixed Pay Rate	Average Maturity (Years)	Forward Starting
1 year or less	$ 89,300	$ (111)	0.5%	0.9	%
Greater than 1 year and less than 3 years	1,972,300	(733)	0.8	1.8	20.3
Greater than 3 years and less than 5 years	603,000	(4,597)	1.8	4.2	
Greater than 5 years	3,103,770	(156,952)	2.8	9.4	63.1
Total	$ 5,768,370	$ (162,393)	2.0%	6.2	40.9%

The Company has entered into swaps to effectively fix the interest rate (for the life of the swap); net of variable-rate payment swaps, of approximately $2.7 billion of borrowings under its repurchase agreements, excluding forward starting swaps of $1.0 billion.

Table of Contents

The following tables summarize the average variable pay-rate and average maturity for the Company s interest rate swaps as of June 30, 2015 and December 31, 2014 (excludes interest rate swaptions) (dollars in thousands):

June 30, 2015					
Remaining Interest Rate interest rate swap Term	**Notional Amount**	**Fair Value Asset (Liability), net**	**Average Variable Pay Rate**	**Average Maturity (Years)**	**Forward Starting**
Greater than 1 years and less than 3 years	$ 930,000	$ 620	0.3%	1.9	76.3%
Greater than 3 years and less than 5 years	3,014,200	(5,059)	0.3	4.7	
Greater than 5 years	4,605,600	(18,761)	0.3	10.7	10.3
Total	$ 8,549,800	$ (23,200)	0.3%	7.6	13.9%

December 31, 2014					
Remaining Interest Rate interest rate swap Term	**Notional Amount**	**Fair Value Asset (Liability), net**	**Average Variable Pay Rate**	**Average Maturity (Years)**	**Forward Starting**
Greater than 1 years and less than 3 years	$ 220,000	$ (164)	0.2%	2.0	%
Greater than 3 years and less than 5 years	634,000	2,210	0.2	4.5	
Greater than 5 years	1,309,600	45,229	0.2	12.1	8.4
Total	$ 2,163,600	$ 47,275	0.2%	8.8	5.1%

The Company s agreements with certain of its bilateral interest rate swap counterparties may be terminated at the option of the counterparty and settled at fair value, if the Company does not maintain certain equity and leverage metrics. The most restrictive of which contain provisions which become more restrictive based upon portfolio composition. Through June 30, 2015, the Company was in compliance with the terms of such financial tests.

The following tables present information about the Company s interest rate swaptions as of June 30, 2015 and December 31, 2014 (dollars in thousands):

June 30, 2015				
	Option		**Underlying Swap**	
Fixed-Pay Rate for Underlying Swap	**Fair Value**	**Weighted Average Months Until Option Expiration**	**Notional Amount**	**Weighted Average Swap Term (Years)**
2.26 2.50%	35	11.8	105,000	1.0
	$ 35	11.8	$ 105,000	1.0

December 31, 2014		
	Option	**Underlying Swap**
Fixed-Pay Rate for Underlying Swap	**Fair Value**	

				Weighted Average Months Until Option Expiration		Notional Amount	Weighted Average Swap Term (Years)
2.26	2.50%	$	178	17.8	$	105,000	1.0
		$	178	17.8	$	105,000	1.0

Table of Contents

The Company has minimum collateral posting thresholds with certain of its derivative counterparties, including with its clearing broker for cleared swaps, for which it typically pledges cash. Due to continuing volatility in the fixed income markets primarily resulting from geopolitical concerns and expectations of the Federal Reserve increasing short term interest rates, the U.S Treasury market experienced a sell-off in the quarter ended June 30, 2015 and a corresponding increase in long-term interest rates. Accordingly, the Company was the recipient of cash collateral from its derivative counterparties. During 2015 and 2014, the Company rehypothecated some of the U.S. Treasury securities it received as incremental collateral on its repurchase borrowings, swaps and swaptions, effectively entering into repurchase agreements with such securities, in order to increase its cash position. The maximum amount of repurchase borrowings for the rehypothecated U.S. Treasury securities was $530 thousand and $0 during the six months ended June 30, 2015 and June 30, 2014, respectively. At June 30, 2015, no U.S. Treasury securities were rehypothecated. As of June 30, 2015 and December 31, 2014, the Company had cash pledged as collateral for derivatives of approximately $173.9 million and approximately $159.0 million, respectively, which is reported on the Consolidated Balance Sheets as Due from counterparties. The Company held cash of approximately $8.0 million and $10.1 million as collateral against derivatives at June 30, 2015 and December 31, 2014, respectively, which is reported on the Consolidated Balance Sheets as Due to counterparties. As of June 30, 2015, the Company has swaps with two counterparties that are based in England and Switzerland, with fair values in a liability position of approximately $52 thousand and fair values in an asset position of $491 thousand and notional balances of $49.3 million and $163.9 million, respectively. At December 31, 2014, the Company had swaps with two counterparties that are based in England and Switzerland, with fair values in a liability position of approximately $86 thousand and fair values in an asset position of $645 thousand and notional balances of $49.3 million and $163.9 million, respectively. Included in the $173.9 million and $159.0 million pledged by the Company is cash pledged to the counterparty based in Switzerland of $380 thousand and $500 thousand at June 30, 2015 and December 31, 2014, respectively. Included in the $8.0 million and $10.1 million received by the Company is cash posted as collateral by the counterparty based in England of approximately $7.0 million and $3.4 million at June 30, 2015 and December 31, 2014, respectively.

Currency Swaps and Forwards

The Company has invested in and, in the future, may invest in additional securities which are denominated in a currency or currencies other than U.S. dollars. Similarly, it has and may in the future, finance such assets in a currency or currencies other than U.S. dollars. In order to mitigate the impact to the Company, the Company may enter into derivative financial instruments, including foreign currency swaps and foreign currency forwards, to manage fluctuations in the valuation between U.S. dollars and such foreign currencies. Foreign currency swaps involve the payment of a foreign currency at fixed interest rate on a fixed notional amount and the receipt of U.S. dollars at a fixed interest rate on a fixed notional amount. Foreign currency forwards provide for the payment of a fixed amount of a foreign currency in exchange for a fixed amount of U.S. dollars at a date certain in the future. The carrying value of foreign currency swaps and forwards is included in Derivative assets (liabilities), at fair value on the Consolidated Balance Sheets with changes in valuation included in Gain (loss) on derivative instruments, net on the Consolidated Statement of Operations. The following is a summary of the Company s foreign currency forwards at June 30, 2015 and December 31, 2014 (dollars and euros in thousands):

	June 30, 2015			
Derivative Type	**Notional Amount**	**Notional (USD Equivalent)**	**Maturity**	**Fair Value**

Buy EUR/Sell USD currency forward	11,043	$	12,030	July 2015	$	275
Currency forwards, assets	11,043	$	12,030	n/a	$	275
Buy USD/Sell EUR currency forward	5,083	$	5,431	July 2015	$	(233)
Buy USD/Sell EUR currency forward	3,500		3,893	July 2015		(7)
Currency forwards, liabilities	8,583	$	9,324	n/a	$	(240)
Total currency forwards	19,626	$	21,354	n/a	$	35

	December 31, 2014					
Derivative Type	**Notional Amount**		**Notional (USD Equivalent)**	**Maturity**		**Fair Value**
Buy USD/Sell EUR currency forward	3,331	$	4,143	January 2015	$	112
Buy USD/Sell EUR currency forward	7,766		9,417	January 2015		21
Buy USD/Sell EUR currency forward	3,471		4,211	February 2015		9
Buy EUR/Sell USD currency forward	5,000		6,051	January 2015		1
Currency forwards, assets	19,568	$	23,822	n/a	$	143
Buy USD/Sell EUR currency forward	5,043	$	6,104	February 2015	$	(1)
Buy EUR/Sell USD currency forward	11,156		13,542	April 2015		(30)
Buy EUR/Sell USD currency forward	11,156		13,914	January 2015		(415)
Currency forwards, liabilities	27,355	$	33,560	n/a	$	(446)
Total currency forwards	46,923	$	57,382	n/a	$	(303)

Table of Contents

The following is a summary of the Company s foreign currency swaps with a fair value of $7.1 million and $3.9 million at June 30, 2015 and December 31, 2014, respectively (dollars and euros in thousands):

	Date entered	Maturity	Fixed Rate	Denomination	Notional Amount
Payer	June 2014	July 2024	7.25%	EUR	18,500
Receiver	June 2014	July 2024	9.005%	USD	25,160

Interest-Only Strips

The Company also invests in Interest-Only Strips. In determining the classification of its holdings of Interest-Only Strips, the Company evaluates the securities to determine if the nature of the cash flows has been altered from that of the underlying mortgage collateral. Generally, Interest-Only Strips for which the security represents a strip off of a mortgage pass through security will be considered a hybrid instrument classified as a MBS investment on the Consolidated Balance Sheets utilizing the fair value option. Alternatively, those Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives at fair value with changes recognized in Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations, along with any interest received. The carrying value of these Interest-Only Strips is included in Mortgage-backed securities on the Consolidated Balance Sheets.

To-be-announced securities

The Company has also purchased or sold TBAs. As of June 30, 2015 and December 31, 2014, the Company had contracts to purchase (long position) and sell (short position) TBAs on a forward basis. Following is a summary of the Company s long and short TBA positions reported in Derivative assets, at fair value on the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Purchase contracts, asset	$ 1,510,000	$ 2,690	$ 2,915,000	$ 17,457
Sale contracts, asset	(580,000)	30		
TBA securities, asset	930,000	2,720	2,915,000	17,457
Purchase contracts, liability	800,000	(2,887)		
Sale contracts, liability	(1,730,000)	(4,670)	(2,590,000)	(12,355)
TBA securities, liability	(930,000)	(7,557)	(2,590,000)	(12,355)
TBA securities, net	$	$ (4,837)	$ 325,000	$ 5,102

The following table presents additional information about the Company s contracts to purchase and sell TBAs for the six months ended June 30, 2015 (dollars in thousands):

Notional Amount as of December	Additions	Settlement, Termination, Expiration	Notional Amount as of

	31, 2014		or Exercise	June 30 2015
Purchase of TBAs	$ 2,915,000	$ 15,816,000	$ (16,421,000)	$ 2,310,000
Sale of TBAs	$ 2,590,000	$ 16,141,000	$ (16,421,000)	$ 2,310,000

Table of Contents

Futures Contracts

The Company also enters into Eurodollar and U.S. Treasury futures. As of June 30, 2015, the Company had entered into contracts to sell (short position) U.S. Treasuries with a notional amount of $6.5 million, a fair value in a liability position of $19 thousand and an expiration date of September 2015. As of December 31, 2014, the Company had purchase contracts (long position) for Eurodollar futures, representing a notional amount of $592.0 million with a fair value of $451 thousand and an expiration date of June 2016. In addition, as of December 31, 2014, the Company had sale contracts (short position) for Eurodollar futures, representing a notional amount of $592.0 million with a fair value in a liability position of $1.2 million and an expiration date of June 2018. During the three months ended June 30, 2015, the Company terminated both Eurodollar futures and realized a net loss of $459 thousand.

Gain (loss) on derivative instruments

The below tables summarize the effect of interest rate swaps, interest rate swaptions, foreign currency swaps, foreign currency forwards, options, futures contracts, Agency and Non-Agency Interest-Only Strips characterized as derivatives and TBAs reported in Gain (loss) on derivative instruments, net on our Consolidated Statements of Operations for the three and six months ended June 30, 2015 and June 30, 2014 (dollars in thousands):

	Three months ended June 30, 2015				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (8,513)	$ (4,526)	$ 367	$ 34,697	$ 22,025
Interest rate swaptions	(4,436)			730	(3,706)
Agency and Non-Agency Interest-Only Strips accounted for as derivatives		5,609	(4,235)	2,228	3,602
Futures contracts	(459)			795	336
Foreign currency forwards	(1,492)			1,533	41
Foreign currency swaps		179		(1,064)	(885)
TBAs	(971)			(7,288)	(8,259)
Total	$ (15,871)	$ 1,262	$ (3,868)	$ 31,631	$ 13,154

	Six months ended June 30, 2015				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (9,562)	$ (6,310)	$ 738	$ (18,508)	$ (33,642)
Interest rate swaptions	(3,723)			(143)	(3,866)
Agency and Non-Agency Interest-Only Strips accounted for as derivatives	(2)	11,263	(8,713)	(167)	2,381
Futures contracts	(459)			721	262
Foreign currency forwards	(846)			338	(508)
Foreign currency swaps		395		3,292	3,687

TBAs		6,477						(9,939)		(3,462)
Total	$	(8,115)	$	5,348	$	(7,975)	$	(24,406)	$	(35,148)

	Three months ended June 30, 2014, as Revised (See Note 2)									
Description		**Realized Gain (Loss), net**		**Contractual interest income (expense), net(1)**		**Basis Recovery**		**Mark-to-market adjustments**		**Total**
Interest rate swaps	$	(6,788)	$	(6,083)	$		$	(61,835)	$	(74,706)
Interest rate swaptions		(5,908)						4,333		(1,575)
Agency and Non-Agency Interest-Only Strips accounted for as derivatives		(275)		6,139		(4,507)		1,803		3,160
Futures contracts		(16,495)						(229)		(16,724)
Foreign currency forwards								(138)		(138)
Foreign currency swaps				1				15		16
TBAs		20,191						3,099		23,290
Total	$	(9,275)	$	57	$	(4,507)	$	(52,952)	$	(66,677)

	Six months ended June 30, 2014, as Revised (See Note 2)									
Description		**Realized Gain (Loss), net**		**Contractual interest income (expense), net(1)**		**Basis Recovery**		**Mark-to-market adjustments**		**Total**
Interest rate swaps	$	(6,786)	$	(13,936)	$		$	(107,331)	$	(128,053)
Interest rate swaptions		(5,908)						(4,991)		(10,899)
Agency and Non-Agency Interest-Only Strips accounted for as derivatives		(1,144)		14,565		(10,099)		583		3,905
Futures contracts		(16,495)						(111)		(16,606)
Foreign currency forwards								(138)		(138)
Foreign currency swaps				1				15		16
TBAs		22,561						2,631		25,192
Total	$	(7,772)	$	630	$					