

BIMINI CAPITAL MANAGEMENT, INC.  
Form 10-Q  
November 09, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

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: 001-32171

Bimini Capital Management, Inc.  
(Exact name of registrant as specified in its charter)

Maryland 72-1571637  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3305 Flamingo Drive, Vero Beach, Florida 32963  
(Address of principal executive offices) (Zip Code)

(772) 231-1400  
(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 No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 12b2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No  
Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

| Title of each Class                     | Latest Practicable Date | Shares Outstanding |
|---|-------------------------|--------------------|
| Class A Common Stock, \$0.001 par value | November 9, 2016        | 12,631,627         |
| Class B Common Stock, \$0.001 par value | November 9, 2016        | 31,938             |
| Class C Common Stock, \$0.001 par value | November 9, 2016        | 31,938             |

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BIMINI CAPITAL MANAGEMENT, INC.

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PART I. FINANCIAL INFORMATION  
ITEM 1. CONDENSED FINANCIAL STATEMENTS

BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED BALANCE SHEETS

|   | (Unaudited)           |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2016 | December 31,<br>2015 |
| <b>ASSETS:</b>  |                       |                      |
| Mortgage-backed securities, at fair value               |                       |                      |
| Pledged to counterparties                               | \$ 133,015,770        | \$ 81,192,199        |
| Unpledged   | 585,908               | 2,796,200            |
| Total mortgage-backed securities                        | 133,601,678           | 83,988,399           |
| Cash and cash equivalents                               | 5,568,127             | 6,310,683            |
| Restricted cash   | 572,630               | 401,800              |
| Orchid Island Capital, Inc. common stock, at fair value | 14,536,275            | 13,852,707           |
| Retained interests in securitizations                   | 1,466,342             | 1,124,278            |
| Accrued interest receivable                             | 487,409               | 351,049              |
| Property and equipment, net                             | 3,427,832             | 3,492,612            |
| Deferred tax assets, net                                | 62,940,974            | 64,832,242           |
| Other assets  | 2,928,468             | 2,701,655            |
| Total Assets  | \$ 225,529,735        | \$ 177,055,425       |

LIABILITIES AND STOCKHOLDERS' EQUITY

|  |                |               |
|--|----------------|---------------|
| <b>LIABILITIES:</b>                                      |                |               |
| Repurchase agreements                                    | \$ 125,991,032 | \$ 77,234,249 |
| Junior subordinated notes due to Bimini Capital Trust II | 26,804,440     | 26,804,440    |
| Payable for unsettled securities purchased               | -              | 1,859,277     |
| Accrued interest payable                                 | 95,957         | 83,957        |
| Other liabilities  | 1,654,114      | 2,533,442     |
| Total Liabilities  | 154,545,543    | 108,515,365   |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

|  |        |        |
|--|--------|--------|
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 100,000 shares designated Series A Junior Preferred Stock, 9,900,000 shares undesignated; no shares issued and outstanding as of September 30, 2016 and 2015 | -      | -      |
| Class A Common stock, \$0.001 par value; 98,000,000 shares designated: 12,631,627 shares issued and outstanding as of September 30, 2016 and 12,373,294 shares issued and outstanding as of December 31, 2015                  | 12,632 | 12,373 |
| Class B Common stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of September 30, 2016 and December 31, 2015  | 32     | 32     |
| Class C Common stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of September 30, 2016 and December 31, 2015  | 32     | 32     |

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|  |               |                |
|--|---------------|----------------|
| Additional paid-in capital                     | 334,847,210   | 334,630,263    |
| Accumulated deficit                            | (263,875,714) | (266,102,640)  |
| Stockholders' equity                           | 70,984,192    | 68,540,060     |
| Total Liabilities and Stockholders' Equity     | \$225,529,735 | \$ 177,055,425 |
| See Notes to Consolidated Financial Statements |               |                |

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BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

For the Nine and Three Months Ended September 30, 2016 and 2015

|   | Nine Months Ended<br>September 30, |                | Three Months Ended<br>September 30, |                |
|---|------------------------------------|----------------|-------------------------------------|----------------|
|   | 2016                               | 2015           | 2016                                | 2015           |
| Interest income   | \$2,950,323                        | \$3,277,241    | \$1,107,783                         | \$995,985      |
| Interest expense  | (496,512 )                         | (305,726 )     | (194,539 )                          | (107,392 )     |
| Net interest income, before interest on junior subordinated notes     | 2,453,811                          | 2,971,515      | 913,244                             | 888,593        |
| Interest expense on junior subordinated notes                         | (818,169 )                         | (743,603 )     | (278,196 )                          | (252,142 )     |
| Net interest income   | 1,635,642                          | 2,227,912      | 635,048                             | 636,451        |
| Unrealized losses on mortgage-backed securities                       | (312,987 )                         | (910,896 )     | (273,830 )                          | (713,497 )     |
| Realized gains (losses) on mortgage-backed securities                 | 179,667                            | (2,108 )       | (71,306 )                           | (2,108 )       |
| (Losses) gains on derivative instruments                              | (1,549,638 )                       | (1,999,650 )   | 507,838                             | (990,575 )     |
| Net portfolio (loss) income   | (47,316 )                          | (684,742 )     | 797,750                             | (1,069,729 )   |
| Other income:   |                                    |                |                                     |                |
| Advisory services   | 3,930,533                          | 3,702,807      | 1,387,997                           | 1,320,450      |
| Gains on retained interests in securitizations                        | 2,100,367                          | 2,739,353      | 1,020,500                           | 200,773        |
| Unrealized gains (losses) on Orchid Island Capital, Inc. common stock | 683,568                            | (3,730,327 )   | 181,355                             | (1,924,063 )   |
| Orchid Island Capital, Inc. dividends                                 | 1,757,745                          | 1,472,498      | 585,915                             | 412,299        |
| Other income  | 892                                | 52,775         | 432                                 | 52,298         |
| Total other income  | 8,473,105                          | 4,237,106      | 3,176,199                           | 61,757         |
| Expenses:   |                                    |                |                                     |                |
| Compensation and related benefits                                     | 2,273,714                          | 2,237,185      | 722,697                             | 715,461        |
| Directors' fees and liability insurance                               | 466,573                            | 514,406        | 155,498                             | 171,703        |
| Audit, legal and other professional fees                              | 452,695                            | 1,281,993      | 157,545                             | 234,542        |
| Settlement of litigation  | -                                  | 3,500,000      | -                                   | -              |
| Administrative and other expenses                                     | 887,982                            | 656,155        | 321,428                             | 222,600        |
| Total expenses  | 4,080,964                          | 8,189,739      | 1,357,168                           | 1,344,306      |
| Net income (loss) before income tax provision                         | 4,344,825                          | (4,637,375 )   | 2,616,781                           | (2,352,278 )   |
| Income tax provision  | 2,117,899                          | 902,226        | 1,437,544                           | 293,915        |
| Net income (loss)   | \$2,226,926                        | \$(5,539,601 ) | \$1,179,237                         | \$(2,646,193 ) |
| Basic and Diluted Net Income (Loss) Per Share of:                     |                                    |                |                                     |                |
| CLASS A COMMON STOCK  |                                    |                |                                     |                |
| Basic and Diluted   | \$0.17                             | \$(0.45 )      | \$0.09                              | \$(0.21 )      |
| CLASS B COMMON STOCK  |                                    |                |                                     |                |
| Basic and Diluted   | \$0.17                             | \$(0.45 )      | \$0.09                              | \$(0.21 )      |
| Weighted Average Shares Outstanding:                                  |                                    |                |                                     |                |
| CLASS A COMMON STOCK  |                                    |                |                                     |                |
| Basic and Diluted   | 12,694,762                         | 12,344,613     | 12,708,464                          | 12,354,951     |
| CLASS B COMMON STOCK  |                                    |                |                                     |                |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Basic and Diluted                              | 31,938 | 31,938 | 31,938 | 31,938 |
| See Notes to Consolidated Financial Statements |        |        |        |        |

BIMINI CAPITAL MANAGEMENT, INC.  
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

For the Nine Months Ended September 30, 2016

|  | Stockholders' Equity |                                  |                 | Accumulated<br>Total |
|--|----------------------|----------------------------------|-----------------|----------------------|
|  | Common<br>Stock      | Additional<br>Paid-in<br>Capital | Deficit         |                      |
| Balances, January 1, 2016                                      | \$ 12,437            | \$ 334,630,263                   | \$(266,102,640) | \$ 68,540,060        |
| Net income   | -                    | -                                | 2,226,926       | 2,226,926            |
| Issuance of Class A common shares for equity plan<br>exercises | 259                  | 193,491                          | -               | 193,750              |
| Amortization of equity plan compensation                       | -                    | 23,456                           | -               | 23,456               |
| Balances, September 30, 2016                                   | \$ 12,696            | \$ 334,847,210                   | \$(263,875,714) | \$ 70,984,192        |

See Notes to Consolidated Financial Statements



BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
For the Nine Months Ended September 30, 2016 and 2015

|  | 2016                 | 2015                |
|--|----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                      |                     |
| Net income (loss)  | \$2,226,926          | \$(5,539,601 )      |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                      |                     |
| Stock based compensation   | 217,206              | 77,982              |
| Depreciation   | 64,780               | 69,607              |
| Deferred income tax provision  | 1,891,268            | 623,144             |
| Losses on mortgage-backed securities, net  | 133,320              | 913,004             |
| Gains on retained interests in securitizations   | (2,100,367 )         | (2,739,353 )        |
| Unrealized (gains) losses on Orchid Island Capital, Inc. common stock                              | (683,568 )           | 3,730,327           |
| Changes in operating assets and liabilities:   |                      |                     |
| Accrued interest receivable  | (136,360 )           | (28,113 )           |
| Other assets   | (226,813 )           | 92,604              |
| Accrued interest payable   | 12,000               | (25,661 )           |
| Other liabilities  | (879,328 )           | 1,396,777           |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>   | <b>519,064</b>       | <b>(1,429,283 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                      |                     |
| From mortgage-backed securities investments:   |                      |                     |
| Purchases  | (133,099,987)        | (26,396,648 )       |
| Sales  | 73,061,443           | 4,316,964           |
| Principal repayments   | 10,291,945           | 15,884,148          |
| Payments received on retained interests in securitizations   | 1,758,303            | 3,005,432           |
| (Increase) decrease in restricted cash   | (170,830 )           | 286,760             |
| Purchases of Orchid Island Capital, Inc. common stock  | (1,859,277 )         | -                   |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(50,018,403 )</b> | <b>(2,903,344 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                      |                     |
| Proceeds from repurchase agreements  | 712,324,734          | 748,150,368         |
| Principal repayments on repurchase agreements  | (663,567,951)        | (744,437,060)       |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>48,756,783</b>    | <b>3,713,308</b>    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(742,556 )</b>    | <b>(619,319 )</b>   |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period</b>  | <b>6,310,683</b>     | <b>4,699,059</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of the period</b>  | <b>\$5,568,127</b>   | <b>\$4,079,740</b>  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                      |                     |
| Cash paid during the period for:   |                      |                     |
| Interest   | \$1,302,681          | \$1,074,990         |
| Income taxes   | \$515,689            | \$137,001           |

See Notes to Consolidated Financial Statements



BIMINI CAPITAL MANAGEMENT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
September 30, 2016

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Bimini Capital Management, Inc., a Maryland corporation ("Bimini Capital" or the "Company"), was formed in September 2003 for the purpose of creating and managing a leveraged investment portfolio consisting of residential mortgage-backed securities ("MBS"). In addition, the Company manages an MBS portfolio for Orchid Island Capital, Inc. ("Orchid") and receives fees for providing these services.

Consolidation

The accompanying consolidated financial statements include the accounts of Bimini Capital, its wholly-owned subsidiaries, Bimini Advisors Holdings, LLC and Royal Palm Capital, LLC (formerly known as MortCo TRS, LLC). Bimini Advisors Holdings, LLC and its wholly-owned subsidiary, Bimini Advisors, LLC are collectively referred to as "Bimini Advisors." Royal Palm Capital, LLC and its wholly-owned subsidiaries are collectively referred to as "Royal Palm." All inter-company accounts and transactions have been eliminated from the consolidated financial statements.

Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation, requires the consolidation of a variable interest entity ("VIE") by an enterprise if it is deemed the primary beneficiary of the VIE. Further, ASC 810 requires a qualitative assessment to determine the primary beneficiary of a VIE, an ongoing assessment of whether an enterprise is the primary beneficiary of a VIE, and additional disclosures for entities that have variable interests in VIEs. As further described in Note 8, Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital's junior subordinated notes. Pursuant to ASC 810, management has concluded that, while the trust is a VIE, Bimini Capital's common share investment in the trust is not a variable interest. Therefore, the trust has not been consolidated in the financial statements of Bimini Capital, and accordingly, this investment has been accounted for on the equity method.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

## Use of Estimates

The preparation of financial statements in conformity with 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 period. Actual results could differ from those estimates. Significant estimates affecting the accompanying consolidated financial statements include the fair values of MBS, investment in Orchid common shares, derivatives, retained interests, asset valuation allowances and deferred tax asset allowances recorded for each accounting period.

## Statement of Comprehensive Income

In accordance with ASC Topic 220, Comprehensive Income, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income (loss). Comprehensive income (loss) is the same as net income (loss) for all periods presented.

## Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and derivative instruments.

The Company maintains cash balances at several banks, and at times these balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to \$250,000 per depositor at each financial institution. At September 30, 2016, the Company's cash deposits exceeded federally insured limits by approximately \$4.8 million. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known banks and derivative counterparties and believes that it is not exposed to significant credit risk on cash and cash equivalents or restricted cash balances.

## Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through ("PT") certificates, collateralized mortgage obligations, and interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of mortgage-backed loans. The Company has elected to account for its investment in MBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The Company records MBS transactions on the trade date. Security purchases that have not settled as of the balance sheet date are included in the MBS balance with an offsetting liability recorded, whereas securities sold that have not settled as of the balance sheet date are removed from the MBS balance with an offsetting receivable recorded.

The fair value of the Company's investment in MBS is governed by ASC Topic 820, Fair Value Measurement. The definition of fair value in ASC Topic 820 focuses on the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market for the asset or liability, or in the absence of a principal market, occurs in the most advantageous market for the asset or liability. Estimated fair values for MBS are based on independent pricing sources and/or third-party broker quotes, when available.



Income on PT MBS is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains on MBS in the consolidated statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively from the reporting period based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of MBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying consolidated statements of operations. The amount reported as unrealized gains or losses on mortgage backed securities thus captures the net effect of changes in the fair market value of securities caused by market developments and any premium or discount lost as a result of principal repayments during the period.

#### Orchid Island Capital, Inc. Common Stock

The Company has elected the fair value option for its continuing investment in Orchid common shares. The change in the fair value of this investment and dividends received on this investment are reflected in other income in the consolidated statements of operations. We estimate the fair value of our investment in Orchid on a market approach using "Level 1" inputs based on the quoted market price of Orchid's common stock on a national stock exchange. Electing the fair value option requires the Company to record changes in fair value in the consolidated statements of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with how the investment is managed.

#### Advisory Services

Orchid is externally managed and advised by Bimini Advisors pursuant to the terms of a management agreement. Under the terms of the management agreement, Orchid is obligated to pay Bimini Advisors a monthly management fee and a pro rata portion of certain overhead costs and to reimburse the Company for any direct expenses incurred on its behalf.

#### Retained Interests in Securitizations

Retained interests in the subordinated tranches of securities created in securitization transactions were initially recorded at their fair value when issued by Royal Palm. Subsequent adjustments to fair value are reflected in earnings. Quoted market prices for these assets are generally not available, so the Company estimates fair value based on the present value of expected future cash flows using management's best estimates of key assumptions, which include expected credit losses, prepayment speeds, weighted-average life, and discount rates commensurate with the inherent risks of the asset.

#### Derivative Financial Instruments

The Company uses derivative instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The principal instruments that the Company has used to date are Eurodollar futures contracts, but it may enter into other transactions in the future.

The Company has elected not to treat any of its derivative financial instruments as hedges in order to align the accounting treatment of its derivative instruments with the treatment of its portfolio assets under the fair value option. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative instruments be carried at fair value. Changes in fair value are recorded in earnings for each period.



Holding derivatives creates exposure to credit risk related to the potential for failure on the part of counterparties to honor their commitments. In addition, the Company may be required to post collateral based on any declines in the market value of the derivatives. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the agreement. To mitigate this risk, the Company uses only well-established commercial banks as counterparties.

#### Financial Instruments

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. MBS, Orchid common stock, Eurodollar futures contracts, interest rate swaptions and retained interests in securitization transactions are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 14 of the consolidated financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, other assets, repurchase agreements, payable for unsettled securities purchased, accrued interest payable and other liabilities generally approximates their carrying value as of September 30, 2016 and December 31, 2015, due to the short-term nature of these financial instruments.

It is impractical to estimate the fair value of the Company's junior subordinated notes. Currently, there is a limited market for these types of instruments and the Company is unable to ascertain what interest rates would be available to the Company for similar financial instruments. Information regarding carrying amount, effective interest rate and maturity date for these instruments is presented in Note 8 to the consolidated financial statements.

#### Property and Equipment, net

Property and equipment, net, consists of computer equipment with a depreciable life of 3 years, office furniture and equipment with depreciable lives of 8 to 20 years, land which has no depreciable life, and buildings and improvements with depreciable lives of 30 years. Property and equipment is recorded at acquisition cost and depreciated using the straight-line method over the estimated useful lives of the assets.

#### Repurchase Agreements

The Company finances the acquisition of the majority of its PT MBS through the use of repurchase agreements under master repurchase agreements. Pursuant to ASC Topic 860, Transfers and Servicing, the Company accounts for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

#### Share-Based Compensation

The Company follows the provisions of ASC Topic 718, Compensation – Stock Compensation, to account for stock and stock-based awards. For stock and stock-based awards issued to employees, a compensation charge is recorded against earnings over the vesting period based on the fair value of the award. Payments pursuant to dividend equivalent rights, which are granted along with certain equity based awards, are charged to stockholders' equity when dividends are declared. The Company applies a zero forfeiture rate for its equity based awards, as such awards have been granted to a limited number of employees and historical forfeitures have been minimal. A significant forfeiture, or an indication that significant forfeitures may occur, would result in a revised forfeiture rate which would be accounted for prospectively as a change in an estimate. For transactions with non-employees in which services are performed in exchange for the Company's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more



readily measurable at the date of issuance.

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## Earnings Per Share

The Company follows the provisions of ASC Topic 260, Earnings Per Share, which requires companies with complex capital structures, common stock equivalents or two (or more) classes of securities that participate in dividend distributions to present both basic and diluted earnings per share ("EPS") on the face of the consolidated statement of operations. Basic EPS is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the treasury stock or two-class method, as applicable for common stock equivalents. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Outstanding shares of Class B Common Stock, participating and convertible into Class A Common Stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Accordingly, shares of the Class B Common Stock are included in the computation of basic EPS using the two-class method and, consequently, are presented separately from Class A Common Stock.

The shares of Class C Common Stock are not included in the basic EPS computation as these shares do not have participation rights. The outstanding shares of Class B and Class C Common Stock are not included in the computation of diluted EPS for the Class A Common Stock as the conditions for conversion into shares of Class A Common Stock were not met.

## Income Taxes

For the calendar year ended December 31, 2015, Bimini Capital, Bimini Advisors and Royal Palm were separate taxpaying entities for income tax purposes and filed separate Federal income tax returns. Bimini Advisors remained a separate tax paying entity through January 31, 2016; on that date, Bimini Advisors was reorganized to be an LLC wholly-owned by Bimini Capital. Beginning with the tax period starting on February 1, 2016, Bimini Capital and Bimini Advisors will be a single tax paying entity. Royal Palm continues to be treated as a separate tax paying entity for the year ending December 31, 2016.

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on the Company's evaluation, it is more likely than not that they will not be realized.

The Company's U.S. federal income tax returns for years ended on or after December 31, 2013 remain open for examination. Although management believes its calculations for tax returns are correct and the positions taken thereon are reasonable, the final outcome of tax audits could be materially different from the tax returns filed by the Company, and those differences could result in significant costs or benefits to the Company.

The Company measures, recognizes and presents its uncertain tax positions in accordance with ASC Topic 740, Income Taxes. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Company recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. The difference between the benefit recognized and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit and is recorded as a liability in the consolidated balance sheets. The Company records income tax-related interest and penalties, if applicable, within the income tax provision.



## Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentations.

## Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows – (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). ASU 2016-13 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2019. Early application is permitted for fiscal periods beginning after December 15, 2018. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 simplifies certain aspects related to the accounting for share-based payment transactions, including income tax consequences, statutory withholding requirements, forfeitures and classification on the statement of cash flows. The guidance in this update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to classification on the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 amends existing guidance requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that performance targets that affect vesting and that could be achieved after the requisite service period be treated as performance conditions. The effective date of ASU 2014-12 is for interim and annual reporting periods beginning after December 15, 2015. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.



## NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's MBS portfolio as of September 30, 2016 and December 31, 2015:

(in thousands)

|                                  | September<br>30, 2016 | December<br>31, 2015 |
|----------------------------------|-----------------------|----------------------|
| Pass-Through MBS:                |                       |                      |
| Fixed-rate Mortgages             | \$ 130,955            | \$ 79,170            |
| Hybrid Adjustable-rate Mortgages | -                     | 118                  |
| Total Pass-Through MBS           | 130,955               | 79,288               |
| Structured MBS:                  |                       |                      |
| Interest-Only Securities         | 1,120                 | 2,554                |
| Inverse Interest-Only Securities | 1,527                 | 2,146                |
| Total Structured MBS             | 2,647                 | 4,700                |
| Total                            | \$ 133,602            | \$ 83,988            |

The following table summarizes the Company's MBS portfolio as of September 30, 2016 and December 31, 2015, according to the contractual maturities of the securities in the portfolio. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

|   | September<br>30, 2016 | December<br>31, 2015 |
|---|-----------------------|----------------------|
| Greater than five years and less than ten years | \$-                   | \$ 3                 |
| Greater than or equal to ten years              | 133,602               | 83,985               |
| Total   | \$ 133,602            | \$ 83,988            |

## NOTE 3. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of September 30, 2016 and December 31, 2015:

(in thousands)

| Series      | Issue Date         | September<br>30, 2016 | December<br>31, 2015 |
|-------------|--------------------|-----------------------|----------------------|
| HMAC 2004-2 | May 10, 2004       | \$ 152                | \$ 110               |
| HMAC 2004-3 | June 30, 2004      | 519                   | 453                  |
| HMAC 2004-4 | August 16, 2004    | 377                   | 75                   |
| HMAC 2004-5 | September 28, 2004 | 163                   | 182                  |
| HMAC 2004-6 | November 17, 2004  | 255                   | 304                  |
| Total       |                    | \$ 1,466              | \$ 1,124             |

## NOTE 4. REPURCHASE AGREEMENTS

As of September 30, 2016, the Company had outstanding repurchase agreement obligations of approximately \$126.0 million with a net weighted average borrowing rate of 0.74%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$133.5 million. As of December 31, 2015, the Company had outstanding repurchase agreement obligations of approximately \$77.2 million with a net weighted average borrowing rate of 0.61%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$81.5 million.

As of September 30, 2016 and December 31, 2015, the Company's repurchase agreements had remaining maturities as summarized below:

(\$ in thousands)

|   | OVERNIGHT<br>(1 DAY OR<br>LESS) | BETWEEN<br>2<br>AND<br>30 DAYS | BETWEEN<br>31<br>AND<br>90 DAYS | GREATER<br>THAN<br>90 DAYS | TOTAL      |
|---|---------------------------------|--------------------------------|---------------------------------|----------------------------|------------|
| September 30, 2016  |                                 |                                |                                 |                            |            |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$ 107,456                     | \$ 26,020                       | \$ -                       | \$ 133,476 |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$ 101,912                     | \$ 24,079                       | \$ -                       | \$ 125,991 |
| Net weighted average borrowing rate                                     | -                               | 0.74 %                         | 0.76 %                          | -                          | 0.74 %     |
| December 31, 2015   |                                 |                                |                                 |                            |            |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$ 81,464                      | \$ -                            | \$ -                       | \$ 81,464  |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$ 77,234                      | \$ -                            | \$ -                       | \$ 77,234  |
| Net weighted average borrowing rate                                     | -                               | 0.61 %                         | -                               | -                          | 0.61 %     |

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable, and cash posted by the Company as collateral, if any. At September 30, 2016 and December 31, 2015, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately \$7.5 million and \$3.5 million, respectively. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at September 30, 2016 or December 31, 2015.

## NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with its interest rate risk management strategy, the Company economically hedges a portion of the cost of its repurchase agreement funding and junior subordinated notes by entering into derivatives and other hedging contracts. To date the Company has entered into Eurodollar and T-Note futures contracts, but may enter into other contracts in the future. The Company has not elected hedging treatment under GAAP, and as such all gains or losses

(realized and unrealized) on these instruments are reflected in earnings for all periods presented.

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As of September 30, 2016 and December 31, 2015, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains or losses credited or charged to the Company's account on a daily basis and reflected in earnings as they occur. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. This margin represents the collateral the Company has posted for its open positions and is recorded on the consolidated balance sheets as part of restricted cash. The tables below present information related to the Company's Eurodollar futures positions at September 30, 2016 and December 31, 2015.

(\$ in thousands)

As of September 30, 2016

| Expiration Year          | Repurchase Agreement Funding Hedges |                             |                                 |                            |
|--------------------------|-------------------------------------|-----------------------------|---------------------------------|----------------------------|
|                          | Average Contract Notional Amount    | Weighted Average Entry Rate | Weighted Average Effective Rate | Open Equity <sup>(1)</sup> |
| 2016                     | \$56,000                            | 1.77 %                      | 0.92 %                          | \$(119 )                   |
| 2017                     | 56,000                              | 2.23 %                      | 1.00 %                          | (688 )                     |
| 2018                     | 43,000                              | 2.21 %                      | 1.13 %                          | (465 )                     |
| 2019                     | 30,000                              | 1.63 %                      | 1.27 %                          | (108 )                     |
| Total / Weighted Average | \$44,000                            | 2.05 %                      | 1.09 %                          | \$(1,380 )                 |

(\$ in thousands)

As of September 30, 2016

| Expiration Year          | Junior Subordinated Debt Funding Hedges |                             |                                 |                            |
|--------------------------|---|-----------------------------|---------------------------------|----------------------------|
|                          | Average Contract Notional Amount        | Weighted Average Entry Rate | Weighted Average Effective Rate | Open Equity <sup>(1)</sup> |
| 2016                     | \$26,000                                | 2.00 %                      | 0.92 %                          | \$(70 )                    |
| 2017                     | 26,000                                  | 2.49 %                      | 1.00 %                          | (385 )                     |
| 2018                     | 26,000                                  | 2.16 %                      | 1.14 %                          | (267 )                     |
| 2019                     | 26,000                                  | 1.65 %                      | 1.27 %                          | (97 )                      |
| 2020                     | 26,000                                  | 1.95 %                      | 1.43 %                          | (136 )                     |
| 2021                     | 26,000                                  | 2.22 %                      | 1.60 %                          | (162 )                     |
| Total / Weighted Average | \$26,000                                | 2.09 %                      | 1.27 %                          | \$(1,117 )                 |

(\$ in thousands)

As of December 31, 2015

| Expiration Year          | Repurchase Agreement Funding Hedges |                             |                                 |                            |
|--------------------------|-------------------------------------|-----------------------------|---------------------------------|----------------------------|
|                          | Average Contract Notional Amount    | Weighted Average Entry Rate | Weighted Average Effective Rate | Open Equity <sup>(1)</sup> |
| 2016                     | \$56,000                            | 1.45 %                      | 0.98 %                          | \$(264 )                   |
| 2017                     | 56,000                              | 2.23 %                      | 1.59 %                          | (362 )                     |
| 2018                     | 56,000                              | 2.65 %                      | 1.91 %                          | (207 )                     |
| Total / Weighted Average | \$56,000                            | 2.00 %                      | 1.41 %                          | \$(833 )                   |



(\$ in thousands)

As of December 31, 2015

| Expiration Year          | Junior Subordinated Debt Funding Hedges |                    |                                 |   |
|--------------------------|---|--------------------|---------------------------------|---|
|                          | Contract Notional Amount                | Average Entry Rate | Weighted Average Effective Rate | Weighted Average Open Equity <sup>(1)</sup> |
| 2016                     | \$26,000                                | 1.77               | % 0.98                          | % \$ (205 )                                 |
| 2017                     | 26,000                                  | 2.49               | % 1.59                          | % (234 )                                    |
| 2018                     | 26,000                                  | 2.94               | % 1.91                          | % (134 )                                    |
| Total / Weighted Average | \$26,000                                | 2.29               | % 1.41                          | % \$ (573 )                                 |

(1) Open equity represents the cumulative losses recorded on open futures positions from inception.

#### (Losses)/Gains From Derivative Instruments, Net

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the nine and three months ended September 30, 2016 and 2015.

(in thousands)

|  | Nine Months Ended September 30, |           | Three Months Ended September 30, |         |
|--|---------------------------------|-----------|----------------------------------|---------|
|  | 2016                            | 2015      | 2016                             | 2015    |
| Eurodollar futures contracts (short positions) | \$(1,550)                       | \$(2,000) | \$508                            | \$(991) |
| Net (losses) gains on derivative instruments   | \$(1,550)                       | \$(2,000) | \$508                            | \$(991) |

#### Credit Risk-Related Contingent Features

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. The Company attempts to minimize this risk in several ways. For instruments which are not centrally cleared on a registered exchange, the Company limits its counterparties to major financial institutions with acceptable credit ratings, and by monitoring positions with individual counterparties. In addition, the Company may be required to pledge assets as collateral for its derivatives, whose amounts vary over time based on the market value, notional amount and remaining term of the derivative contract. In the event of a default by a counterparty, the Company may not receive payments provided for under the terms of its derivative agreements, and may have difficulty obtaining its assets pledged as collateral for its derivatives. The cash and cash equivalents pledged as collateral for the Company's derivative instruments are included in restricted cash on the consolidated balance sheets.

## NOTE 6. PLEDGED ASSETS

## Assets Pledged to Counterparties

The table below summarizes our assets pledged as collateral under our repurchase agreements and derivative agreements pledged related to securities sold but not yet settled, as of September 30, 2016 and December 31, 2015.

(\$ in thousands)

As of September 30, 2016

|  | Repurchase<br>Agreements | Derivative<br>Agreements | Total      |
|--|--------------------------|--------------------------|------------|
| Assets Pledged to Counterparties       |                          |                          |            |
| PT MBS - at fair value                 | \$ 130,956               | \$ -                     | \$ 130,956 |
| Structured MBS - at fair value         | 2,060                    | -                        | 2,060      |
| Accrued interest on pledged securities | 460                      | -                        | 460        |
| Cash                                   | 106                      | 467                      | 573        |
| Total                                  | \$ 133,582               | \$ 467                   | \$ 134,049 |

(\$ in thousands)

As of December 31, 2015

|  | Repurchase<br>Agreements | Derivative<br>Agreements | Total     |
|--|--------------------------|--------------------------|-----------|
| Assets Pledged to Counterparties       |                          |                          |           |
| PT MBS - at fair value                 | \$ 79,288                | \$ -                     | \$ 79,288 |
| Structured MBS - at fair value         | 1,904                    | -                        | 1,904     |
| Accrued interest on pledged securities | 272                      | -                        | 272       |
| Cash                                   | -                        | 402                      | 402       |
| Total                                  | \$ 81,464                | \$ 402                   | \$ 81,866 |

## NOTE 7. OFFSETTING ASSETS AND LIABILITIES

The Company's derivatives and repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis. The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of September 30, 2016 and December 31, 2015.

(in thousands)

## Offsetting of Liabilities

|                    | Gross<br>Amount<br>of<br>Recognized<br>Liabilities | Gross<br>Amount<br>Offset in the<br>Consolidated<br>Balance<br>Sheet | Net Amount<br>of Liabilities<br>Presented in<br>the<br>Consolidated<br>Balance<br>Sheet | Gross Amount Not<br>Offset in the<br>Consolidated Balance<br>Sheet | Financial<br>Instruments<br>Posted as<br>Collateral | Cash<br>Posted as<br>Collateral | Net<br>Amount |
|--------------------|--|--|---|--|---|---------------------------------|---------------|
| September 30, 2016 |  |  |   |  |   |                                 |               |

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|                       |            |      |            |             |          |      |
|-----------------------|------------|------|------------|-------------|----------|------|
| Repurchase Agreements | \$ 125,991 | \$ - | \$ 125,991 | \$(125,885) | \$(106 ) | \$ - |
| December 31, 2015     |            |      |            |             |          |      |
| Repurchase Agreements | \$ 77,234  | \$ - | \$ 77,234  | \$(77,234 ) | \$ -     | \$ - |

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The amounts disclosed for collateral received by or posted to the same counterparty are limited to the amount sufficient to reduce the asset or liability presented in the consolidated balance sheet to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Note 6 for a discussion of collateral posted for, or received against, repurchase obligations and derivative instruments.

#### NOTE 8. TRUST PREFERRED SECURITIES

During 2005, Bimini Capital sponsored the formation of a statutory trust, known as Bimini Capital Trust II ("BCTII") of which 100% of the common equity is owned by Bimini Capital. It was formed for the purpose of issuing trust preferred capital securities to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of Bimini Capital. The debt securities held by BCTII are the sole assets of BCTII.

As of September 30, 2016 and December 31, 2015, the outstanding principal balance on the junior subordinated debt securities owed to BCTII was \$26.8 million. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes have a rate of interest that floats at a spread of 3.50% over the prevailing three-month LIBOR rate. As of September 30, 2016, the interest rate was 4.35%. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes require quarterly interest distributions and are redeemable at Bimini Capital's option, in whole or in part and without penalty. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment of all present and future senior indebtedness.

BCTII is a VIE because the holders of the equity investment at risk do not have adequate decision making ability over BCTII's activities. Since Bimini Capital's investment in BCTII's common equity securities was financed directly by BCTII as a result of its loan of the proceeds to Bimini Capital, that investment is not considered to be an equity investment at risk. Since Bimini Capital's common share investment in BCTII is not a variable interest, Bimini Capital is not the primary beneficiary of BCTII. Therefore, Bimini Capital has not consolidated the financial statements of BCTII into its consolidated financial statements.

The accompanying consolidated financial statements present Bimini Capital's BCTII Junior Subordinated Notes issued to BCTII as a liability and Bimini Capital's investment in the common equity securities of BCTII as an asset (included in other assets). For financial statement purposes, Bimini Capital records payments of interest on the Junior Subordinated Notes issued to BCTII as interest expense.

#### NOTE 9. COMMON STOCK

The table below presents information related to Bimini Capital's Class A Common Stock issued during the nine and three months ended September 30, 2016 and 2015.

|   | Nine Months Ended September 30, |        | Three Months Ended September 30, |       |
|---|---------------------------------|--------|----------------------------------|-------|
|   | 2016                            | 2015   | 2016                             | 2015  |
| Shares Issued Related To:                   |                                 |        |                                  |       |
| Directors' compensation                     | -                               | 30,654 | -                                | 8,669 |
| Vested incentive plan shares                | 258,333                         | -      | -                                | -     |
| Total shares of Class A Common Stock issued | 258,333                         | 30,654 | -                                | 8,669 |

There were no issuances of Bimini Capital's Class B Common Stock and Class C Common Stock during the nine months ended September 30, 2016 and 2015.

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## NOTE 10. STOCK INCENTIVE PLANS

On August 12, 2011, Bimini Capital's shareholders approved the 2011 Long Term Compensation Plan (the "2011 Plan") to assist the Company in recruiting and retaining employees, directors and other service providers by enabling them to participate in the success of Bimini Capital and to associate their interests with those of the Company and its stockholders. The 2011 Plan is intended to permit the grant of stock options, stock appreciation rights ("SARs"), stock awards, performance units and other equity-based and incentive awards. The maximum aggregate number of shares of common stock that may be issued under the 2011 Plan pursuant to the exercise of options and SARs, the grant of stock awards or other equity-based awards and the settlement of incentive awards and performance units is equal to 4,000,000 shares.

## Share Awards

During the three months ended March 31, 2016, the Compensation Committee of the Board of Directors of Bimini Capital (the "Committee") approved certain performance bonuses for members of management. These bonuses were awarded primarily in recognition of service in 2015. The bonuses consisted of cash of approximately \$0.5 million and 258,333 fully vested shares of the Company's Class A Common Stock with an approximate value of \$0.2 million, or \$0.75 per share. The shares were issued under the 2011 Plan. For purposes of these bonuses, shares of the Company's common stock were valued based on the closing price of the Company's Class A Common Stock on January 15, 2016, the bonus date. The expense related to this bonus was accrued at December 31, 2015 and does not affect the results of operations for the nine and three months ended September 30, 2016.

## Performance Units

The Compensation Committee of the Board of Directors (the "Committee") may issue Performance Units under the 2011 Plan to certain officers and employees. "Performance Units" represent the participant's right to receive an amount, based on the value of a specified number of shares of common stock, if the terms and conditions prescribed by the Committee are satisfied. The Committee will determine the requirements that must be satisfied before Performance Units are earned, including but not limited to any applicable performance period and performance goals. Performance goals may relate to the Company's financial performance or the participant's performance or such other criteria determined by the Committee, including goals stated with reference to the performance measures discussed below. If Performance Units are earned, they will be settled in cash, shares of common stock or a combination thereof.

The following table presents the activity related to Performance Units during the nine months ended September 30, 2016 and 2015:

|                               | Nine Months Ended September 30, |   |        |   |
|-------------------------------|---------------------------------|---|--------|---|
|                               | 2016                            |   | 2015   |   |
|                               | Shares                          | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value | Shares | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
| Unvested, beginning of period | 77,500                          | \$ 1.22   | 31,500 | \$ 1.78   |
| Granted                       | -                               | -   | -      | -   |
| Forfeited                     | (1,000 )                        | 0.84  | -      | -   |
| Vested and issued             | -                               | -   | -      | -   |
| Unvested, end of period       | 76,500                          | \$ 1.23   | 31,500 | \$ 1.78   |



|  |        |       |
|--|--------|-------|
| Compensation expense during the period             | \$ 23  | \$ 14 |
| Unrecognized compensation expense at period end    | \$ 50  | \$ 41 |
| Weighted-average remaining vesting term (in years) | 1.8    | 2.3   |
| Intrinsic value of unvested shares at period end   | \$ 191 | \$ 42 |

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#### NOTE 11. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any significant reported or unreported contingencies at September 30, 2016.

#### NOTE 12. INCOME TAXES

The total income tax provision recorded for the nine and three months ended September 30, 2016 was \$2.1 million and \$1.4 million, respectively, on consolidated pre-tax book income of \$4.3 million and \$2.6 million in the nine and three months ended September 30, 2016, respectively. The total income tax provision recorded for the nine and three months ended September 30, 2015 was \$0.9 million and \$0.3 million, respectively, on consolidated pre-tax book losses of \$4.6 million and \$2.4 million in the nine and three months ended September 30, 2015, respectively.

The consolidated loss for the nine months ended September 30, 2015 consisted of a loss of approximately \$9.0 million attributed to Bimini Capital and income of approximately \$4.4 million attributed to the operations of Bimini Advisors and Royal Palm. The consolidated loss for the three months ended September 30, 2015 consisted of a loss of approximately \$3.2 million attributed to Bimini Capital and income of approximately \$0.8 million attributed to the operations of Bimini Advisors and Royal Palm. At September 30, 2015, the Company anticipated Bimini Capital would retain its Real Estate Investment Trust exemption under the Internal Revenue Code of 1986 for the full year 2015; therefore, no income tax benefit was accrued related to the loss attributed to its operations.

The Company's tax provision is based on projected effective rate based annualized amounts and includes the expected realization of a portion of the tax benefits of the federal and state net operating losses carryforwards ("NOLs") in 2016. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of capital loss and NOL carryforwards is dependent upon the generation of future capital gains and taxable income in periods prior to their expiration. The Company currently provides a valuation allowance against a portion of the NOLs since the Company believes that it is more likely than not that some of the benefits will not be realized in the future. The Company will continue to assess the need for a valuation allowance at each reporting date.

#### NOTE 13. EARNINGS PER SHARE

Shares of Class B common stock, participating and convertible into Class A common stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A common stock if, and when, authorized and declared by the Board of Directors. Following the provisions of FASB ASC 260, the Class B common stock is included in the computation of basic EPS using the two-class method, and consequently is presented separately from Class A common stock. Shares of Class B common stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A common stock were not met at September 30, 2016 and 2015.

Shares of Class C common stock are not included in the basic EPS computation as these shares do not have participation rights. Shares of Class C common stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A common stock were not met at September 30, 2016 and 2015.

The Company has dividend eligible stock incentive plan shares that were outstanding during the nine and three months ended September 30, 2016. The basic and diluted per share computations include these unvested incentive plan shares if there is income available to Class A common stock, as they have dividend participation rights. The stock incentive plan shares have no contractual obligation to share in losses. Because there is no such obligation, the incentive plan shares are not included in the basic and diluted EPS computations when no income is available to Class

A common stock even though they are considered participating securities. The average number of dividend eligible stock incentive plan shares that were anti-dilutive and not included in diluted earnings per share for both the nine and three months ended September 30, 2015 was 31,600.

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The table below reconciles the numerator and denominator of EPS for the nine and three months ended September 30, 2016 and 2015.

(in thousands, except per-share information)

|   | Nine Months<br>Ended September<br>30,<br>2016 |            | Three Months<br>Ended September<br>30,<br>2015 |            |
|---|---|------------|--|------------|
| Basic and diluted EPS per Class A common share:   |   |            |  |            |
| Income (loss) attributable to Class A common shares:  |   |            |  |            |
| Basic and diluted   | \$2,221                                       | \$(5,526 ) | \$1,176  | \$(2,639 ) |
| Weighted average common shares:   |   |            |  |            |
| Class A common shares outstanding at the balance sheet date                                     | 12,632  | 12,355     | 12,632   | 12,355     |
| Unvested dividend-eligible stock incentive plan shares<br>outstanding at the balance sheet date | 77  | -          | 77   | -          |
| Effect of weighting   | (14 )   | (10 )      | (1 )   | -          |
| Weighted average shares-basic and diluted   | 12,695  | 12,345     | 12,708   | 12,355     |
| Income (loss) per Class A common share:   |   |            |  |            |
| Basic and diluted   | \$0.17  | \$(0.45 )  | \$0.09   | \$(0.21 )  |

(in thousands, except per-share information)

|   | Nine Months<br>Ended<br>September 30,<br>2016 |          | Three Months<br>Ended<br>September 30,<br>2015 |          |
|---|---|----------|--|----------|
| Basic and diluted EPS per Class B common share:             |   |          |  |          |
| Income (loss) attributable to Class B common shares:        |   |          |  |          |
| Basic and diluted   | \$6   | \$(14 )  | \$3  | \$(7 )   |
| Weighted average common shares:                             |   |          |  |          |
| Class B common shares outstanding at the balance sheet date | 32  | 32       | 32   | 32       |
| Weighted average shares-basic and diluted                   | 32  | 32       | 32   | 32       |
| Income (loss) per Class B common share:                     |   |          |  |          |
| Basic and diluted   | \$0.17  | \$(0.45) | \$0.09   | \$(0.21) |

NOTE 14. FAIR VALUE

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of non-performance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These stratifications are:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability.

Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

The Company's MBS are valued using Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third-party broker quotes, when available. Because the price estimates may vary, the Company must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. Alternatively, the Company could opt to have the value of all of our MBS positions determined by either an independent third-party or do so internally.

MBS, Orchid common stock, retained interests and futures contracts were all recorded at fair value on a recurring basis during the nine and three months ended September 30, 2016 and 2015. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Fair value measurements for the retained interests are generated by a model that requires management to make a significant number of assumptions.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

(in thousands)

|  | Fair Value<br>Measurements | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|----------------------------|---|---|--|
| September 30, 2016                       |                            |   |   |  |
| Mortgage-backed securities               | \$ 133,602                 | \$-   | \$ 133,602  | \$ -   |
| Margin posted on derivative agreements   | 467                        | 467   | -   | -  |
| Orchid Island Capital, Inc. common stock | 14,536                     | 14,536  | -   | -  |
| Retained interests                       | 1,466                      | -   | -   | 1,466  |
| December 31, 2015                        |                            |   |   |  |
| Mortgage-backed securities               | \$ 83,988                  | \$-   | \$ 83,988   | \$ -   |
| Margin posted on derivative agreements   | 402                        | 402   | -   | -  |
| Orchid Island Capital, Inc. common stock | 13,853                     | 13,853  | -   | -  |
| Retained interests                       | 1,124                      | -   | -   | 1,124  |

The following table illustrates a roll forward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and 2015:

(in thousands)

|                           | Retained Interests<br>Nine Months<br>Ended September<br>30, |          |
|---------------------------|---|----------|
|                           | 2016  | 2015     |
| Balances, January 1       | \$ 1,124  | \$ 1,900 |
| Gain included in earnings | 2,100   | 2,739    |
| Collections               | (1,758)   | (3,005)  |

Balances, September 30    \$1,466    \$1,634

During the nine months ended September 30, 2016 and 2015, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

Our retained interests are valued based on a discounted cash flow approach. These values are sensitive to changes in unobservable inputs, including: estimated prepayment speeds, default rates and loss severity, weighted-average life, and discount rates. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

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The following table summarizes the significant quantitative information about our level 3 fair value measurements as of September 30, 2016.

|  |             |   |            |            |                  |
|--|-------------|---|------------|------------|------------------|
| Retained interests fair value (in thousands) |             |   |            |            | \$1,466          |
|  |             |   |            | CPR        |                  |
|  |             |   |            | Range      |                  |
|  |             |   |            | (Weighted  |                  |
| Prepayment Assumption                        |             |   |            | Average)   |                  |
| Constant Prepayment Rate                     |             |   |            | 10% (10 %) |                  |
|  |             |   |            | Severity   |                  |
|  | Probability |   |            | (Weighted  | Range Of Loss    |
| Default Assumptions                          | of Default  |   |            | Average)   | Timing           |
| Real Estate Owned                            | 100         | % | 27         | %          | Next 10 Months   |
| Loans in Foreclosure                         | 100         | % | 27         | %          | Month 4 - 13     |
| Loans 90 Day Delinquent                      | 100         | % | 45         | %          | Month 11-28      |
| Loans 60 Day Delinquent                      | 85          | % | 45         | %          | Month 11-28      |
| Loans 30 Day Delinquent                      | 75          | % | 45         | %          | Month 11-28      |
|  |             |   |            |            | Month 29 and     |
| Current Loans                                | 2.9         | % | 45         | %          | Beyond           |
|  |             |   |            | Remaining  |                  |
|  |             |   |            | Life       | Discount Rate    |
|  |             |   |            | Range      | Range            |
|  | Valuation   |   |            | (Weighted  | (Weighted        |
| Cash Flow Recognition                        | Technique   |   |            | Average)   | Average)         |
|  | Discounted  |   |            |            |                  |
| Nominal Cash Flows                           | Cash Flow   |   | 7.5 - 14.4 | (12.0)     | 27.50% (27.50 %) |
|  | Discounted  |   |            |            |                  |
| Discounted Cash Flows                        | Cash Flow   |   | 0.2 - 3.0  | (1.6)      | 27.50% (27.50 %) |

NOTE 15. RELATED PARTY TRANSACTIONS

Management Agreement

Orchid is externally managed and advised by Bimini Advisors pursuant to the terms of a management agreement. As Manager, Bimini Advisors is responsible for administering Orchid's business activities and day-to-day operations. Pursuant to the terms of the management agreement, Bimini Advisors provides Orchid with its management team, including its officers, along with appropriate support personnel. Bimini Advisors is at all times subject to the supervision and oversight of Orchid's board of directors and has only such functions and authority as delegated to it. Bimini Advisors receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first \$250 million of the Orchid's equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Orchid's equity that is greater than \$250 million and less than or equal to \$500 million,
- and
- One-twelfth of 1.00% of the Orchid's equity that is greater than \$500 million.

Orchid is obligated to reimburse the Bimini Advisors for any direct expenses incurred on its behalf and to pay to Bimini Advisors Orchid's pro rata portion of certain overhead costs set forth in the management agreement. Should the Orchid terminate the management agreement without cause, it will pay to Bimini Advisors a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the initial term or automatic renewal term.



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The following table summarizes the advisory services revenue from Orchid for the nine and three months ended September 30, 2016 and 2015.

(\$ in thousands)

|                    | Nine Months<br>Ended<br>September 30,<br>2016 |         | Three Months<br>Ended<br>September 30,<br>2015 |         |
|--------------------|---|---------|--|---------|
|                    | 2016  | 2015    | 2016   | 2015    |
| Management fee     | \$2,968                                       | \$2,929 | \$1,052  | \$1,061 |
| Allocated overhead | 963   | 774     | 336  | 259     |
| Total              | \$3,931                                       | \$3,703 | \$1,388  | \$1,320 |

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At September 30, 2016 and December 31, 2015, the net amount due from Orchid was approximately \$0.5 million and \$0.5 million, respectively, and is included in "other assets" in the consolidated balance sheets. Orchid accrued cash and equity compensation payable to officers and employees of Bimini of \$0.6 million and \$0.2 million during the nine and three months ended September 30, 2016, respectively, and \$0.5 million and \$0.2 million during the nine and three months ended September 30, 2015, respectively. This compensation is not included in the consolidated statements of operations.

#### Other Relationships with Orchid

At September 30, 2016 and December 31, 2015, the Company owned 1,395,036 shares of Orchid common stock, including share purchases that settled after December 31, 2015, representing approximately 5.3% and 6.4% of the outstanding shares, respectively. The Company received dividends on this common stock investment of approximately \$1.8 million and \$0.6 million during the nine and three months ended September 30, 2016, respectively, and \$1.5 million and \$0.4 million during the nine and three months ended September 30, 2015, respectively.

Robert Cauley, the Chief Executive Officer and Chairman of the Board of Directors of the Company, also serves as Chief Executive Officer and Chairman of the Board of Directors of Orchid and owns shares of common stock of Orchid. In addition, Hunter Haas, the Chief Financial Officer, Chief Investment Officer and Treasurer of the Company, also serves as Chief Financial Officer, Chief Investment Officer and Secretary of Orchid, is a member of Orchid's Board of Directors and owns shares of common stock of Orchid.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included in Item 1 of this Form 10-Q. The discussion may contain certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are those that are not historical in nature. As a result of many factors, such as those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, our actual results may differ materially from those anticipated in such forward-looking statements.

### Overview

Bimini Capital Management, Inc. ("Bimini Capital" or the "Company") was formed in September 2003 to invest primarily in residential mortgage-backed securities ("MBS") issued and guaranteed by a federally chartered corporation or agency ("Agency MBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency MBS: (i) traditional pass-through Agency MBS ("PT MBS") and (ii) structured Agency MBS, such as collateralized mortgage obligations ("CMOs"), interest only securities ("IOs"), inverse interest only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency MBS.

As described more fully below under "Outlook/Tax Matters", Bimini Capital no longer operates as a Real Estate Investment Trust ("REIT") and possesses significant net operating loss carryforwards ("NOL"), as does its wholly-owned subsidiary, Royal Palm Capital, LLC (formerly known as MortCo TRS, LLC) ("Royal Palm"). In order to more effectively utilize the NOLs, the Company began the process of transferring MBS assets from the Bimini Capital to Royal Palm in late 2015 and continued to do so during the nine months ended September 30, 2016. As of September 30, 2016, the entire MBS portfolio was held at Royal Palm. The Company plans to grow the MBS portfolio at Royal Palm over time in order to utilize NOLs at Royal Palm before their expiration. After such transfer is complete the MBS portfolio management operations will be conducted at Royal Palm and not at Bimini Capital.

The Company also serves as the external manager of the portfolio of Orchid Island Capital, Inc. ("Orchid"), through its wholly owned subsidiary, Bimini Advisors Holdings, LLC ("Bimini Advisors"). From this arrangement, the Company receives management fees and expense reimbursements. As Manager, Bimini Advisors is responsible for administering Orchid's business activities and day-to-day operations. Pursuant to the terms of the management agreement, Bimini Advisors provides Orchid with its management team, including its officers, along with appropriate support personnel. Bimini Advisors is at all times subject to the supervision and oversight of Orchid's board of directors and has only such functions and authority as delegated to it. In addition, the Company receives dividends from its investment in Orchid common shares.

### Factors that Affect our Results of Operations and Financial Condition

A variety of industry and economic factors may impact our results of operations and financial condition. These factors include:

- interest rate trends;
- the difference between Agency MBS yields and our funding and hedging costs;
- competition for investments in Agency MBS;
- actions taken by the Federal Reserve and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency MBS, and credit trends insofar as they affect prepayment rates; and
- other market developments.

In addition, a variety of factors relating to our business may also impact our results of operations and financial condition. These factors include:

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments; and
- the requirements to qualify for a registration exemption under the Investment Company Act; and
  - our ability to utilize net operating loss carryforwards and capital loss carryforwards to reduce our taxable income.

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## Results of Operations

Described below are the Company's results of operations for the nine and three months ended September 30, 2016, as compared to the nine and three months ended September 30, 2015.

## Net Income (Loss) Summary

Consolidated net income for the nine months ended September 30, 2016 was \$2.2 million, or \$0.17 basic and diluted income per share of Class A Common Stock, as compared to consolidated net loss of \$5.5 million, or \$0.45 basic and diluted loss per share of Class A Common Stock, for the nine months ended September 30, 2015.

Consolidated net income for the three months ended September 30, 2016 was \$1.2 million, or \$0.09 basic and diluted income per share of Class A Common Stock, as compared to consolidated net loss of \$2.6 million, or \$0.21 basic and diluted loss per share of Class A Common Stock, for the three months ended September 30, 2015.

The components of net income (loss) for the nine and three months ended September 30, 2016 and 2015, along with the changes in those components are presented in the table below:

(in thousands)

|  | Nine Months Ended<br>September 30, |           |          | Three Months Ended<br>September 30, |           |         |
|--|------------------------------------|-----------|----------|-------------------------------------|-----------|---------|
|  | 2016                               | 2015      | Change   | 2016                                | 2015      | Change  |
| Net portfolio interest                           | \$2,454                            | \$2,972   | \$(518 ) | \$913                               | \$889     | \$24    |
| Interest expense on junior subordinated notes    | (818 )                             | (744 )    | (74 )    | (278 )                              | (252 )    | (26 )   |
| (Losses) gains on MBS and derivative instruments | (1,683)                            | (2,913)   | 1,230    | 163                                 | (1,707)   | 1,870   |
| Net portfolio (loss) income                      | (47 )                              | (685 )    | 638      | 798                                 | (1,070)   | 1,868   |
| Other income                                     | 8,473                              | 4,237     | 4,236    | 3,176                               | 62        | 3,114   |
| Expenses, including income taxes                 | (6,199)                            | (9,092)   | 2,893    | (2,795)                             | (1,638)   | (1,157) |
| Net income (loss)                                | \$2,227                            | \$(5,540) | \$7,767  | \$1,179                             | \$(2,646) | \$3,825 |

## GAAP and Non-GAAP Reconciliation

## Economic Interest Expense and Economic Net Interest Income

To date, the Company has used derivatives, specifically interest rate futures contracts, such as Eurodollar and Treasury Note ("T-Note") futures contracts, to hedge a portion of the interest rate risk on its repurchase agreements and junior subordinate notes in a rising rate environment. Each interest rate futures contract covers a specific three month period, but the Company typically has many contracts in place at any point in time — usually covering several years in the aggregate.

The Company has not elected to designate its derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board, (the "FASB"), Accounting Standards Codification, ("ASC"), Topic 815, Derivatives and Hedging. Changes in fair value of these instruments are presented in a separate line item in the Company's consolidated statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments. In the future, the Company may use other derivative instruments to hedge its interest expense and/or elect to designate its derivative holdings for hedge accounting treatment.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, GAAP interest expense has been adjusted to reflect the realized gains or losses on specific derivative instruments that pertain to each period presented. As of September 30, 2016, the Company has Eurodollar futures contracts in place through 2021. Adjusting our interest expense for the periods presented by the gains or losses on all derivative instruments would not accurately reflect our economic interest expense for these periods.

For each period presented, the Company has combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on repurchase agreements and junior subordinated notes to reflect total expense for the applicable period. Interest expense, including the effect of derivative instruments for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of derivative instruments for the period, is referred to as economic net interest income.

However, because the Company has not elected hedging treatment under ASC Topic 815, the gains or losses on all of the Company's derivative instruments held during the period are reflected in our consolidated statements of operations. This presentation includes gains or losses on all contracts in effect during the reporting period, including those covering both the current period as well as future periods.

The Company believes that economic interest expense and economic net interest income provides meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help the Company to evaluate its financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of its current investment portfolio or operations. The realized and unrealized gains or losses presented in the Company's consolidated statements of operations are not necessarily representative of the total interest rate expense that the Company will ultimately realize. This is because as interest rates move up or down in the future, the gains or losses the Company ultimately realizes, and which will affect the Company's total interest rate expense in future periods, may differ from the unrealized gains or losses recognized as of the reporting date.

The Company's presentation of the economic value of its hedging strategy has important limitations. First, other market participants may calculate economic interest expense and economic net interest income differently than the Company calculates them. Second, while the Company believes that the calculation of the economic value of our hedging strategy described above helps to present our financial position and performance, it may be of limited usefulness as an analytical tool. Therefore, the economic value of the Company's investment strategy should not be viewed in isolation and is not a substitute for interest expense and net interest income computed in accordance with GAAP.

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the consolidated statements of operations line item, losses on derivative instruments, calculated in accordance with GAAP for the nine months ended September 30, 2016 and for each quarter in 2016 and 2015.

Gains (Losses) on Derivative Instruments - Recognized in Consolidated Statement of Operations (GAAP)  
(in thousands)

| Three Months Ended | Repurchase Agreements | Junior Subordinated Debt | Total   |
|--------------------|-----------------------|--------------------------|---------|
| Consolidated       |                       |                          |         |
| September 30, 2016 | \$ 326                | \$ 182                   | \$508   |
| June 30, 2016      | (353 )                | (404 )                   | (757 )  |
| March 31, 2016     | (787 )                | (513 )                   | (1,300) |
| December 31, 2015  | 426                   | 197                      | 623     |
| September 30, 2015 | (676 )                | (315 )                   | (991 )  |
| June 30, 2015      | 7                     | (1 )                     | 6       |
| March 31, 2015     | (687 )                | (328 )                   | (1,015) |

(in thousands)

| Nine Months Ended  | Repurchase Agreements | Junior Subordinated Debt | Total     |
|--------------------|-----------------------|--------------------------|-----------|
| Consolidated       |                       |                          |           |
| September 30, 2016 | \$ (814 )             | \$ (735 )                | \$(1,549) |
| September 30, 2015 | (1,356 )              | (644 )                   | (2,000)   |

Losses on Derivative Instruments - Attributed to Current Period (Non-GAAP)  
(in thousands)

| Three Months Ended | Repurchase Agreements | Junior Subordinated Debt | Total   |
|--------------------|-----------------------|--------------------------|---------|
| Consolidated       |                       |                          |         |
| September 30, 2016 | \$ (93 )              | \$ (55 )                 | \$(148) |
| June 30, 2016      | (60 )                 | (77 )                    | (137)   |
| March 31, 2016     | (45 )                 | (80 )                    | (125)   |
| December 31, 2015  | (31 )                 | (80 )                    | (111)   |
| September 30, 2015 | (20 )                 | (74 )                    | (94 )   |
| June 30, 2015      | (9 )                  | (64 )                    | (73 )   |
| March 31, 2015     | (1 )                  | (54 )                    | (55 )   |

(in thousands)

| Nine Months Ended  | Repurchase Agreements | Junior Subordinated Debt | Total   |
|--------------------|-----------------------|--------------------------|---------|
| Consolidated       |                       |                          |         |
| September 30, 2016 | \$ (198 )             | \$ (212 )                | \$(410) |
| September 30, 2015 | (30 )                 | (192 )                   | (222)   |





Gains (Losses) on Derivative Instruments - Attributed to  
Future Periods (Non-GAAP)  
(in thousands)

| Three Months Ended | Repurchase<br>Agreements | Junior<br>Subordinated<br>Debt | Total   |
|--------------------|--------------------------|--------------------------------|---------|
| Consolidated       |                          |                                |         |
| September 30, 2016 | \$ 419                   | \$ 237                         | \$656   |
| June 30, 2016      | (293 )                   | (327 )                         | (620 )  |
| March 31, 2016     | (742 )                   | (433 )                         | (1,175) |
| December 31, 2015  | 457                      | 277                            | 734     |
| September 30, 2015 | (656 )                   | (241 )                         | (897 )  |
| June 30, 2015      | 16                       | 63                             | 79      |
| March 31, 2015     | (686 )                   | (274 )                         | (960 )  |

(in thousands)

| Nine Months Ended  | Repurchase<br>Agreements | Junior<br>Subordinated<br>Debt | Total     |
|--------------------|--------------------------|--------------------------------|-----------|
| Consolidated       |                          |                                |           |
| September 30, 2016 | \$ (616 )                | \$ (523 )                      | \$(1,139) |
| September 30, 2015 | (1,326 )                 | (452 )                         | (1,778)   |

Economic Net Portfolio Interest Income  
(in thousands)

| Three Months Ended | Interest<br>Income | Interest Expense on<br>Repurchase Agreements<br>Effect of |                                   |                                  | Net Portfolio<br>Interest Income |                                  |
|--------------------|--------------------|---|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|                    |                    | GAAP<br>Basis   | Non-GAAP<br>Hedges <sup>(1)</sup> | Economic<br>Basis <sup>(2)</sup> | GAAP<br>Basis                    | Economic<br>Basis <sup>(3)</sup> |
| Consolidated       |                    |   |                                   |                                  |                                  |                                  |
| September 30, 2016 | \$1,108            | \$195   | \$ (92 )                          | \$ 287                           | \$913                            | \$ 821                           |
| June 30, 2016      | 1,025              | 174   | (60 )                             | 234                              | 851                              | 791                              |
| March 31, 2016     | 817                | 127   | (45 )                             | 172                              | 690                              | 645                              |
| December 31, 2015  | 1,035              | 120   | (31 )                             | 151                              | 915                              | 884                              |
| September 30, 2015 | 996                | 107   | (20 )                             | 127                              | 889                              | 869                              |
| June 30, 2015      | 1,074              | 98  | (9 )                              | 107                              | 976                              | 967                              |
| March 31, 2015     | 1,207              | 100   | (1 )                              | 101                              | 1,107                            | 1,106                            |

(in thousands)

| Nine Months Ended  | Interest<br>Income | Interest Expense on<br>Repurchase Agreements<br>Effect of |                                   |                                  | Net Portfolio<br>Interest Income |                                  |
|--------------------|--------------------|---|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|                    |                    | GAAP<br>Basis   | Non-GAAP<br>Hedges <sup>(1)</sup> | Economic<br>Basis <sup>(2)</sup> | GAAP<br>Basis                    | Economic<br>Basis <sup>(3)</sup> |
| Consolidated       |                    |   |                                   |                                  |                                  |                                  |
| September 30, 2016 | \$2,950            | \$496   | \$ (197 )                         | \$ 693                           | \$2,454                          | \$ 2,257                         |
| September 30, 2015 | 3,277              | 305   | (30 )                             | 335                              | 2,972                            | 2,942                            |

(1) Reflects the effect of derivative instrument hedges for only the period presented.

- (2) Calculated by subtracting the effect of derivative instrument hedges attributed to the period presented from GAAP interest expense.
- (3) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net portfolio interest income.

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Economic Net Interest Income  
(in thousands)

|                                 | Net Portfolio   |                               | Interest Expense on Junior Subordinated Notes |                                |                               | Net Interest Income |                               |
|---------------------------------|-----------------|-------------------------------|---|--------------------------------|-------------------------------|---------------------|-------------------------------|
|                                 | Interest Income |                               | Effect of                                     |                                |                               | Income              |                               |
|                                 | GAAP Basis      | Economic Basis <sup>(1)</sup> | GAAP Basis                                    | Non-GAAP Hedges <sup>(2)</sup> | Economic Basis <sup>(3)</sup> | GAAP Basis          | Economic Basis <sup>(4)</sup> |
| Three Months Ended Consolidated |                 |                               |   |                                |                               |                     |                               |
| September 30, 2016              | \$913           | \$ 821                        | \$278   | \$ (55 )                       | \$ 333                        | \$635               | \$ 488                        |
| June 30, 2016                   | 851             | 791                           | 276   | (77 )                          | 353                           | 575                 | 438                           |
| March 31, 2016                  | 690             | 645                           | 264   | (80 )                          | 344                           | 426                 | 301                           |
| December 31, 2015               | 915             | 884                           | 255   | (80 )                          | 335                           | 660                 | 549                           |
| September 30, 2015              | 889             | 869                           | 252   | (74 )                          | 326                           | 637                 | 543                           |
| June 30, 2015                   | 976             | 967                           | 248   | (64 )                          | 312                           | 728                 | 655                           |
| March 31, 2015                  | 1,107           | 1,106                         | 243   | (54 )                          | 297                           | 864                 | 809                           |

(in thousands)

|                                | Net Portfolio   |                               | Interest Expense on Junior Subordinated Notes |                                |                               | Net Interest Income |                               |
|--------------------------------|-----------------|-------------------------------|---|--------------------------------|-------------------------------|---------------------|-------------------------------|
|                                | Interest Income |                               | Effect of                                     |                                |                               | Income              |                               |
|                                | GAAP Basis      | Economic Basis <sup>(1)</sup> | GAAP Basis                                    | Non-GAAP Hedges <sup>(2)</sup> | Economic Basis <sup>(3)</sup> | GAAP Basis          | Economic Basis <sup>(4)</sup> |
| Nine Months Ended Consolidated |                 |                               |   |                                |                               |                     |                               |
| September 30, 2016             | \$2,454         | \$ 2,257                      | \$818   | \$ (212 )                      | \$ 1,030                      | \$1,636             | \$ 1,227                      |
| September 30, 2015             | 2,972           | 2,942                         | 743   | (192 )                         | 935                           | 2,229               | 2,007                         |

(1) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net portfolio interest income.

(2) Reflects the effect of derivative instrument hedges for only the period presented.

(3) Calculated by subtracting the effect of derivative instrument hedges attributed to the period presented from GAAP interest expense.

(4) Calculated by subtracting the effect of derivative instrument hedges attributed to the period presented to GAAP net interest income.

## Net Portfolio Income

During the nine months ended September 30, 2016, the Company generated \$2.5 million of net portfolio interest income, consisting of \$3.0 million of interest income from MBS assets offset by \$0.5 million of interest expense on repurchase liabilities. For the comparable period ended September 30, 2015, the Company generated \$3.0 million of net portfolio interest income, consisting of \$3.3 million of interest income from MBS assets offset by \$0.3 million of interest expense on repurchase liabilities. The \$0.3 million decrease in interest income for the nine months ended September 30, 2016 was due to a combination of a 22 basis point decrease in yields earned on the portfolio and a \$5.0 million decrease in average MBS balances.

The Company's economic interest expense on repurchase liabilities for the nine months ended September 30, 2016 and 2015 was \$0.7 million and \$0.3 million, respectively, resulting in \$2.3 million and \$2.9 million of economic net portfolio interest income, respectively.

During the three months ended September 30, 2016, the Company generated \$0.9 million of net portfolio interest income, consisting of \$1.1 million of interest income from MBS assets offset by \$0.2 million of interest expense on repurchase liabilities. For the three months ended September 30, 2015, the Company generated \$0.9 million of net portfolio interest income, consisting of \$1.0 million of interest income from MBS assets offset by \$0.1 million of interest expense on repurchase liabilities. The \$0.1 million increase in interest income for the nine months ended September 30, 2016 was due to a combination of an 18 basis point increase in yields earned on the portfolio and the \$6.8 million increase in average MBS balances.

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The Company's economic interest expense on repurchase liabilities for the three months ended September 30, 2016 and 2015 was \$0.3 million and \$0.1 million, respectively, resulting in \$0.8 million and \$0.9 million of economic net portfolio interest income, respectively.

The tables below provide consolidated information on our portfolio average balances, interest income, yield on assets, average repurchase agreement balances, interest expense, cost of funds, net interest income and net interest rate spread for the nine months ended September 30, 2016 and 2015 and each quarter in 2016 and 2015 on both a GAAP and economic basis.

(\$ in thousands)

| Three Months Ended Consolidated | Average MBS Held <sup>(1)</sup> | Interest Income <sup>(2)</sup> | Yield on Average MBS | Average Repurchase Agreements <sup>(1)</sup> | Interest Expense |                               | Average Cost of Funds |                               |   |  |
|---------------------------------|---------------------------------|--------------------------------|----------------------|--|------------------|-------------------------------|-----------------------|-------------------------------|---|--|
|                                 |                                 |                                |                      |  | GAAP Basis       | Economic Basis <sup>(2)</sup> | GAAP Basis            | Economic Basis <sup>(3)</sup> |   |  |
| September 30, 2016              | \$122,220                       | \$ 1,108                       | 3.63 %               | \$ 114,858                                   | \$195            | \$ 287                        | 0.68%                 | 1.00                          | % |  |
| June 30, 2016                   | 110,017                         | 1,025                          | 3.73 %               | 103,259                                      | 174              | 234                           | 0.67%                 | 0.91                          | % |  |
| March 31, 2016                  | 96,592                          | 817                            | 3.39 %               | 90,014                                       | 127              | 172                           | 0.57%                 | 0.77                          | % |  |
| December 31, 2015               | 103,551                         | 1,035                          | 4.00 %               | 95,456                                       | 120              | 151                           | 0.50%                 | 0.63                          | % |  |
| September 30, 2015              | 115,437                         | 996                            | 3.45 %               | 107,442                                      | 107              | 127                           | 0.40%                 | 0.47                          | % |  |
| June 30, 2015                   | 111,674                         | 1,074                          | 3.85 %               | 103,750                                      | 98               | 107                           | 0.38%                 | 0.41                          | % |  |
| March 31, 2015                  | 116,709                         | 1,207                          | 4.14 %               | 108,129                                      | 100              | 101                           | 0.37%                 | 0.37                          | % |  |

(\$ in thousands)

| Nine Months Ended Consolidated | Average MBS Held <sup>(1)</sup> | Interest Income <sup>(2)</sup> | Yield on Average MBS | Average Repurchase Agreements <sup>(1)</sup> | Interest Expense |                               | Average Cost of Funds |                               |   |  |
|--------------------------------|---------------------------------|--------------------------------|----------------------|--|------------------|-------------------------------|-----------------------|-------------------------------|---|--|
|                                |                                 |                                |                      |  | GAAP Basis       | Economic Basis <sup>(2)</sup> | GAAP Basis            | Economic Basis <sup>(3)</sup> |   |  |
| September 30, 2016             | \$109,610                       | \$ 2,950                       | 3.59 %               | \$ 102,710                                   | \$496            | \$ 693                        | 0.64%                 | 0.90                          | % |  |
| September 30, 2015             | 114,607                         | 3,277                          | 3.81 %               | 106,440                                      | 305              | 335                           | 0.38%                 | 0.42                          | % |  |

(\$ in thousands)

| Three Months Ended Consolidated | Net Portfolio Interest Income |                               | Net Portfolio Interest Spread |                               |   |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|---|
|                                 | GAAP Basis                    | Economic Basis <sup>(2)</sup> | GAAP Basis                    | Economic Basis <sup>(4)</sup> |   |
| September 30, 2016              | \$913                         | \$ 821                        | 2.95 %                        | 2.63                          | % |
| June 30, 2016                   | 851                           | 791                           | 3.06 %                        | 2.82                          | % |
| March 31, 2016                  | 690                           | 645                           | 2.82 %                        | 2.62                          | % |
| December 31, 2015               | 915                           | 884                           | 3.50 %                        | 3.37                          | % |
| September 30, 2015              | 889                           | 869                           | 3.05 %                        | 2.98                          | % |
| June 30, 2015                   | 976                           | 967                           | 3.47 %                        | 3.44                          | % |
| March 31, 2015                  | 1,107                         | 1,106                         | 3.77 %                        | 3.77                          | % |

(\$ in thousands)

| Nine Months Ended<br>Consolidated | Net Portfolio<br>Interest Income |                                  | Net Portfolio<br>Interest Spread |                                  |   |
|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---|
|                                   | GAAP<br>Basis                    | Economic<br>Basis <sup>(2)</sup> | GAAP<br>Basis                    | Economic<br>Basis <sup>(4)</sup> |   |
|                                   |                                  |                                  |                                  |                                  | % |
| September 30, 2016                | \$ 2,454                         | \$ 2,257                         | 2.95 %                           | 2.69                             | % |
| September 30, 2015                | 2,972                            | 2,942                            | 3.43 %                           | 3.39                             | % |

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 31 and 32 are calculated based on the average balances of the underlying investment portfolio/repurchase agreement balances and are annualized for the periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

(2) Economic interest expense and economic net interest income presented in the tables above and the tables on page 32 include the effect of derivative instrument hedges for only the period presented.

(3) Represents interest cost of our borrowings and the effect of derivative instrument hedges attributed to the period related to hedging activities divided by average MBS.

(4) Economic net interest spread is calculated by subtracting average economic cost of funds from yield on average MBS.

#### Interest Income and Average Earning Asset Yield

Interest income for the Company was \$3.0 million for the nine months ended September 30, 2016 and \$3.3 million for the nine months ended September 30, 2015. Average MBS holdings were \$109.6 million and \$114.6 million for the nine months ended September 30, 2016 and 2015, respectively. The \$0.3 million decrease in interest income was due to combination of a 22 basis point decrease in yields and a \$5.0 million decrease in average MBS holdings.

Interest income for the Company was \$1.1 million for the three months ended September 30, 2016 and \$1.0 million for the three months ended September 30, 2015. Average MBS holdings were \$122.2 million and \$115.4 million for the three months ended September 30, 2016 and 2015, respectively. The \$0.1 million increase in interest income was due to combination of an 18 basis point increase in yields and a \$6.8 million increase in average MBS holdings.

The tables below present the consolidated average portfolio size, income and yields of our respective sub-portfolios, consisting of structured MBS and pass-through MBS ("PT MBS") for the nine months ended September 30, 2016 and 2015 and for each quarter during 2016 and 2015.

(\$ in thousands)

| Three Months Ended<br>Consolidated | Average MBS Held |                   |            | Interest Income |                   |          | Realized Yield on Average<br>MBS |                   |          |
|------------------------------------|------------------|-------------------|------------|-----------------|-------------------|----------|----------------------------------|-------------------|----------|
|                                    | PT<br>MBS        | Structured<br>MBS | Total      | PT<br>MBS       | Structured<br>MBS | Total    | PT<br>MBS                        | Structured<br>MBS | Total    |
|                                    |                  |                   |            |                 |                   |          | %                                | %                 | %        |
| September 30, 2016                 | \$ 119,411       | \$ 2,809          | \$ 122,220 | \$ 1,092        | \$ 16             | \$ 1,108 | 3.66 %                           | 2.19              | % 3.63 % |
| June 30, 2016                      | 106,653          | 3,364             | 110,017    | 1,008           | 17                | 1,025    | 3.78 %                           | 2.05              | % 3.73 % |
| March 31, 2016                     | 92,365           | 4,227             | 96,592     | 783             | 34                | 817      | 3.39 %                           | 3.25              | % 3.39 % |
| December 31, 2015                  | 98,585           | 4,966             | 103,551    | 1,057           | (22 )             | 1,035    | 4.29 %                           | (1.82 )           | % 4.00 % |
| September 30, 2015                 | 109,582          | 5,855             | 115,437    | 1,038           | (42 )             | 996      | 3.79 %                           | (2.90 )           | % 3.45 % |
| June 30, 2015                      | 105,368          | 6,306             | 111,674    | 1,031           | 43                | 1,074    | 3.91 %                           | 2.75              | % 3.85 % |
| March 31, 2015                     | 111,035          | 5,674             | 116,709    | 1,090           | 117               | 1,207    | 3.93 %                           | 8.25              | % 4.14 % |



(\$ in thousands)

| Nine Months Ended<br>Consolidated | Average MBS Held |            |           | Interest Income |            |         | Realized Yield on Average<br>MBS |            |         |
|-----------------------------------|------------------|------------|-----------|-----------------|------------|---------|----------------------------------|------------|---------|
|                                   | PT               | Structured | Total     | PT              | Structured | Total   | PT                               | Structured | Total   |
|                                   | MBS              | MBS        |           | MBS             | MBS        |         | MBS                              | MBS        |         |
| September 30, 2016                | \$106,143        | \$ 3,467   | \$109,610 | \$2,883         | \$ 67      | \$2,950 | 3.62%                            | 2.58       | % 3.59% |
| September 30, 2015                | 108,662          | 5,945      | 114,607   | 3,159           | 118        | 3,277   | 3.88%                            | 2.65       | % 3.81% |

## Interest Expense on Repurchase Agreements and the Cost of Funds

Average outstanding repurchase agreements for the Company were \$102.7 million and \$106.4 million, generating interest expense of \$0.5 million and \$0.3 million for the nine months ended September 30, 2016 and 2015, respectively. Our average cost of funds was 0.64% and 0.38% for nine months ended September 30, 2016 and 2015, respectively. There was a 26 basis point increase in the average cost of funds and a \$3.7 million decrease in average outstanding repurchase agreements during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

The Company's economic interest expense was \$0.7 million and \$0.3 million for the nine months ended September 30, 2016 and 2015, respectively. There was a 48 basis point increase in the average economic cost of funds to 0.90% for the nine months ended September 30, 2016 from 0.42% for the nine months ended September 30, 2015. The \$0.4 million increase in economic interest expense was due to the increase in the economic cost of funds rate, partially offset by the \$3.7 million decrease in average outstanding repurchase agreements during the nine months ended September 30, 2016.

Average outstanding repurchase agreements for the Company were \$114.9 million and \$107.4 million, generating interest expense of \$0.2 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively. Our average cost of funds was 0.68% and 0.40% for three months ended September 30, 2016 and 2015, respectively. There was a 28 basis point increase in the average cost of funds and a \$7.4 million increase in average outstanding repurchase agreements during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

The Company's economic interest expense was \$0.3 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively. There was a 53 basis point increase in the average economic cost of funds to 1.00% for the three months ended September 30, 2016 from 0.47% for the three months ended September 30, 2015. The \$0.2 million increase in economic interest expense was due to the increase in the economic cost of funds rate, combined with a the \$7.4 million increase in average outstanding repurchase agreements during the three months ended September 30, 2016.

Because all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. The Company's average cost of funds calculated on a GAAP basis was 19 basis points above the average one-month LIBOR and 41 basis points below the average six-month LIBOR for the quarter ended September 30, 2016. The Company's average economic cost of funds was 51 basis points above the average one-month LIBOR and 9 basis points below the average six-month LIBOR for the quarter ended September 30, 2016. The average term to maturity of the outstanding repurchase agreements increased from 17 days at December 31, 2015 to 23 days at September 30, 2016.



The tables below present the consolidated average outstanding balances under our repurchase agreements, interest expense and average economic cost of funds, and average one-month and six-month LIBOR rates for the nine months ended September 30, 2016 and 2015 and each quarter in 2016 and 2015 on both a GAAP and economic basis.

(\$ in thousands)

| Three Months Ended Consolidated | Average                          |                             |                                 | Average Cost of Funds |                |   |
|---------------------------------|----------------------------------|-----------------------------|---------------------------------|-----------------------|----------------|---|
|                                 | Balance of Repurchase Agreements | Interest Expense GAAP Basis | Interest Expense Economic Basis | GAAP Basis            | Economic Basis |   |
| September 30, 2016              | \$ 114,858                       | \$195                       | \$ 287                          | 0.68 %                | 1.00           | % |
| June 30, 2016                   | 103,259                          | 174                         | 234                             | 0.67 %                | 0.91           | % |
| March 31, 2016                  | 90,014                           | 127                         | 172                             | 0.57 %                | 0.77           | % |
| December 31, 2015               | 95,456                           | 120                         | 151                             | 0.50 %                | 0.63           | % |
| September 30, 2015              | 107,442                          | 107                         | 127                             | 0.40 %                | 0.47           | % |
| June 30, 2015                   | 103,750                          | 98                          | 107                             | 0.38 %                | 0.41           | % |
| March 31, 2015                  | 108,129                          | 100                         | 101                             | 0.37 %                | 0.37           | % |

(\$ in thousands)

| Nine Months Ended Consolidated | Average                          |                             |                                 | Average Cost of Funds |                |   |
|--------------------------------|----------------------------------|-----------------------------|---------------------------------|-----------------------|----------------|---|
|                                | Balance of Repurchase Agreements | Interest Expense GAAP Basis | Interest Expense Economic Basis | GAAP Basis            | Economic Basis |   |
| September 30, 2016             | \$ 102,710                       | \$496                       | \$ 693                          | 0.64 %                | 0.90           | % |
| September 30, 2015             | 106,440                          | 305                         | 335                             | 0.38 %                | 0.42           | % |

| Three Months Ended Consolidated | Average LIBOR |           | Average GAAP Cost of Funds Relative to Average One-Month LIBOR |                 |  | Average Economic Cost of Funds Relative to Average One-Month LIBOR |                 |  |
|---------------------------------|---------------|-----------|--|-----------------|--|--|-----------------|--|
|                                 | One-Month     | Six-Month | One-Month LIBOR  | Six-Month LIBOR |  | One-Month LIBOR  | Six-Month LIBOR |  |
| September 30, 2016              | 0.49 %        | 1.09 %    | 0.19 %   | (0.41) %        |  | 0.51 %   | (0.09) %        |  |
| June 30, 2016                   | 0.44 %        | 0.92 %    | 0.23 %   | (0.25) %        |  | 0.47 %   | (0.01) %        |  |
| March 31, 2016                  | 0.40 %        | 0.84 %    | 0.17 %   | (0.27) %        |  | 0.37 %   | (0.07) %        |  |
| December 31, 2015               | 0.28 %        | 0.65 %    | 0.22 %   | (0.15) %        |  | 0.35 %   | (0.02) %        |  |
| September 30, 2015              | 0.19 %        | 0.49 %    | 0.21 %   | (0.09) %        |  | 0.28 %   | (0.02) %        |  |
| June 30, 2015                   | 0.18 %        | 0.40 %    | 0.20 %   | (0.02) %        |  | 0.23 %   | 0.01 %          |  |
| March 31, 2015                  | 0.17 %        | 0.35 %    | 0.20 %   | 0.02 %          |  | 0.20 %   | 0.02 %          |  |

Average GAAP Cost of Funds Relative to Average

Average Economic Cost of Funds Relative to Average

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| Nine Months Ended<br>Consolidated | Average LIBOR |           | One-Month LIBOR |         |       | Six-Month LIBOR |       |       |
|-----------------------------------|---------------|-----------|-----------------|---------|-------|-----------------|-------|-------|
|                                   | One-Month     | Six-Month | LIBOR           | LIBOR   | LIBOR | LIBOR           | LIBOR | LIBOR |
| September 30, 2016                | 0.44%         | 0.95%     | 0.20%           | (0.31)% | 0.46% | (0.05)%         |       |       |
| September 30, 2015                | 0.18%         | 0.41%     | 0.20%           | (0.03)% | 0.24% | 0.01%           |       |       |

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## Junior Subordinated Notes

Interest expense on the Company's junior subordinated debt securities was \$0.8 million and \$0.7 million for the nine months ended September 30, 2016 and 2015, respectively. The average rate of interest paid for the nine months ended September 30, 2016 was 4.13% compared to 3.77% for the comparable period in 2015.

Interest expense on the Company's junior subordinated debt securities was \$0.3 million and \$0.3 million for the three month periods ended September 30, 2016 and 2015, respectively. The average rate of interest paid for the three months ended September 30, 2016 was 4.19% compared to 3.79% for the comparable period in 2015.

The junior subordinated debt securities pay interest at a floating rate. The rate is adjusted quarterly and set at a spread of 3.50% over the prevailing three-month LIBOR rate on the determination date. As of September 30, 2016, the interest rate was 4.35%.

## Gains or Losses and Other Income

The table below presents the Company's gains or losses and other income for the nine and three months ended September 30, 2016 and 2015.

(in thousands)

|  | Nine Months Ended<br>September 30, |         |        | Three Months Ended<br>September 30, |         |         |
|--|------------------------------------|---------|--------|-------------------------------------|---------|---------|
|  | 2016                               | 2015    | Change | 2016                                | 2015    | Change  |
| Realized gains (losses) on sales of MBS                  | \$180                              | \$(2 )  | \$182  | \$(71 )                             | \$(2 )  | \$(69 ) |
| Unrealized losses on MBS                                 | (313 )                             | (911 )  | 598    | (274 )                              | (713 )  | 439     |
| Total losses on MBS                                      | (133 )                             | (913 )  | 780    | (345 )                              | (715 )  | 370     |
| (Losses) gains on derivative instruments                 | (1,550)                            | (2,000) | 450    | 508                                 | (991 )  | 1,499   |
| Advisory services  | 3,931                              | 3,703   | 228    | 1,388                               | 1,320   | 68      |
| Gains on retained interests                              | 2,100                              | 2,739   | (639 ) | 1,021                               | 201     | 820     |
| Unrealized gains (losses) on Orchid Island Capital, Inc. | 684                                | (3,730) | 4,414  | 181                                 | (1,924) | 2,105   |
| Orchid Island Capital, Inc. dividends                    | 1,758                              | 1,472   | 286    | 586                                 | 412     | 174     |

We invest in MBS with the intent to earn net income from the realized yield on those assets over the related funding and hedging costs, and not for purposes of making short term gains from trading in these securities. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the nine and three months ended September 30, 2016, the Company received proceeds of \$73.1 million and \$31.3 million from the sales of MBS, respectively. During the nine and three months ended September 30, 2015, the Company received proceeds of \$4.3 million from the sales of MBS.

The fair value of the Company's MBS portfolio and derivative instruments, and the gains (losses) reported on those financial instruments, are sensitive to changes in interest rates. The table below presents historical interest rate data for each quarter end during 2016 and 2015.

|                    | 5 Year<br>Treasury<br>Rate <sup>(1)</sup> | 10 Year<br>Treasury<br>Rate <sup>(1)</sup> | 15 Year<br>Fixed-Rate<br>Mortgage<br>Rate <sup>(2)</sup> | 30 Year<br>Fixed-Rate<br>Mortgage<br>Rate <sup>(2)</sup> | Three<br>Month<br>Libor <sup>(3)</sup> |
|--------------------|---|--|--|--|--|
| September 30, 2016 | 1.16 %                                    | 1.61 %                                     | 2.76 %   | 3.46 %   | 0.85 %                                 |
| June 30, 2016      | 1.01 %                                    | 1.49 %                                     | 2.84 %   | 3.57 %   | 0.65 %                                 |
| March 31, 2016     | 1.22 %                                    | 1.79 %                                     | 2.97 %   | 3.69 %   | 0.63 %                                 |
| December 31, 2015  | 1.76 %                                    | 2.27 %                                     | 3.21 %   | 3.96 %   | 0.54 %                                 |
| September 30, 2015 | 1.38 %                                    | 2.06 %                                     | 3.10 %   | 3.89 %   | 0.33 %                                 |
| June 30, 2015      | 1.63 %                                    | 2.34 %                                     | 3.19 %   | 3.98 %   | 0.28 %                                 |
| March 31, 2015     | 1.38 %                                    | 1.93 %                                     | 3.04 %   | 3.77 %   | 0.27 %                                 |

(1) Historical 10 Year Treasury Rates are obtained from quoted end of day prices on the Chicago Board Options Exchange.

(2) Historical 30 Year and 15 Year Fixed Rate Mortgage Rates are obtained from Freddie Mac's Primary Mortgage Market Survey.

(3) Historical LIBOR are obtained from the Intercontinental Exchange Benchmark Administration Ltd.

The retained interests in securitizations represent the residual net interest spread remaining after payments on the notes issued through the securitization. Fluctuations in value of retained interests are primarily driven by projections of future interest rates (the forward LIBOR curve), the discount rate used to determine the present value of the residual cash flows and prepayment and loss estimates on the underlying mortgage loans. During the nine and three months ended September 30, 2016, the Company recorded gains on retained interests of \$2.1 million and \$1.0 million, respectively, compared to gains of \$2.7 million and \$0.2 million, respectively, for the nine and three months ended September 30, 2015.

#### Advisory Services

Advisory services revenue consist of management fees and overhead reimbursements charged to Orchid for the management of its portfolio pursuant to the terms of a management agreement.

#### Operating Expenses

For the nine and three months ended September 30, 2016, the Company's total operating expenses were approximately \$4.1 million and \$1.4 million, respectively, compared to approximately \$8.2 million and \$1.3 million for the nine and three months ended September 30, 2015, respectively. The table below presents a breakdown of operating expenses for the nine and three months ended September 30, 2016 and 2015.

(in thousands)

|  | Nine Months Ended<br>September 30, |         |         | Three Months Ended<br>September 30, |       |        |
|--|------------------------------------|---------|---------|-------------------------------------|-------|--------|
|  | 2016                               | 2015    | Change  | 2016                                | 2015  | Change |
| Compensation and benefits                        | \$2,274                            | \$2,237 | \$37    | \$723                               | \$715 | \$ 8   |
| Legal fees                                       | 144                                | 845     | (701 )  | 40                                  | 133   | (93 )  |
| Accounting, auditing and other professional fees | 308                                | 437     | (129 )  | 118                                 | 102   | 16     |
| Directors' fees and liability insurance          | 467                                | 514     | (47 )   | 155                                 | 172   | (17 )  |
| Settlement of litigation                         | -                                  | 3,500   | (3,500) | -                                   | -     | -      |

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|                    |         |         |           |         |         |       |
|--------------------|---------|---------|-----------|---------|---------|-------|
| Other G&A expenses | 888     | 657     | 231       | 321     | 222     | 99    |
|                    | \$4,081 | \$8,190 | \$(4,109) | \$1,357 | \$1,344 | \$ 13 |

In May 2015, Bimini Capital agreed to settle a legal action. In connection with the settlement, a loss of \$3.5 million was charged to operations for the nine months ended September 30, 2015.

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## Financial Condition:

## Mortgage-Backed Securities

As of September 30, 2016, the Company's MBS portfolio consisted of \$133.6 million of agency or government MBS at fair value and had a weighted average coupon of 4.25%. During the nine months ended September 30, 2016, the Company received principal repayments of \$10.3 million compared to \$15.9 million for the comparable period ended September 30, 2015. The average prepayment speeds for the quarters ended September 30, 2016 and 2015 were 13.6% and 13.0%, respectively.

The following table presents the constant prepayment rate ("CPR") experienced on the Company's structured and PT MBS sub-portfolios, on an annualized basis, for the quarterly periods presented. CPR is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the CPR in the chart below represents the three month prepayment rate of the securities in the respective asset category. Assets that were not owned for the entire quarter have been excluded from the calculation. The exclusion of certain assets during periods of high trading activity can create a very high, and often volatile, reliance on a small sample of underlying loans. The increase in prepayments during the three months ended June 30, 2015 was primarily due to the effects of lower residential mortgage rates in the previous quarter.

| Three Months Ended | Structured           |                   |                     |
|--------------------|----------------------|-------------------|---------------------|
|                    | PT MBS Portfolio (%) | MBS Portfolio (%) | Total Portfolio (%) |
| September 30, 2016 | 9.4                  | 19.7              | 13.6                |
| June 30, 2016      | 7.8                  | 20.4              | 12.6                |
| March 31, 2016     | 11.8                 | 16.6              | 14.3                |
| December 31, 2015  | 7.9                  | 13.7              | 10.4                |
| September 30, 2015 | 13.4                 | 12.4              | 13.0                |
| June 30, 2015      | 16.2                 | 15.3              | 15.9                |
| March 31, 2015     | 9.6                  | 12.3              | 10.5                |

The following tables summarize certain characteristics of the Company's PT MBS and structured MBS as of September 30, 2016 and December 31, 2015:

(\$ in thousands)

| Asset Category                   | Fair Value | Percentage of Entire Portfolio | Weighted Average Coupon | Weighted Average Maturity |           | Longest Maturity | Weighted Average Coupon Reset in Months | Weighted Average Lifetime Cap | Weighted Average Periodic Cap |
|----------------------------------|------------|--------------------------------|-------------------------|---------------------------|-----------|------------------|---|-------------------------------|-------------------------------|
|                                  |            |                                |                         | in Months                 | in Months |                  |   |                               |                               |
| September 30, 2016               |            |                                |                         |                           |           |                  |   |                               |                               |
| Fixed Rate MBS                   | \$ 130,955 | 98.0                           | % 4.24                  | % 350                     |           | 1-Oct-46         | NA                                      | NA                            | NA                            |
| Total PT MBS                     | 130,955    | 98.0                           | % 4.24                  | % 350                     |           | 1-Oct-46         | NA                                      | NA                            | NA                            |
| Interest-Only Securities         | 1,120      | 0.9                            | % 2.98                  | % 226                     |           | 25-Dec-39        | NA                                      | NA                            | NA                            |
| Inverse Interest-Only Securities | 1,527      | 1.1                            | % 6.02                  | % 293                     |           | 25-Apr-41        | NA                                      | 6.54                          | % NA                          |
| Total Structured MBS             | 2,647      | 2.0                            | % 4.73                  | % 264                     |           | 25-Apr-41        | NA                                      | NA                            | NA                            |
| Total Mortgage Assets            | \$ 133,602 | 100.0                          | % 4.25                  | % 348                     |           | 1-Oct-46         | NA                                      | NA                            | NA                            |
| December 31, 2015                |            |                                |                         |                           |           |                  |   |                               |                               |
| Fixed Rate MBS                   | \$ 79,170  | 94.3                           | % 4.26                  | % 313                     |           | 1-Sep-45         | NA                                      | NA                            | NA                            |
|                                  | 118        | 0.1                            | % 4.00                  | % 313                     |           | 20-Jan-42        | 15.03                                   | 9.00                          | % 1.00                        |

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Hybrid Adjustable Rate  
MBS

|                                  |          |       |   |      |   |     |           |    |      |      |
|----------------------------------|----------|-------|---|------|---|-----|-----------|----|------|------|
| Total PT MBS                     | 79,288   | 94.4  | % | 4.26 | % | 313 | 1-Sep-45  | NA | NA   | NA   |
| Interest-Only Securities         | 2,554    | 3.0   | % | 3.10 | % | 242 | 25-Dec-39 | NA | NA   | NA   |
| Inverse Interest-Only Securities | 2,146    | 2.6   | % | 6.12 | % | 301 | 25-Apr-41 | NA | 6.53 | % NA |
| Total Structured MBS             | 4,700    | 5.6   | % | 4.48 | % | 269 | 25-Apr-41 | NA | NA   | NA   |
| Total Mortgage Assets            | \$83,988 | 100.0 | % | 4.27 | % | 310 | 1-Sep-45  | NA | NA   | NA   |

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(\$ in thousands)

| Agency          | September 30, 2016 |                                | December 31, 2015 |                                |  |
|-----------------|--------------------|--------------------------------|-------------------|--------------------------------|--|
|                 | Fair Value         | Percentage of Entire Portfolio | Fair Value        | Percentage of Entire Portfolio |  |
| Fannie Mae      | \$123,322          | 92.3 %                         | \$42,065          | 50.1 %                         |  |
| Freddie Mac     | 9,990              | 7.5 %                          | 40,928            | 48.7 %                         |  |
| Ginnie Mae      | 290                | 0.2 %                          | 995               | 1.2 %                          |  |
| Total Portfolio | \$133,602          | 100.0 %                        | \$83,988          | 100.0 %                        |  |

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| Weighted Average Pass-through Purchase Price | \$ 110.31          | \$ 107.96         |
| Weighted Average Structured Purchase Price   | \$ 5.91            | \$ 6.11           |
| Weighted Average Pass-through Current Price  | \$ 110.92          | \$ 107.86         |
| Weighted Average Structured Current Price    | \$ 6.00            | \$ 8.45           |
| Effective Duration <sup>(1)</sup>            | 2.927              | 2.326             |

Effective duration is the approximate percentage change in price for a 100 basis point change in rates. An effective duration of 2.927 indicates that an interest rate increase of 1.0% would be expected to cause a 2.927% decrease in the value of the MBS in the Company's investment portfolio at September 30, 2016. An effective duration of 2.326 (1) indicates that an interest rate increase of 1.0% would be expected to cause a 2.326% decrease in the value of the MBS in the Company's investment portfolio at December 31, 2015. These figures include the structured securities in the portfolio but do not include the effect of the Company's funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of the Company's portfolio assets acquired during the nine months ended September 30, 2016 and 2015.

(\$ in thousands)

|                | Nine Months Ended September 30, 2016 |               |                        | 2015       |               |                        |
|----------------|--------------------------------------|---------------|------------------------|------------|---------------|------------------------|
|                | Total Cost                           | Average Price | Weighted Average Yield | Total Cost | Average Price | Weighted Average Yield |
| PT MBS         | \$133,100                            | \$110.31      | 2.42 %                 | \$25,410   | \$109.45      | 2.49 %                 |
| Structured MBS | -                                    | -             | -                      | 987        | 8.18          | 10.23 %                |

The Company's portfolio of PT MBS is typically comprised of adjustable-rate MBS, fixed-rate MBS and hybrid adjustable-rate MBS. The Company generally seeks to acquire low duration assets that offer high levels of protection from mortgage prepayments provided they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, the Company strives to maintain a hedged PT MBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying the Company's portfolio of PT MBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from the Company's investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

The duration of the Company's IO and IIO portfolio will vary greatly depending on the structural features of the securities. While prepayment activity will always affect the cash flows associated with the securities, the interest only



nature of IO's may cause their durations to become extremely negative when prepayments are high, and less negative when prepayments are low. Prepayments affect the durations of IIO's similarly, but the floating rate nature of the coupon of IIOs (which is inversely related to the level of one month LIBOR) cause their price movements - and model duration - to be affected by changes in both prepayments and one month LIBOR - both current and anticipated levels. As a result, the duration of IIO securities will also vary greatly.

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Prepayments on the loans underlying the Company's MBS can alter the timing of the cash flows from the underlying loans to the Company. As a result, the Company gauges the interest rate sensitivity of its assets by measuring their effective duration. While modified duration measures the price sensitivity of a bond to movements in interest rates, effective duration captures both the movement in interest rates and the fact that cash flows to a mortgage related security are altered when interest rates move. Accordingly, when the contract interest rate on a mortgage loan is substantially above prevailing interest rates in the market, the effective duration of securities collateralized by such loans can be quite low because of expected prepayments.

The Company faces the risk that the market value of its PT MBS assets will increase or decrease at different rates than that of its structured MBS or liabilities, including its hedging instruments. Accordingly, the Company assesses its interest rate risk by estimating the duration of its assets and the duration of its liabilities. The Company generally calculates duration and effective duration using various third-party models or obtains these quotes from third parties. However, empirical results and various third-party models may produce different duration numbers for the same securities.

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of September 30, 2016, assuming rates instantaneously fall 100 basis points ("bps"), rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency MBS' effective duration to movements in interest rates.

(\$ in thousands)

| MBS Portfolio             | Fair Value | \$ Change in Fair Value |             |              | % Change in Fair Value |          |           |
|---------------------------|------------|-------------------------|-------------|--------------|------------------------|----------|-----------|
|                           |            | -100BPS                 | +100BPS     | +200BPS      | -100BPS                | +100BPS  | +200BPS   |
| Fixed Rate MBS            | 130,955    | 2,973                   | (6,118 )    | (13,903 )    | 2.27 %                 | (4.67 )% | (10.62 )% |
| Interest-Only MBS         | 1,120      | (455 )                  | 434         | 690          | (40.68)%               | 38.80 %  | 61.64 %   |
| Inverse Interest-Only MBS | 1,527      | (227 )                  | 28          | (142 )       | (14.85)%               | 1.82 %   | (9.31 )%  |
| Total MBS Portfolio       | \$133,602  | \$2,291                 | \$ (5,656 ) | \$ (13,355 ) | 1.71 %                 | (4.23 )% | (10.00 )% |

(\$ in thousands)

| Eurodollar Futures Contracts    | Notional Amount <sup>(1)</sup> | \$ Change in Fair Value |            |            | % Change in Fair Value |         |         |
|---------------------------------|--------------------------------|-------------------------|------------|------------|------------------------|---------|---------|
|                                 |                                | -100BPS                 | +100BPS    | +200BPS    | -100BPS                | +100BPS | +200BPS |
| Repurchase Agreement Hedges     | \$572,000                      | \$(335 )                | \$ 1,430   | \$ 2,860   | (0.24)%                | 1.01 %  | 2.02 %  |
| Junior Subordinated Debt Hedges | 546,000                        | (567 )                  | 1,365      | 2,730      | (0.42)%                | 1.01 %  | 2.03 %  |
|                                 | \$1,118,000                    | \$(902 )                | \$ 2,795   | \$ 5,590   | (0.33)%                | 1.01 %  | 2.02 %  |
| Gross Totals                    |                                | \$1,389                 | \$(2,861 ) | \$(7,765 ) |                        |         |         |

(1) Represents the total cumulative contract/notional amount of Eurodollar futures contracts.

In addition to changes in interest rates, other factors impact the fair value of the Company's interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of the Company's assets would likely differ from that shown above and such difference might be material and adverse to the Company's stockholders.

#### Repurchase Agreements

As of September 30, 2016, the Company had established borrowing facilities in the repurchase agreement market with a number of commercial banks and other financial institutions and had borrowings in place with three of these

counterparties. We believe these facilities provide borrowing capacity in excess of our needs. None of these lenders are affiliated with the Company. These borrowings are secured by the Company's MBS.

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As of September 30, 2016, the Company had obligations outstanding under the repurchase agreements of approximately \$126.0 million with a net weighted average borrowing cost of 0.74%. The remaining maturity of the Company's outstanding repurchase agreement obligations ranged from 11 to 59 days, with a weighted average maturity of 23 days. Securing the repurchase agreement obligation as of September 30, 2016 are MBS with an estimated fair value, including accrued interest and receivable for securities sold, of \$133.5 million and a weighted average maturity of 349 months. Through November 9, 2016, the Company has been able to maintain its repurchase facilities with comparable terms to those that existed at September 30, 2016 with maturities through January 23, 2017.

The table below presents information about our period-end and average repurchase agreement obligations for each quarter in 2016 and 2015.

(\$ in thousands)

|                    | Ending<br>Balance              | Average<br>Balance             | Difference<br>Between Ending<br>Repurchase<br>Agreements and<br>Average<br>Repurchase<br>Agreements |                         |
|--------------------|--------------------------------|--------------------------------|---|-------------------------|
|                    |                                |                                | Amount  | Percent                 |
| Three Months Ended | of<br>Repurchase<br>Agreements | of<br>Repurchase<br>Agreements |   |                         |
| September 30, 2016 | \$ 125,991                     | \$ 114,858                     | \$ 11,133   | 9.69 %                  |
| June 30, 2016      | 103,725                        | 103,259                        | 466   | 0.45 %                  |
| March 31, 2016     | 102,794                        | 90,014                         | 12,780  | 14.20 % <sup>(1)</sup>  |
| December 31, 2015  | 77,234                         | 95,456                         | (18,222)  | (19.09)% <sup>(2)</sup> |
| September 30, 2015 | 113,677                        | 107,442                        | 6,235   | 5.80 %                  |
| June 30, 2015      | 101,206                        | 103,750                        | (2,544 )  | (2.45 )%                |
| March 31, 2015     | 106,294                        | 108,129                        | (1,835 )  | (1.70 )%                |

The higher ending balance relative to the average balance during the quarter ended March 31, 2016 reflects the (1)repositioning of the portfolio. During the quarter ended March 31, 2016, the Company's investment in PT MBS increased \$26.2 million.

The lower ending balance relative to the average balance during the quarter ended December 31, 2015 reflects the (2)repositioning of the portfolio. During the quarter ended December 31, 2015, the Company's investment in PT MBS decreased \$38.6 million.

#### Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. Our principal immediate sources of liquidity include cash balances, unencumbered assets, the availability to borrow under repurchase agreements, and fees and dividends received from Orchid. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our MBS portfolio, and from cash flows received from the retained interests and the collection of servicing advances. Management believes that we currently have sufficient liquidity and capital resources available for (a) the acquisition of additional investments consistent with the size and nature of our existing MBS portfolio, (b) the repayments on borrowings, (c) the payment of overhead and operating expenses, and (d) the payment of other accrued obligations.

Our strategy for hedging our funding costs typically involves taking short positions in Eurodollar futures, T-Note futures, swaptions or other instruments. Since inception we have primarily used short positions in Eurodollar futures. When the market causes these short positions to decline in value we are required to meet margin calls with cash. This

can reduce our liquidity position to the extent other securities in our portfolio move in price in such a way that we do not receive enough cash through margin calls to offset the Eurodollar related margin calls. If this were to occur in sufficient magnitude, the loss of liquidity might force us to reduce the size of the levered portfolio, pledge additional structured securities to raise funds or risk operating the portfolio with less liquidity.

Our master repurchase agreements have no stated expiration, but can be terminated at any time at our option or at the option of the counterparty. However, once a definitive repurchase agreement under a master repurchase agreement has been entered into, it generally may not be terminated by either party. A negotiated termination can occur, but may involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction.

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Under our repurchase agreement funding arrangements, we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we would be entitled to have excess margin returned to us by the counterparty. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis.

As discussed above, the Company invests a portion of its capital in structured MBS. We do not apply leverage to this portion of our portfolio. The leverage inherent in the structured securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured MBS strategy has been a core element of the Company's overall investment strategy since 2008. However, we have and may continue to pledge a portion of our structured MBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

In future periods we expect to continue to finance our activities through repurchase agreements. As of September 30, 2016, the Company had cash and cash equivalents of \$5.6 million. We generated cash flows of \$13.1 million from principal and interest payments on our MBS portfolio and \$1.8 million from retained interests and had average repurchase agreements outstanding of \$102.7 million during the nine months ended September 30, 2016. In addition, during the nine months ended September 30, 2016, the Company received approximately \$3.9 million in management fees and expense reimbursements as manager of Orchid and approximately \$1.8 million in dividends from its investment in Orchid common shares.

In May 2015, Bimini Capital settled a legal action. A loss of \$3.5 million was charged to operations for the nine months ended September 30, 2015. Although the remaining payments \$750,000 due under the settlement agreement will reduce the Company's liquidity, management believes that the Company will be able to generate sufficient cash from its operations to meet the remaining payment obligations as they come due.

The table below summarizes the effect that certain future contractual obligations existing as of September 30, 2016 will have on our liquidity and cash flows.

(in thousands)

|  | Obligations Maturing |                    |                     |                      | Total     |
|--|----------------------|--------------------|---------------------|----------------------|-----------|
|  | Within One Year      | One to Three Years | Three to Five Years | More than Five Years |           |
| Repurchase agreements  | \$125,991            | \$-                | \$-                 | \$-                  | \$125,991 |
| Interest expense on repurchase agreements <sup>(1)</sup>     | 103                  | -                  | -                   | -                    | 103       |
| Junior subordinated notes <sup>(2)</sup>                     | -                    | -                  | -                   | 26,000               | 26,000    |
| Interest expense on junior subordinated notes <sup>(1)</sup> | 1,197                | 2,294              | 2,297               | 16,303               | 22,091    |
| Litigation settlement  | 250                  | 500                | -                   | -                    | 750       |
| Totals   | \$127,541            | \$2,794            | \$2,297             | \$42,303             | \$174,935 |

<sup>(1)</sup> Interest expense on repurchase agreements and junior subordinated notes are based on current interest rates as of September 30, 2016 and the remaining term of liabilities existing at that date.

<sup>(2)</sup> The Company holds a common equity interest in Bimini Capital Trust II. The amount presented represents the net cash outlay of the Company.



## Outlook

### Orchid Island Capital Inc.

To the extent Orchid is able to increase its capital base over time, we will benefit via increased management fees. In addition, Orchid is obligated to reimburse us for direct expenses paid on its behalf and to pay to us Orchid's pro rata share of overhead as defined in the management agreement. As a stockholder of Orchid, we will also continue to share in distributions, if any, paid by Orchid to its stockholders.

The independent Board of Directors of Orchid has the ability to terminate the management agreement and thus end our ability to collect management fees and share overhead costs. Should Orchid terminate the management agreement without cause, it will pay us a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the current automatic renewal term.

### Tax Matters

Bimini Capital was taxed as a REIT under the Code until December 31, 2014. Certain trends and events experienced during 2015 caused Bimini Capital to no longer meet the Code's rules and regulations to be taxed as a REIT, effective January 1, 2015. In particular, additional offerings of common stock by Orchid in 2015 increased revenue attributable to management fees received from Orchid by Bimini Advisors. In addition, payments that have been and will be made by Bimini Capital pursuant to a litigation settlement agreement entered into in 2015 reduced and may continue to reduce the value of Bimini Capital's assets and revenues generated by our MBS portfolio. Consequently, the aggregate value of our two TRSs (Royal Palm and Bimini Advisors) increased in relation to the value of Bimini Capital's assets to a level that exceeds the limits permitted under the Code.

The termination of our REIT status subjects Bimini Capital's taxable income to federal and state corporate income taxes at regular corporate rates. However, Bimini Capital and its subsidiaries have NOL carryforwards that, subject to various expiration dates, are available to offset taxable income. Under our current ownership structure, the NOL carryforwards of each entity may generally be applied only to offset the taxable income of that entity. However, management is implementing certain internal restructuring transactions that would maximize our ability to utilize the existing federal NOL carryforwards.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of capital loss and NOL carryforwards is dependent upon the generation of future capital gains and taxable income in periods prior to their expiration. We currently provide a valuation allowance for a portion of the deferred tax assets. The valuation allowance relates primarily to the ability to utilize the NOL carryforwards of Royal Palm in future periods and is based on management's estimated projections of future taxable income.

In addition, the termination of our REIT status eliminated the income, asset, distribution, and stock ownership requirements applicable to REITs, which provides us with more flexibility in executing our business strategy. Specifically, because we are no longer required to derive a significant portion of our income from mortgage or other real estate related investments, we have greater flexibility to invest in other types of assets as part of our principal investing activity, subject to maintaining compliance with our exclusion from regulation as an investment company under the Investment Company Act. In addition, because we no longer are subject to the REIT distribution requirement, we have greater flexibility to retain our earnings to fund future growth.



## Interest Rates

The economic trends in place over the course of the first and second quarters of 2016 reversed in the third quarter and into the fourth. The broadest measure of economic growth in the United States, gross domestic product, or "GDP", appears to have rebounded back to around 2%, the level widely considered to be at or slightly above trend growth in the United States since the Great Recession. Interest rates, after falling precipitously early in the year and again after passage of the referendum in the United Kingdom known as "Brexit", have since stabilized and, earlier this month, moved back above levels seen just before the Brexit vote on June 23, 2016. In fact, the yield on the 10 year US Treasury reached an all-time low yield shortly after the Brexit vote. However, while the slow growth witnessed in the US over the first half of the year has ended, economic growth is by no means robust. Many of the drags on growth, predominantly in the manufacturing and energy sectors, have stabilized but have not recovered meaningfully. The strongest sectors of the economy, the housing, consumer and labor markets, continue to perform relatively well and drive economic growth. However, the net of all this activity appears to be modest growth accompanied by increasing, but not excessive inflation. These conditions should allow the Federal Reserve (the "Fed") to remove accommodation at a very gradual pace. To wit, the market now expects the Fed to raise rates before year-end, probably at its December meeting. Public comments by various Fed governors and committee members have been consistent in supporting this expectation. Assuming incoming economic data remains supportive and financial conditions do not deteriorate, we expect the Fed to move rates higher by 25 basis points ("bps") at its December meeting. Nonetheless, it is equally likely, in the eyes of the most market participants, that the Fed will not raise rates aggressively in 2017 and beyond. Public comments by the Fed officials described above are also consistent with this expectation. Accordingly, we expect the level of the U.S. Federal Funds rate ("Fed Funds"), and funding levels generally, only to move modestly higher over the next few years.

With this backdrop in the economy and rates market, the mortgage market has performed well over the course of the third quarter of 2016. From a price perspective, the slight increase in rates over the course of the third quarter – the US treasury curve flattened modestly as two year yields increased by approximately 17.5 bps while the ten year treasury yields increased by approximately 12.5 bps – coupled with expectations that prepayment speeds would moderate, enabled 30 year fixed rate mortgages to tighten in spread to comparable duration treasuries. In fact, with rates up, prices of 30 year fixed rate 3% through 4.5% securities increased. The same is true of higher coupon 15 year, fixed rate securities, although to a lesser extent. From a prepayment perspective, speeds accelerated into the late summer post-Brexit and appear to have peaked in August, based on the report issued in early September. However, speeds moderated only modestly in September – based on the report issued in early October. Going forward the combination of higher rates – the MBA survey rate issued on October 20, 2016 was the highest since just before the Brexit vote – coupled with the seasonal slowdown in prepayments should cause prepayment rates to decrease further. This in turn should be supportive of mortgage valuations. In addition, the Fed appears intent on continuing the reinvestment of pay-downs on its MBS holdings, and banks, particularly large banks, continue to add to their MBS holdings, both in securitized and whole-loan form. Both of these trends are supportive of mortgage valuations as well. A potential pitfall would be if the Fed, in an effort to steepen the curve, terminated, or significantly reduced, its reinvestment of pay-downs. Governor Eric Rosengren of the Boston Fed recently hinted at this possibility, although Fed leadership, Chair Yellen, Vice Chair Fischer and NY Fed governor Dudley, have not.

A second consideration for mortgage valuations is pay-up premiums on call-protected securities. Orchid has a significant allocation of its portfolio in these securities. In spite of the increase in rates during the third quarter, and continuing into the fourth quarter, such pay-up premiums remain elevated, consistent with prepayment speeds. Going forward, if prepayment speeds moderate further, call-protected security pay-up premiums could diminish. The Company has reduced exposure to such securities gradually over the course of the third quarter and to date in the fourth quarter, while weighing the potential risks of continued pay-up premium erosion versus the need for prepayment protection as speeds have moderated only modestly so far.



## Effect on Us

Regulatory developments, movements in interest rates and prepayment rates as well as loan modification programs affect us in many ways, including the following:

### Effects on our Assets

A change in or elimination of the guarantee structure of Agency MBS may increase our costs (if, for example, guarantee fees increase) or require us to change our investment strategy altogether. For example, the elimination of the guarantee structure of Agency MBS may cause us to change our investment strategy to focus on non-Agency MBS, which in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

Lower long-term interest rates can affect the value of our Agency MBS in a number of ways. If prepayment rates are relatively low (due, in part, to the refinancing problems described above), lower long-term interest rates can increase the value of higher-coupon Agency MBS. This is because investors typically place a premium on assets with yields that are higher than market yields. Although lower long-term interest rates may increase asset values in our portfolio, we may not be able to invest new funds in similarly-yielding assets.

If prepayment levels increase, the value of our Agency MBS affected by such prepayments may decline. This is because a principal prepayment accelerates the effective term of an Agency MBS, which would shorten the period during which an investor would receive above-market returns (assuming the yield on the prepaid asset is higher than market yields). Also, prepayment proceeds may not be able to be reinvested in similar-yielding assets. Agency MBS backed by mortgages with high interest rates are more susceptible to prepayment risk because holders of those mortgages are most likely to refinance to a lower rate. IOs and IIOs, however, may be the types of Agency MBS most sensitive to increased prepayment rates. Because the holder of an IO or IIO receives no principal payments, the values of IOs and IIOs are entirely dependent on the existence of a principal balance on the underlying mortgages. If the principal balance is eliminated due to prepayment, IOs and IIOs essentially become worthless. Although increased prepayment rates can negatively affect the value of our IOs and IIOs, they have the opposite effect on POs. Because POs act like zero-coupon bonds, meaning they are purchased at a discount to their par value and have an effective interest rate based on the discount and the term of the underlying loan, an increase in prepayment rates would reduce the effective term of our POs and accelerate the yields earned on those assets, which would increase our net income.

Because we base our investment decisions on risk management principles rather than anticipated movements in interest rates, in a volatile interest rate environment we may allocate more capital to structured Agency MBS with shorter durations, such as short-term fixed and floating rate CMOs. We believe these securities have a lower sensitivity to changes in long-term interest rates than other asset classes. We may attempt to mitigate our exposure to changes in long-term interest rates by investing in IOs and IIOs, which typically have different sensitivities to changes in long-term interest rates than pass-through Agency MBS, particularly pass-through Agency MBS backed by fixed-rate mortgages.

We do not believe our investment portfolio will be materially affected by loan modification programs because Agency MBS backed by loans that would qualify for such programs (e.g., seriously delinquent loans) will be purchased by Fannie Mae and Freddie Mac at their par value prior to the implementation of such programs. However, if Fannie Mae and Freddie Mac were to modify or end their repurchase programs or if the U.S. government modified its loan modification programs to modify non-delinquent mortgage loans, our investment portfolio could be negatively impacted.

### Effects on our borrowing costs

We leverage our pass-through Agency MBS portfolio and a portion of our structured Agency MBS with principal balances through the use of short-term repurchase agreement transactions. The interest rates on our debt are determined by market levels of both the Fed Funds Rate and LIBOR. An increase in the Fed Funds Rate or LIBOR would increase our borrowing costs, which could affect our interest rate spread if there is no corresponding increase in the interest we earn on our assets. This would be most prevalent with respect to our Agency MBS backed by fixed rate mortgage loans because the interest rate on a fixed-rate mortgage loan does not change even though market rates may change.

In order to protect our net interest margin against increases in short-term interest rates, we may enter into interest rate swaps, which effectively convert our floating-rate repurchase agreement debt to fixed-rate debt, or utilize other hedging instruments such as Eurodollar and T-Note futures contracts or interest rate swaptions.

### Summary

Over the past quarter, volatility in the rates market moderated and financial conditions stabilized, particularly as fears over the UK Brexit Referendum appear to have been over-done, at least for the short to medium term. As interest rates stopped decreasing and eventually increased slightly during the third quarter, mortgage securities performed well, especially higher coupon, fixed rate securities. These developments have positively affected our book value as the spread between Agency MBS and benchmark interest rates narrowed during the third quarter. Prepayment rates increased during the third quarter as longer term rates declined during the second quarter and early third quarter, but have since begun to moderate. The markets' expectations of the timing of Fed increases in interest rates have coalesced around a 25 bps hike at the December Federal Open Market Committee meeting. Nonetheless, economic data, as it is released, will continue to have a significant impact in shaping market expectations. These developments are very important to our results as increases in the Fed Funds Rate and LIBOR could increase our financing costs, which could lower our net interest margin.

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in our consolidated financial statements. These consolidated financial statements are prepared in accordance with GAAP. The Company's significant accounting policies are described in Note 1 to the Company's accompanying consolidated financial statements.

GAAP requires the Company's management to make complex and subjective decisions and assessments. The Company's most critical accounting policies involve decisions and assessments which could significantly affect reported assets and liabilities, as well as reported revenues and expenses. The Company believes that all of the decisions and assessments upon which its financial statements are based were reasonable at the time made based upon information available to it at that time. There have been no changes to our critical accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2015.

### Capital Expenditures

At September 30, 2016, we had no material commitments for capital expenditures.

### Off-Balance Sheet Arrangements

At September 30, 2016, we did not have any off-balance sheet arrangements.



## Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "evaluation date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on this evaluation, the CEO and CFO concluded our disclosure controls and procedures, as designed and implemented, were effective as of the evaluation date (1) in ensuring that information regarding the Company and its subsidiaries is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) in providing reasonable assurance that information we must disclose in its periodic reports under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms.

### Changes in Internal Controls over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings as described in Item 103 of Regulation S-K.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on March 22, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No

- 3.1 Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Form S-11/A, filed with the SEC on April 29, 2004
- 3.2 Articles Supplementary, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated November 3, 2005, filed with the SEC on November 8, 2005
- 3.3 Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated February 10, 2006, filed with the SEC on February 15, 2006
- 3.4 Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
- 3.5 Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
- 31.1 Certification of the Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002\*
- 31.2 Certification of the Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002\*
- 32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002\*\*
- 32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002\*\*

- 101.INS Instance  
Document\*\*\*  
Taxonomy  
Extension
- 101.SCH Schema  
Document\*\*\*  
Taxonomy  
Extension
- 101.CAL Calculation  
Linkbase  
Document\*\*\*  
Additional  
Taxonomy  
Extension
- 101.DEF Definition  
Linkbase  
Document\*\*\*  
Taxonomy  
Extension
- 101.LAB Label  
Linkbase  
Document\*\*\*  
Taxonomy  
Extension
- 101.PRE Presentation  
Linkbase  
Document\*\*\*



\* Filed herewith.

\*\* Furnished herewith

\*\*\* Submitted electronically herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIMINI CAPITAL MANAGEMENT, INC.

Date: November 9, 2016 By: /s/ Robert E. Cauley

Robert E. Cauley  
Chairman and Chief  
Executive Officer

Date: November 9, 2016 By: /s/ G. Hunter Haas, IV

G. Hunter Haas, IV  
President, Chief  
Financial Officer, Chief  
Investment Officer and  
Treasurer (Principal  
Financial Officer and  
Principal Accounting  
Officer)