CYS Investments, Inc.
Form 10-Q
April 22, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-33740

CYS Investments, Inc.
(Exact name of registrant as specified in its charter)

Maryland	20-4072657
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
890 Winter Street, Suite 200, Waltham, Massachusetts	02451
(Address of principal executive offices)	(Zip Code)

(617) 639-0440
(Registrant's telephone number, including area code)

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

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

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

Class	April 22, 2016
Common Stock ($0.01 par value)	151,556,564

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PART I. Financial Information
Item 1. Financial Statements
CYS INVESTMENTS, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except per share numbers)	March 31, 2016	December 31, 2015*
Assets:		
Investments in securities, at fair value (including pledged assets of $10,898,745 and $11,601,900, respectively)	$12,918,402	$13,027,707
Other investments	34,028	50,028
Derivative assets, at fair value	32,701	100,778
Cash	6,262	9,982
Receivable for securities sold and principal repayments	1,586	1,084,844
Interest receivable	34,033	34,563
Receivable for cash pledged as collateral	85,097	21,751
Other assets	1,219	1,051
Total assets	$13,113,328	$14,330,704
Liabilities and stockholders' equity:		
Liabilities:		
Repurchase agreements	$9,656,969	$8,987,776
FHLBC Advances, at fair value	649,553	2,098,701
Derivative liabilities, at fair value	85,461	14,024
Payable for securities purchased	937,163	1,475,974
Payable for cash received as collateral	9,141	18,534
Distribution payable	43,809	4,410
Accrued interest payable	20,020	32,588
Accrued expenses and other liabilities	3,113	4,083
Total liabilities	$11,405,229	$12,636,090
Stockholders' equity:		
Preferred Stock, $0.01 par value, 50,000 shares authorized:		
7.75% Series A Cumulative Redeemable Preferred Stock, (3,000 shares issued and outstanding, respectively, $75,000 in aggregate liquidation preference)	$72,369	$72,369
7.50% Series B Cumulative Redeemable Preferred Stock, (8,000 shares issued and outstanding, respectively, $200,000 in aggregate liquidation preference)	193,531	193,531
Common Stock, $0.01 par value, 500,000 shares authorized (151,535 and 151,740 shares issued and outstanding, respectively)	1,515	1,517
Additional paid in capital	1,943,177	1,946,419
Accumulated deficit	(502,493)	(519,222)
Total stockholders' equity	$1,708,099	$1,694,614
Total liabilities and stockholders' equity	$13,113,328	$14,330,704

* Derived from audited consolidated financial statements.
See Notes to unaudited consolidated financial statements.

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CYS INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
(In thousands, except per share numbers)	2016	2015
Interest income:		
Interest income from Agency RMBS	$81,323	$80,060
Other interest income	128	790
Total interest income	81,451	80,850
Interest expense:		
Interest expense on repurchase agreements and FHLBC Advances	17,945	9,642
Net interest income	63,506	71,208
Other income (loss):		
Net realized gain (loss) on investments	1,202	18,253
Net unrealized gain (loss) on investments	162,286	75,689
Net unrealized gain (loss) on FHLBC Advances	(851)	—
Other income	463	40
Subtotal	163,100	93,982
Swap and cap interest expense	(18,398)	(27,468)
Net realized and unrealized gain (loss) on derivative instruments	(140,524)	(77,368)
Net gain (loss) on derivative instruments	(158,922)	(104,836)
Total other income (loss)	4,178	(10,854)
Expenses:		
Compensation and benefits	3,865	3,554
General, administrative and other	2,488	2,203
Total expenses	6,353	5,757
Net income (loss)	$61,331	$54,597
Dividends on preferred stock	(5,203)	(5,203)
Net income (loss) available to common stockholders	$56,128	$49,394
Net income (loss) per common share basic & diluted	$0.37	$0.31
Dividends declared per common share	$0.26	$0.30

See Notes to unaudited consolidated financial statements.

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CYS INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)	Cumulative Redeemable Preferred Stock Series A	Series B	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, December 31, 2014	$72,369	$193,531	$1,618	$2,049,152	$(341,502)	$1,975,168
Net income (loss)	—	—	—	—	54,597	54,597
Issuance of common stock	—	—	4	(4)	—	—
Amortization of share based compensation	—	—	—	954	—	954
Repurchase and cancellation of common stock	—	—	(41)	(37,405)	—	(37,446)
Preferred dividends	—	—	—	—	(5,203)	(5,203)
Common dividends	—	—	—	—	(47,434)	(47,434)
Balance, March 31, 2015	$72,369	$193,531	$1,581	$2,012,697	$(339,542)	$1,940,636
Balance, December 31, 2015	$72,369	$193,531	$1,517	$1,946,419	$(519,222)	$1,694,614
Net income (loss)	—	—	—	—	61,331	61,331
Issuance of common stock	—	—	3	(3)	—	—
Amortization of share-based compensation	—	—	—	979	—	979
Repurchase and cancellation of common stock	—	—	(5)	(4,218)	—	(4,223)
Preferred dividends	—	—	—	—	(5,203)	(5,203)
Common dividends	—	—	—	—	(39,399)	(39,399)
Balance, March 31, 2016	$72,369	$193,531	$1,515	$1,943,177	$(502,493)	$1,708,099

See Notes to unaudited consolidated financial statements.

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CYS INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Net income (loss)	$61,331	$ 54,597
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of share-based compensation	979	954
Amortization of premiums and discounts on investment securities	15,869	21,450
Amortization of premiums on interest rate cap contracts	4,375	4,375
Net realized (gain) loss on investments	(1,202)	(18,253)
Net unrealized (gain) loss on investments	(162,286)	(75,689)
Net realized and unrealized (gain) loss on derivative instruments	129,411	74,800
Net unrealized (gain) loss on FHLBC Advances	851	—
Change in assets and liabilities:		
Interest receivable	530	580
Other assets	(168)	(10,325)
Accrued interest payable	(12,568)	4,214
Accrued expenses and other liabilities	(970)	(2,814)
Net cash provided by operating activities	36,152	53,889
Cash flows from investing activities:		
Purchase of investment securities	(1,468,196)	(6,863,933)
Proceeds from disposition of investment securities	1,382,390	6,018,216
Proceeds from disposition of other investments	16,000	—
Proceeds from paydowns of investment securities	348,459	462,438
Change in assets and liabilities:		
Receivable for securities sold and principal repayments	1,083,258	(261,363)
Payable for securities purchased	(538,811)	1,261,561
Receivable for cash pledged as collateral	(63,346)	(26,112)
Payable for cash received as collateral	(9,393)	(24,542)
Net cash provided by (used in) investing activities	750,361	566,265
Cash flows from financing activities:		
Proceeds from repurchase agreements	23,794,322	23,743,739
Repayments of repurchase agreements	(23,125,129)	(24,828,397)
Proceeds from FHLBC Advances	2,175,000	1,010,000
Repayments of FHLBC Advances	(3,625,000)	(500,000)
Net payments from repurchase of common stock	(4,223)	(37,446)
Distributions paid	(5,203)	(5,203)
Net cash used in financing activities	(790,233)	(617,307)
Net increase (decrease) in cash	(3,720)	2,847
Cash - Beginning of period	9,982	4,323
Cash - End of period	$6,262	$ 7,170
Supplemental disclosures of cash flow information:		
Interest paid	$44,535	$ 28,522
Supplemental disclosures of non-cash flow information:		
Distributions declared, not yet paid	$43,809	$ 51,844

See Notes to unaudited consolidated financial statements.

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CYS INVESTMENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2016

These footnotes to our accompanying financial statements in this interim report should be read in conjunction with the footnotes to our Annual Report on Form 10-K, filed with the SEC on February 17, 2016 (the "2015 Annual Report").

1. ORGANIZATION

CYS Investments, Inc. (the "Company" "we", "us", and "our") was formed as a Maryland corporation on January 3, 2006, and commenced operations on February 10, 2006. The Company has elected to be taxed and intends to continue to qualify as a real estate investment trust ("REIT") and is required to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), with respect thereto. The Company has primarily purchased residential mortgage-backed securities that are issued and the principal and interest of which are guaranteed by a federally chartered corporation ("Agency RMBS"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government such as the Government National Mortgage Association ("Ginnie Mae"), and debt securities issued by the United States Department of Treasury ("U.S. Treasuries"). The Company may also purchase collateralized mortgage obligations issued by a government agency or government-sponsored entity that are collateralized by Agency RMBS ("CMOs"), or securities issued by a government sponsored entity that are not backed by collateral but, in the case of government agencies, are backed by the full faith and credit of the U.S. government, and, in the case of government sponsored entities, are backed by the integrity and creditworthiness of the issuer ("U.S. Agency Debentures").

The Company’s common stock, Series A Cumulative Redeemable Preferred Stock, $25.00 liquidation preference (the "Series A Preferred Stock"), and Series B Cumulative Redeemable Preferred Stock, $25.00 liquidation preference (the "Series B Preferred Stock"), trade on the New York Stock Exchange under the symbols "CYS," "CYS PrA" and "CYS PrB," respectively.

In March 2015, our wholly-owned captive insurance subsidiary, CYS Insurance Services, LLC ("CYS Insurance"), was granted membership in the Federal Home Loan Bank ("FHLB") system, specifically in the FHLB of Cincinnati ("FHLBC"). Membership in the FHLBC obligates CYS Insurance to purchase FHLBC membership stock and activity stock, the latter being a percentage of the advances it obtains from the FHLBC. CYS Insurance seeks both short and long-term advances (collectively, "FHLBC Advances") from the FHLBC. On January 12, 2016, the Federal Housing Finance Agency ("FHFA") issued a final rule (the "Final Rule") amending its regulations governing FHLB Membership criteria for captive insurance companies. The Final Rule defines "insurance company" to exclude "captive insurers". Under this Final Rule, which became effective on February 19, 2016, CYS Insurance must terminate its membership in the FHLBC within one year of the effective date and will not be permitted to secure any new advances. All FHLBC Advances are required to be repaid no later than February 19, 2017. See Note 5, Repurchase Agreements and FHLBC Advances.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the instructions to Securities and Exchange Commission ("SEC") Form 10-Q and Article 10, Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. 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. The unaudited consolidated financial statements should be read in conjunction with the Company’s audited financial statements as of and for the year ended December 31, 2015, included in the 2015 Annual Report. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year.

The unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany balances and transactions have been eliminated. The unaudited consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of estimates and

assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying footnotes. Actual results could differ from these estimates and the differences may be material.
Reclassification
Commencing with the report on Form 10-K for the year ended December 31, 2015, "Swap and cap interest expense", which up through September 30, 2015 was recognized as a separate component of " Total interest expense" in the consolidated statement of operations, is now recognized as a component of "Net gain (loss) on derivative instruments". This reclassification was made in order to record income, expenses and fair value changes related to derivative instruments in one line item in the

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consolidated statements of operations, consistent with common industry practice. Prior period balances have been reclassified to conform to the current period presentation.

Investments in Securities

The Company's investment securities are accounted for in accordance with Accounting Standards Codification ("ASC") 320—Investments in Debt and Equity Securities. The Company has chosen to make a fair value election pursuant to ASC 825—Financial Instruments for its securities and, therefore, our investment securities are recorded at fair market value on the unaudited consolidated balance sheets. The periodic changes in fair market value are recorded in current period earnings on the unaudited consolidated statements of operations as a component of net unrealized gain (loss) on investments. These investments generally meet the requirements to be classified as available-for-sale under ASC 320, which requires the securities to be carried at fair value on the balance sheet. Electing the fair value option requires the Company to record changes in fair value of our investments in the unaudited consolidated statements of operations, which in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner.

The Company records its transactions in securities on a trade date basis. We record realized gains and losses on securities transactions on an identified cost basis.

Agency RMBS

The Company's investments in Agency RMBS consist of pass-through certificates backed by fixed-rate, monthly-reset adjustable-rate loans ("ARMs") and hybrid ARMs, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Hybrid ARMs have interest rates that have an initial fixed period (typically three, five, seven or ten years) and thereafter reset at regular intervals in a manner similar to ARMs.

Forward Settling Transactions

The Company engages in forward settling transactions to purchase or sell certain securities. Agency RMBS may include forward contracts for Agency RMBS purchases or sales of specified pools on a to-be-announced basis ("TBA Securities") that meet the regular-way scope exception in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815 - Derivatives and Hedging ("ASC 815"), and are recorded on a trade date basis. The Company maintains security positions such that sufficiently liquid assets will be available to make payment on the settlement date for securities purchased. The Agency RMBS purchased at the forward settlement date are typically priced at a discount to securities for settlement in the current month. Securities purchased on a forward settling basis are carried at fair value and begin earning interest on the settlement date. Gains or losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract. See Note 7, Pledged Assets, for disclosure regarding the fair value of collateral pledged or received on forward settling transactions.

Investment Valuation

The Company's pricing committee is responsible for establishing valuation policies and procedures, as well as reviewing and approving valuations at a monthly pricing meeting. The pricing committee is composed of individuals from the accounting team, the investment team and senior management.

Agency RMBS, Agency Debentures and U.S. Treasuries are generally valued based on prices provided by third-party services and derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and ask prices, broker quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and/or economic events. The pricing services may also use a matrix approach, which uses information regarding securities with similar characteristics to determine the valuation for a security.

We generally value interest rate swaps and caps using prices provided by broker quotations. Such broker quotations are based on the present value of fixed and projected floating rate cash flows over the term of the swap contract. Future cash flows are discounted to present value using swap rates provided by electronic data services or by brokers. No credit valuation adjustments are made in determining the fair value of the Company's interest rate swaps and caps. All valuations from third-party pricing services or broker quotes are non-binding. We review all prices during our pricing process. To date, the Company has not adjusted any of the prices received from third-party pricing services or brokers. Our pricing review includes comparisons of similar market transactions, alternative third-party pricing services and broker quotes, or comparisons to a pricing model. To ensure proper fair value hierarchy, the Company reviews the third-party pricing services methodology periodically to ascertain which observable or unobservable inputs are being used. See Note 8, Fair Value Measurements, for a discussion of how the Company values its assets.

Derivative Instruments

Included in Derivative Instruments are interest rate swaps and interest rate caps and TBA Derivatives (defined below).

The Company uses interest rate swaps and interest rate caps to economically hedge a portion of its exposure to market risks, including interest rate and extension risk. The objective of our risk management strategy is to reduce fluctuations in stockholders' equity over a range of interest rate scenarios. In particular, we attempt to manage the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates.
During the term of an interest rate swap or cap, the Company makes or receives periodic payments and records unrealized gains or losses as a result of marking the swap or cap to fair value. When the Company terminates a swap or cap, we record a realized gain or loss equal to the difference between the proceeds from (or the cost of) closing the transaction and the Company's cost basis in the contract, if any. We report the periodic payments and amortization of premiums on cap contracts under swap and cap interest expense in our unaudited consolidated statements of operations. Swaps involve a risk that interest rates will move contrary to the Company's expectations, thereby increasing the Company's payment obligation.
The Company's interest rate swap and cap contracts (a "swap" or "cap", respectively) may be subject to a master netting arrangement ("MNA"). The Company is exposed to credit loss in the event of non-performance by the counterparty to the swap or cap limited to the fair value of collateral posted in excess of the fair value of the contract in a net liability position and the shortage of the fair value of collateral posted for the contract in a net asset position. As of March 31, 2016 and December 31, 2015, the Company did not anticipate non-performance by any counterparty. Should interest rates move unexpectedly, the Company may not achieve the anticipated benefits of the interest rate swap or cap and may realize a loss.

While the Company's derivative agreements generally permit netting or setting off derivative assets and liabilities with the counterparty, the Company reports derivative assets and liabilities on a gross basis in our unaudited consolidated balance sheets. Derivatives are accounted for in accordance with ASC 815 which requires recognition of all derivatives as either assets or liabilities at fair value in the consolidated balance sheets with changes in fair value recognized in the consolidated statements of operations in "Net realized and unrealized gain (loss) on derivative instruments". Cash receipts and payments related to derivative instruments are classified in our unaudited consolidated statements of cash flows in accordance with U.S. GAAP in both the operating and investing activities sections.
See Note 4, Derivative Instruments.

The Company enters into TBA dollar roll transactions whereby the Company is not contractually obligated to accept delivery on the settlement date ("TBA Derivatives"). TBA Derivatives are accounted for as a series of derivative transactions. The fair value of TBA Derivatives is based on similar methods used to value Agency RMBS with gains and losses recorded in Net gains (losses) on derivative instruments in the consolidated statements of operations. TBA Derivative transactions involve moving the settlement of a TBA contract out to a later date by entering into an offsetting short position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date. The Company records such pair offs on a gross basis such that there is a sale of the original TBA Derivative and a subsequent purchase of a new TBA Derivative.

None of the Company's derivatives have been designated as hedging instruments for accounting purposes. Effective January 1, 2016, the Company recognized all TBAs that do not qualify for the regular-way scope exception under ASC 815 as derivatives.
Interest Income

We record interest income and expense on an accrual basis. We accrue interest income based on the outstanding principal amount of the securities and their contractual terms. We amortize premium and discount using the effective interest method, and this net amortization is either accretive to or a reduction of interest income from Agency RMBS in the Company's unaudited consolidated statements of operations. The Company does not estimate prepayments when calculating the yield to maturity on Agency RMBS. We record the amount of premium or discount associated with a prepayment through interest income from Agency RMBS on our unaudited consolidated statements of operations as it occurs.

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Other Investments

The Company's subsidiary, CYS Insurance, is a member of, and owns capital stock in, the FHLBC. The FHLBC provides CYS Insurance with credit capacity and authorizes advances based on the security of pledged Agency RMBS, provided the Company meets certain creditworthiness standards. FHLBC Advances at fair value are a funding source for the Company. As a condition of its membership in the FHLBC, CYS Insurance is required to maintain a FHLBC stock investment, both for membership and for the level of advances from the FHLBC to CYS Insurance. The Company accounts for its investment in FHLBC stock as a cost method investment in "Other investments". The Company periodically evaluates FHLBC stock for impairment in accordance with ASC 320 - Investments Debt and Equity Securities. Also included in other investments is a real estate asset which is recorded at fair value.

Repurchase Agreements and FHLBC Advances

Borrowings under repurchase agreements ("repo borrowings") and FHLBC Advances are collateralized by the Company’s Agency RMBS and U.S. Treasuries (collectively, "Debt Securities"). The Company’s repo borrowing counterparties are institutional dealers in fixed income securities and large financial institutions, and CYS Insurance's counterparty for FHLBC Advances is the FHLBC. Collateral pledged on repo borrowings is valued daily, and on FHLBC Advances periodically, and our counterparties (including the FHLBC) may require posting of additional collateral when the fair value of pledged collateral decline. Repo borrowing counterparties and the FHLBC have the right to sell or repledge collateral pledged under repo borrowings and FHLBC Advances. See Note 5, Repurchase Agreements and FHLBC Advances.

We account for our repo borrowings as short-term indebtedness under ASC 470— Debt; accordingly, these short-term instruments are accounted in our financial statements and carried at their amortized cost or carrying value, which approximates their fair value due to their short-term nature.

Also, we have entered into FHLBC Advances that may have an initial maturity of more than one year that are collateralized by the Company's Debt Securities. The Company has chosen to make a fair value election pursuant to ASC 825—Financial Instruments for FHLBC Advances and, therefore, this debt is recorded at fair market value on the consolidated balance sheets. The unpaid principal balance of FHLBC Advances with initial maturities less than one year generally approximate fair value due to the short-term nature of the instruments. We price FHLBC Advances with an initial maturity greater than one year daily through a pricing service that uses a discounted cash flow model to value the debt, and periodically we validate the prices we receive through this process. The changes in fair market value are recorded in current period earnings on our unaudited consolidated statements of operations as a component of net unrealized gain (loss) on FHLBC Advances. Electing the fair value option permits the Company to record changes in the fair value of our FHLBC Advances along with that of our investments in our unaudited consolidated statements of operations which, in management’s view, more appropriately reflects the results of operations for a particular reporting period as all income producing assets and liabilities will be treated in a similar manner. See Note 5, Repurchase Agreements and FHLBC Advances.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," ("ASU 2016-01"), which significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and requires the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

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3. INVESTMENTS IN SECURITIES

The available-for-sale portfolio consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016

Asset Type	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
Fannie Mae Certificates				
Fixed Rate	$10,925,812	$(1,038)	$172,749	$11,097,523
ARMs	263,926	—	2,711	266,637
Total Fannie Mae	11,189,738	(1,038)	175,460	11,364,160
Freddie Mac Certificates				
Fixed Rate	1,422,646	(88)	24,995	1,447,553
ARMs	31,680	(1)	720	32,399
Total Freddie Mac	1,454,326	(89)	25,715	1,479,952
Ginnie Mae Certificates - ARMs	43,596	—	722	44,318
U.S. Treasuries	29,959	—	13	29,972
Other Investments	32,948	—	1,080	34,028
Total	$12,750,567	$(1,127)	$202,990	$12,952,430
December 31, 2015				
Fannie Mae Certificates				
Fixed Rate	$11,142,798	$(45,018)	$74,891	$11,172,671
ARMs	260,394	(1,859)	1,860	260,395
Total Fannie Mae	11,403,192	(46,877)	76,751	11,433,066
Freddie Mac Certificates				
Fixed Rate	1,379,566	(3,881)	11,822	1,387,507
ARMs	60,821	(727)	749	60,843
Total Freddie Mac	1,440,387	(4,608)	12,571	1,448,350
Ginnie Mae Certificates - ARMs	45,784	—	796	46,580
U.S. Treasuries	99,847	(136)	—	99,711
Other Investments	48,948	—	1,080	50,028
Total	$13,038,158	$(51,621)	$91,198	$13,077,735

The following table presents the gross unrealized loss and fair values of our available-for-sale Agency RMBS by length of time that such securities have been in a continuous unrealized loss position as of March 31, 2016 and December 31, 2015 (in thousands):

	Unrealized loss positions for					
	Less than 12 Months		Greater than 12 months		Total	
As of	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
March 31, 2016	$341,950	$(770)	$148,987	$(221)	$490,937	$(991)
December 31, 2015	6,718,658	(50,319)	86,300	(1,303)	6,804,958	(51,622)

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The following table summarizes our net realized gain (loss) from the sale of available-for-sale investments for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Available-for-sale investments, at cost	$1,397,188	$5,999,963
Proceeds from available-for-sale investments sold	1,398,390	6,018,216
Net gain (loss) on sale of available-for-sale investments	$1,202	$18,253
Gross gain on sale of available-for-sale investments	$5,383	$33,979
Gross (loss) on sale of available-for-sale investments	(4,181)	(15,726)
Net gain (loss) on sale of available-for-sale investments	$1,202	$18,253

The components of the carrying value of available-for-sale securities at March 31, 2016 and December 31, 2015 are presented below. A premium purchase price is due to the average coupon interest rates on these investments being higher than prevailing market rates; similarly, a discount purchase price is due to the average coupon interest rate on these investments being lower than prevailing market rates.

(in thousands)	March 31, 2016 (1)	December 31, 2015 (1)
Principal balance	$12,265,726	$12,534,877
Unamortized premium	458,991	462,632
Unamortized discount	(153)	(273)
Gross unrealized gains	202,990	90,118
Gross unrealized losses	(1,127)	(51,622)
Fair value	$12,926,427	$13,035,732

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(1) FHLBC stock of approximately $26.0 million and $42.0 million at March 31, 2016 and December 31, 2015, respectively, is excluded from the table above as the Company accounts for its investment in FHLBC stock as a cost method investment.

The weighted-average coupon interest rate on the Company's Debt Securities as of March 31, 2016 and December 31, 2015 was 3.43% and 3.39%, respectively. Actual maturities of Agency RMBS are generally shorter than their stated contractual maturities (which range up to 30 years), because they are affected by the contractual lives of the underlying mortgages, periodic payments and principal prepayments.

As of March 31, 2016 and December 31, 2015, the range of final contractual maturity of the Company’s Agency RMBS portfolio was between 2024 and 2046, and the final maturity of the Company's U.S. Treasuries was 2016 and 2019, respectively.

Credit Risk

The Company believes it has minimal exposure to credit losses on its investment securities assets at March 31, 2016 and December 31, 2015 because it owns principally Debt Securities. Principal and interest payments on Agency RMBS are guaranteed by Freddie Mac and Fannie Mae, while principal and interest payments on Ginnie Mae RMBS and U.S. Treasuries are backed by the full faith and credit of the U.S. government.

In September 2008, both Freddie Mac and Fannie Mae were placed in the conservatorship of the U.S. government. On August 5, 2011, Standard & Poor’s ("S&P") downgraded the U.S. government’s credit rating for the first time to AA+. Fitch Ratings Inc. ("Fitch") announced on October 15, 2013 that it had placed the U.S. government's credit rating on "negative watch". This was changed to "stable" on March 21, 2014 and Fitch reaffirmed the "stable outlook" on April 12, 2016. As of March 31, 2016, S&P maintains a AA+ rating, while Fitch and Moody's rate the U.S. government AAA and Aaa, respectively. Because Fannie Mae and Freddie Mac remain under U.S. government conservatorship, the implied credit ratings of Agency RMBS are similarly rated. While the conservatorship, ratings downgrade and ratings watch appear not to have had a significant impact on the fair value of the Agency RMBS or U.S. Treasuries in the Company’s portfolio, these developments create a level of uncertainty regarding the credit risk of Debt Securities.

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4. DERIVATIVE INSTRUMENTS

The Company enters into interest rate swap and cap contracts with the intent of managing our interest rate exposure. The Company had the following activity in interest rate swap and cap transactions during the three months ended March 31, 2016 and 2015 (in thousands):

Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
Trade Date	Transaction	Notional	Trade Date	Transaction	Notional
January 2016	Terminated	$(500,000)	January 2015	Terminated	$(400,000)
			January 2015	Opened	$500,000
			Net Increase		$100,000

As of March 31, 2016 and December 31, 2015, the Company had pledged Debt Securities with a fair value of $79.1 million and $50.7 million, respectively, as collateral on interest rate swap and cap contracts. As of March 31, 2016 and December 31, 2015, the Company had pledged cash of $85.1 million and $21.8 million, respectively, as collateral on interest rate swap and cap contracts. As of March 31, 2016, the Company had Debt Securities of $21.5 million and cash of $8.8 million pledged to it as collateral for its interest rate swap and cap contracts. As of December 31, 2015, the Company had Debt Securities of $44.1 million and cash of $18.5 million pledged to it as collateral for its interest rate swap and cap contracts. See Note 7, Pledged Assets. Below is a summary of our interest rate swap and cap contracts and TBA Derivatives open as of March 31, 2016 and December 31, 2015 (in thousands):

Derivatives not designated as hedging instruments under ASC 815

Interest Rate Swap Contracts	Notional	Fair Value	Consolidated Balance Sheets
March 31, 2016	$1,000,000	$327	Derivative assets, at fair value
March 31, 2016	$6,450,000	$(84,173)	Derivative liabilities, at fair value
December 31, 2015	5,900,000	39,435	Derivative assets, at fair value
December 31, 2015	2,050,000	(14,024)	Derivative liabilities, at fair value

Interest Rate Cap Contracts	Notional	Fair Value	Consolidated Balance Sheets
March 31, 2016	$2,500,000	$29,325	Derivative assets, at fair value
December 31, 2015	2,500,000	61,343	Derivative assets, at fair value

TBA Derivatives	Notional	Fair Value	Consolidated Balance Sheets
March 31, 2016	$350,000	$(1,288)	Derivative liabilities, at fair value
March 31, 2016	643,807	3,049	Derivative assets, at fair value

The average notional value of the Company's TBA Derivatives during the quarter ended March 31, 2016 was $1,103.5 million.

The following table presents information about the net realized and unrealized gain (loss) on swap, cap and TBA Derivatives for the three months ended March 31, 2016 and 2015 (in thousands):

		Three Months Ended March 31,	
Derivative Instrument Type	Location of Gain (Loss) on Derivative Instruments	2016	2015
Interest rate swaps and caps	Swap and cap interest expense	$(18,398)	$(27,468)
Interest rate swaps, caps and TBA Derivatives	Net realized and unrealized gain (loss) on derivative instruments	(140,524)	(77,368)
Interest rate swaps, caps and TBA Derivatives	Net gain (loss) on derivative instruments	(158,922)	(104,836)

The swap and cap notional was $9,950.0 million at March 31, 2016 compared to $10,450.0 million at December 31, 2015, and as a percentage of our repo borrowings and FHLB Advances was 96.5% at March 31, 2016 compared to 94.3% at December 31, 2015.

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5. REPURCHASE AGREEMENTS AND FHLBC ADVANCES

The Company leverages its portfolio primarily through repo borrowings and FHLBC Advances. Each of the Company's repo borrowings bear interest at a rate based on a spread above or below the London Interbank Offered Rate ("LIBOR"). The interest rate for FHLBC Advances are set by the FHLBC. The fair value of repo borrowings and FHLBC Advances with initial maturities less than one year approximates their carrying amount or amortized cost due to the short-term nature of these financial instruments. While repo borrowings and FHLBC Advances are the Company's principal source of borrowings, the Company may issue long-term debt (i.e., debt with an initial term greater than one year) to diversify credit sources and to manage interest rate and duration risk.

Certain information with respect to the Company's repo borrowings and FHLBC Advances outstanding at the balance sheet date is summarized in the table below.

(in thousands)	March 31, 2016	December 31, 2015
Outstanding repurchase agreements	$9,656,969	$8,987,776
Outstanding FHLBC advances[(2)]	$649,553	$2,098,701
Interest accrued thereon	$6,000	$7,383
Weighted-average borrowing rate	0.73 %	0.54 %
Weighted-average remaining maturity (in days)	50.5	42.2
Fair value of the collateral[(1)]	$10,816,817	$11,548,930

(1) Collateral for repo borrowings and FHLBC Advances consists of Agency RMBS and U.S. Treasuries.

(2) During January 2016, CYS repaid $1,450.0 million of its FHLBC Advances and replaced the advances with repo borrowings from its existing counterparties. Currently, CYS Insurance has $650.0 million of FHLBC Advances that are required to be repaid on or prior to February 19, 2017.

The following table presents information about collateral supporting repo borrowings and FHLBC Advances as of March 31, 2016 and December 31, 2015 (in thousands):

Collateral for repurchase agreements and FHLBC Advances	Remaining contractual maturity of the repurchase agreements and FHLBC Advances			
March 31, 2016	Up to 30 days	30-90 days	Greater than 90 days	Total
Agency RMBS	$6,204,602	$3,043,323	$1,048,145	$10,296,070
U.S. Treasuries	10,899	—	—	10,899
Total	$6,215,501	$3,043,323	$1,048,145	$10,306,969
December 31, 2015				
Agency RMBS	$7,579,885	$2,235,246	$924,394	$10,739,525
U.S. Treasuries	348,251	—	—	348,251
Total	$7,928,136	$2,235,246	$924,394	$11,087,776

At March 31, 2016 and December 31, 2015, our amount at risk with any individual counterparty related to our repo borrowings or FHLBC Advances was less than 3.2% and 2.3% of stockholders' equity, respectively, and our repo borrowings or FHLBC Advances with any individual counterparty were less than 5.0% and 14.7% of our total assets, respectively. The amount at risk is defined as the excess of the fair value of the securities, including accrued interest, and cash, pledged to secure the repurchase agreement, over the amount of the repurchase agreement liability adjusted for accrued interest.

Prior to the issuance of the Final Rule on January 12, 2016, pursuant to the FHLBC terms and conditions of membership and applicable credit policies, CYS Insurance was able to obtain long-term advances, secured by eligible collateral, including, but not limited to, residential mortgage-backed securities. At March 31, 2016, we had $424.6 million in FHLBC Advances at fair value with initial maturities greater than one year with a related $0.5 million accrued interest expense on our unaudited consolidated balance sheet. These advances had an original term of three years, a weighted average interest rate of 1.48%, and a maturity of 0.9 years at March 31, 2016. These are callable after the one-year anniversary of the advance and thereafter every six months. As a direct result of the Final Rule, all FHLBC Advances are now required to be repaid on or

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before February 19, 2017. At December 31, 2015, we had $423.7 million in FHLBC Advances at fair value with initial maturities greater than one year with a related $0.5 million accrued interest expense on our consolidated balance sheet.

The FHLBC requires that CYS Insurance purchase and hold stock in the FHLBC in an amount equal to a specified percentage of outstanding FHLBC Advances. As of March 31, 2016 and December 31, 2015, CYS Insurance held $26.0 million and $42.0 million in FHLBC stock that is included in "Other investments" on our unaudited consolidated balance sheets.

6. COMMITMENTS AND CONTINGENCIES

The Company enters into certain agreements that contain a variety of indemnifications, principally with broker dealers. As of March 31, 2016 and December 31, 2015, no claims have been asserted under these indemnification agreements. Accordingly, the Company has no liabilities recorded for these agreements as of March 31, 2016 and December 31, 2015.

The Company currently occupies leased office space for which the term expires on June 30, 2016. In September 2015, the Company entered into a new lease agreement with a commencement date of January 1, 2016, and an estimated rent commencement date of July 1, 2016. The term of this lease expires 84 months after the rent commencement date. Both leases have been classified as operating leases. The Company’s aggregate future minimum lease payments total approximately $2.7 million. The following table details the lease payments (in thousands):

Years Ending December 31,	Lease Commitments
2016 (remaining)	$ 261
2017	353
2018	363
2019	373
2020	383
Later years	999
	$ 2,732

7. PLEDGED ASSETS

Assets Pledged to Counterparties

The following tables summarize our assets pledged as collateral under our repo borrowings, FHLBC Advances, and derivative instruments by type, including securities pledged related to securities purchased or sold but not yet settled, as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016

Assets Pledged to Counterparties	Repurchase Agreements and FHLBC Advances	Derivative Instruments	Forward Settling Trades (TBAs) (1)	Total
Agency RMBS - fair value	$ 10,804,826	$ 48,389	$ 2,367	$ 10,855,582
U.S. Treasuries - fair value	11,992	31,171	—	43,163
Accrued interest on pledged securities	29,521	134	7	29,662
Cash	—	85,097	—	85,097
Total	$ 10,846,339	$ 164,791	$ 2,374	$ 11,013,504

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December 31, 2015

Assets Pledged to Counterparties	Repurchase Agreements	Derivative Instruments	Forward Settling Trades (TBAs)	Total
Agency RMBS - fair value	$11,547,098	$ 37,657	$ 2,259	$11,587,014
U.S. Treasuries - fair value	1,832	13,054	—	14,886
Accrued interest on pledged securities	30,890	196	5	31,091
Cash	—	21,751	—	21,751
Total	$11,579,820	$ 72,658	$ 2,264	$11,654,742

(1) Excludes forward settling transactions classified as TBA Derivatives which are included in derivative instruments effective January 1, 2016.

Assets Pledged from Counterparties

If the estimated fair value of our investment securities pledged as collateral increases due to changes in interest rates or other factors, we may require counterparties to release collateral back to us, which may be in the form of identical securities, similar securities, or cash. As of March 31, 2016 and December 31, 2015, we had assets pledged to us as collateral under our repurchase, derivative agreements and TBAs as summarized in the tables below (in thousands):

March 31, 2016

Assets Pledged to CYS	Repurchase Agreements	Derivative Instruments	Forward Settling Trades (TBAs)[1]	Total
Agency RMBS - fair value	$15,499	$ —	$ —	$15,499
U.S. Treasuries - fair value	12,451	21,540	—	33,991
Accrued interest on pledged securities	71	104	—	175
Cash	—	9,141	—	9,141
Total	$28,021	$ 30,785	$ —	$58,806

December 31, 2015

Assets Pledged to CYS	Repurchase Agreements	Derivative Instruments	Forward Settling Trades (TBAs)	Total
U.S. Treasuries - fair value	—	44,143	—	44,143
Accrued interest on pledged securities	—	209	—	209
Cash	—	18,534	—	18,534
Total	$ —	$ 62,886	$ —	$62,886

(1) Excludes forward settling transactions classified as TBA Derivatives which are included in derivative instruments effective January 1, 2016.

Cash collateral received is recognized in "Cash" with a corresponding amount recognized in "Payable for cash received as collateral" on the accompanying unaudited consolidated balance sheets. Securities collateral received from counterparties is disclosed as a component of our liquidity amount in Note 4, Derivative Instruments.

Cash and Debt Securities we pledge as collateral under our derivatives instruments are included in "Cash" and "Investment in securities, at fair value" on our unaudited consolidated balance sheets.

Offsetting Assets and Liabilities

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of set-off under master netting arrangements (or similar agreements), including in the event of default or in the event of bankruptcy of either party to the transactions. Under U.S. GAAP, if the Company has a valid right of set-off, it may offset the related asset and liability and report the net amount. However, the Company reports amounts subject

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to its Master Repurchase Agreements ("MRAs") and International Standard Derivative Association ("ISDA") Agreements in the unaudited consolidated balance sheets on a gross basis without regard to such rights of offset.
At March 31, 2016 and December 31, 2015, the Company's derivative assets and liabilities (by type) are as follows (in thousands):

March 31, 2016	Assets	Liabilities
Interest rate swap contracts	$327	$ 84,173
Interest rate cap contracts	29,325	—
TBA derivatives	3,049	1,288
Total derivative assets and liabilities in the unaudited consolidated balance sheets	32,701	85,461
Derivatives not subject to an MNA	—	80,304
Total assets and liabilities subject to an MNA	$32,701	$ 5,157

December 31, 2015	Assets	Liabilities
Interest rate swap contracts	$39,435	$ 14,024
Interest rate cap contracts	61,343	—
Total derivative assets and liabilities in the unaudited consolidated balance sheets	100,778	14,024
Derivatives not subject to an MNA	25,151	14,024
Total assets and liabilities subject to an MNA	$75,627	$ —

Below are summaries of the Company's assets and liabilities subject to offsetting provisions (in thousands):

Assets			Gross Amounts Not Offset in the Unaudited Consolidated Balance Sheets		
As of	Description	Amount of Assets Presented in the Unaudited Consolidated Balance Sheets	Instruments Available for Offset	Collateral Received(1)	Net Amount(2)
March 31, 2016	Derivative assets	$ 32,701	$2,132	$ 27,322	$ 3,247
December 31, 2015	Derivative assets	75,627	—	59,907	15,720

Liabilities			Gross Amounts Not Offset in the Unaudited Consolidated Balance Sheets		
As of	Description	Amount of Liabilities Presented in the Unaudited Consolidated Balance Sheets	Instruments Available for Offset	Collateral Pledged(1)	Net Amount(2)
March 31, 2016	Derivative liabilities	$ 5,157	$ 2,132	$ 3,025	$ —
March 31, 2016	Repurchase agreements and FHLBC	10,306,522	26,003	10,280,519	—

	Advances				
December 31, 2015	Repurchase agreements and FHLBC Advances	11,086,477	42,003	11,044,474	—

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(1) Collateral consists of Agency RMBS, U.S. Treasuries and Cash. Excess collateral pledged is not shown for financial reporting purposes.

(2) Net amount represents the net amount receivable (in the case of assets) and payable (in the case of liabilities) to the counterparty in the event of default.

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8. FAIR VALUE MEASUREMENTS

The Company's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. Excluded from the tables below are short-term financial instruments carried in our consolidated financial statements at cost basis, which is deemed to approximate fair value, primarily due to the short duration of these instruments, including cash, receivables, payables and repo borrowings with initial terms of one year or less.
We generally value interest rate swaps and caps using prices provided by broker quotations. Such broker quotations are based on the present value of fixed and projected floating rate cash flows over the term of the swap contract. Future cash flows are discounted to present value using swap rates provided by electronic data services or by brokers. No credit valuation adjustments are made in determining the fair value of the Company's interest rate swaps and caps.
"Other investments" is comprised of our investment in FHLBC stock and our investment in a real estate asset, both Level 3 assets to which we apply valuation techniques and/or impairment analysis periodically. FHLBC stock of approximately $26.0 million and $42.0 million at March 31, 2016 and December 31, 2015, respectively, is excluded from Other investments in the table below as the Company accounts for its investment in FHLBC stock as a cost method investment and periodically evaluates FHLBC stock for impairment.
The following tables provide a summary of the Company's assets and liabilities that are measured at fair value on a recurring basis, as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets				
Agency RMBS	$—	$12,888,430	$—	$12,888,430
U.S. Treasuries	29,972	—	—	29,972
Other investments	—	—	8,025	8,025
Derivative assets	—	32,701	—	32,701
Total	$29,972	$12,921,131	$8,025	$12,959,128
Liabilities				
FHLBC Advances	—	649,553	—	649,553
Derivative liabilities	—	85,461	—	85,461
Total	$—	$735,014	$—	$735,014

December 31, 2015	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets				
Agency RMBS	$—	$12,927,996	$—	$12,927,996
U.S. Treasuries	99,711	—	—	99,711
Other investments	—	—	8,025	8,025
Derivative assets	—	100,778	—	100,778
Total	$99,711	$13,028,774	$8,025	$13,136,510
Liabilities				
FHLBC Advances	—	2,098,701	—	2,098,701
Derivative liabilities	—	14,024	—	14,024
	$—	$2,112,725	$—	$2,112,725

The table below presents a reconciliation of changes in "Other investments" classified as Level 3 assets and measured for fair value on a recurring basis in the Company's unaudited consolidated financial statements for the three months ended March 31, 2016 and 2015.

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Level 3 Fair Value Reconciliation

(In thousands)	Three Months Ended March 31,	
Other investments[(1)]	2016	2015
Beginning balance Level 3 assets	$ 8,025	$ 8,025
Cash payments recorded as a reduction of cost basis	—	—
Change in net unrealized gain (loss)	—	—
Gross purchases	—	—
Gross sales	—	—
Net gain (loss) on sales	—	—
Transfers into (out of) Level 3	—	—
Ending balance Level 3 assets	$ 8,025	$ 8,025

(1) FHLBC stock of approximately $26.0 million and $10.2 million at March 31, 2016 and 2015, respectively, is excluded from the table above as the Company accounts for its investment in FHLBC stock as a cost method investment and periodically evaluates FHLBC stock for impairment.

9. SHARE CAPITAL

The Company has authorized 500,000,000 shares of common stock having par value of $0.01 per share. As of March 31, 2016 and December 31, 2015, the Company had issued and outstanding 151,535,316 and 151,739,840 shares of common stock, respectively.

The Company has authorized 50,000,000 shares of preferred stock having a par value of $0.01 per share. As of March 31, 2016 and December 31, 2015, 3,000,000 shares of 7.75% Series A Preferred Stock ($25.00 liquidation preference) were issued and outstanding. As of March 31, 2016 and December 31, 2015, 8,000,000 shares of 7.50% Series B Preferred Stock ($25.00 liquidation preference) were issued and outstanding. The Series A Preferred Stock and Series B Preferred Stock is not redeemable before August 3, 2017 and April 30, 2018, respectively, except under circumstances where it is necessary to preserve the Company's qualification as a REIT, for federal income tax purposes, or the occurrence of a change of control. On or after August 3, 2017 and April 30, 2018, the Company may, at its option, redeem any or all of the shares of the Series A Preferred Stock and Series B Preferred Stock, respectively, at $25.00 per share plus any accumulated and unpaid dividends to, but not including, the respective redemption date. The Series A Preferred Stock and Series B Preferred Stock have no stated maturity, and are not subject to a sinking fund requirement or mandatory redemption.

Equity Offerings

On May 23, 2014, the Company filed an automatically effective shelf registration statement on Form S-3 with the SEC. The Company may offer and sell, from time to time, shares of common stock, preferred stock and debt securities in one or more offerings pursuant to the prospectus that is a part of the registration statement. As of March 31, 2016, the Company had not issued any shares of common stock, preferred stock or debt securities under the prospectus.

Dividend Reinvestment and Direct Stock Purchase Plan ("DSPP")

The Company sponsors a dividend reinvestment and direct stock purchase plan through which stockholders may purchase additional shares of common stock by reinvesting some or all cash dividends received on shares of common stock. Stockholders may also make optional cash purchases of shares of common stock subject to certain limitations detailed in the plan prospectus. For the three months ended March 31, 2016 and 2015 the Company did not issue any shares under the plan. As of March 31, 2016 and December 31, 2015, there were approximately 4.1 million shares available for issuance under the plan.

Share Repurchase Program

On November 15, 2012, the Company announced that its Board of Directors authorized the repurchase of shares of the Company’s common stock having an aggregate value of up to $250 million. Pursuant to this program, through July 20, 2014, the Company repurchased approximately $115.7 million in aggregate value of its shares of common stock on the open market. On July 21, 2014, the Company announced that its Board of Directors authorized the repurchase of shares of the Company's common stock having an aggregate value of up to $250 million, which included approximately $134.3 million available for repurchase under the November 2012 authorization. Subsequently, during 2014 we repurchased 172,549 shares with a weighted average purchase price of $8.88 per share for an aggregate of approximately $1.5 million and for the year ended December 31, 2015, the Company repurchased 10,559,493 shares with a weighted average purchase price of $8.28 per share for

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an aggregate of approximately $87.7 million. For the three months ended March 31, 2016, we repurchased 510,618 shares of the Company's common stock at a weighted-average purchase price of $7.82 per share, for an aggregate of approximately $4.0 million. Accordingly, the Company had approximately $156.8 million authorized to repurchase shares of its common stock as of March 31, 2016.

Restricted Stock Awards

For the three months ended March 31, 2016 and 2015, the Company granted 336,101 and 438,617 shares of restricted stock, respectively, to certain of its directors, officers and employees.

10. EARNINGS PER SHARE

Components of the computation of basic and diluted earnings per share ("EPS") were as follows (in thousands except per share amounts):

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	$61,331	$54,597
Less preferred stock dividends	(5,203)	(5,203)
Net income (loss) available to common stockholders	56,128	49,394
Less dividends paid:		
Common shares	(39,126)	(47,110)
Unvested shares	(273)	(324)
Undistributed earnings (loss)	16,729	1,960
Basic weighted-average shares outstanding:		
Common shares	150,776	159,573
Basic earnings (loss) per common share:		
Distributed earnings	$0.26	$0.30
Undistributed earnings (loss)	0.11	0.01
Basic earnings (loss) per common share	$0.37	$0.31
Diluted weighted-average shares outstanding:		
Common shares	150,776	159,573
Net effect of dilutive stock options (1)	—	—
	150,776	159,573
Diluted earnings (loss) per common share:		
Distributed earnings	$0.26	$0.30
Undistributed earnings (loss)	0.11	0.01
Diluted earnings (loss) per common share	$0.37	$0.31

(1) For the three months ended March 31, 2016 and 2015, the Company had an aggregate of zero and 131,088 stock options outstanding, respectively, with a weighted-average exercise price of $30.00 that were not included in the calculation of EPS, as they were out-of-the-money.

11. SUBSEQUENT EVENTS

On April 1, 2016, an aggregate of 21,248 shares of restricted common stock were granted to certain directors as a portion of their compensation for serving on the Company’s Board of Directors.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

CYS Investments, Inc. (the "Company", "we", "us", and "our") is a specialty finance company created with the objective of achieving consistent risk-adjusted investment income. Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide the reader of the Company’s unaudited consolidated financial statements and accompanying notes with a narrative of management's perspective on the business underlying those financial statements and its financial condition and results of operations during the periods presented. The Company’s MD&A is comprised of six sections:

- Forward-Looking Statements,
- Executive Overview,
- Trends and Recent Market Activity,
- Financial Condition,
- Results of Operations, and
- Liquidity and Capital Resources.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and accompanying notes included in Item 1 of this Quarterly Report on SEC Form 10-Q ("Quarterly Report"), as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed on February 17, 2016 (the "2015 Annual Report").

Forward Looking Statements

When used in this Quarterly Report, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "may," "will," "anticipate," "estimate," "plan," "continue," "intend," "should,” or the negative of these words and similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, as such, may involve known and unknown risks, uncertainties and assumptions. The forward-looking statements we make in this Quarterly Report include, but are not limited to, statements about the following:

- the effect of movements in interest rates on our assets and liabilities (including our hedging instruments) and our net income;
- our investment, financing and hedging strategies;
- the effect of U.S. government and foreign central bank actions on interest rates and the housing and credit markets;
- the effect of actual or proposed actions of the U.S. Federal Reserve Bank (the "Fed"), the Fed Open Market Committee ("FOMC"), the Federal Housing Finance Agency ("FHFA"), and the Federal Home Loan Bank system ("FHLB") or the FHLB of Cincinnati ("FHLBC");
- the supply of Agency residential mortgage backed securities ("RMBS") and U.S. Treasuries (collectively, "Debt Securities");
- the effect of increased prepayment rates on the value of our assets;
- expected trends in housing and rents/occupancy in assessing supply, demand and fair value in the housing markets;
- our ability to convert our assets into cash or extend the financing terms related to our assets;
- the effect of widening credit spreads or shifts in the yield curve on the value of our assets and investment strategy;
- the types of indebtedness we may incur;
- our ability to achieve anticipated benefits of interest rate swaps and caps;
- our ability to quantify risks based on historical experience;
- our ability to be taxed as a real estate investment trust ("REIT") and to maintain an exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act");
- our assessment of counterparty risk and/or the rise of counterparty defaults;

• our ability to meet short- and long-term liquidity requirements with our cash flow from operations and borrowings;
• the effect of rising interest rates on unemployment, inflation and mortgage supply and demand;
• our liquidity;
• our asset valuation policies; and
• our dividend distribution policy.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking

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into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and
uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change
occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our
forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

- the factors referenced in this Quarterly Report;
- changes in our investment, financing and hedging strategies;
- the adequacy of our cash flow from operations and borrowings to meet our short- and long-term liquidity requirements;
- the liquidity of our portfolio;
- unanticipated changes in our industry, interest rates, the credit markets, the general economy or the real estate market;
- changes in interest rates and the market value of our Agency RMBS;
- changes in the prepayment rates on the mortgage loans underlying our Agency RMBS;
- changes in the value of our assets pledged as collateral;
- our ability to borrow to finance our assets;
- actions by the U.S. government, the Fed, the FOMC, the FHFA or the FHLB or the FHLBC that impact the value of our Agency RMBS or interest rates, or our access to borrowings at cost-effective rates;
- changes in government regulations affecting our business;
- changes in the U.S. government's credit rating or ability to pay its debts;
- the impact of an inability to reach an agreement on the national debt ceiling;
- our ability to maintain our qualification as a REIT for federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act and the availability of such exemption in the future; and
- risks associated with investing in real estate assets, including changes in business conditions and the general economy.

These and other risks, uncertainties and factors, including those described elsewhere in this Quarterly Report, in the Company's 2015 Annual Report, which has been filed with the Securities and Exchange Commission, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

We seek to achieve our objective of earning consistent risk-adjusted investment income by investing on a leveraged basis primarily in Agency RMBS. These investments consist of residential mortgage pass-through securities for which the principal and interest payments are guaranteed by a government-sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or by a U.S. government agency, such as the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs"). We also may invest in debt securities issued by the United States Department of Treasury ("U.S. Treasuries") and, in addition, our investment guidelines permit investments in collateralized mortgage obligations issued by a government agency or GSE that are collateralized by Agency RMBS ("CMOs"), or securities issued by a GSE that are not backed by collateral but, in the case of government agencies, are backed by the full faith and credit of the U.S. government, and, in the case of GSEs, are backed by the integrity and creditworthiness of the issuer ("U.S. Agency Debentures").

We commenced operations in February 2006, and completed our initial public offering in June 2009. Our common stock, our 7.75% Series A Cumulative Redeemable Preferred Stock, $25.00 liquidation preference (the "Series A Preferred Stock"), and our 7.50% Series B Cumulative Redeemable Preferred Stock, $25.00 liquidation preference (the "Series B Preferred Stock"), trade on the New York Stock Exchange under the symbols "CYS," "CYS PrA" and "CYS PrB," respectively.

We earn income from our investment portfolio which, as of March 31, 2016, was comprised principally of Debt Securities. We currently fund our investments primarily through borrowings under repurchase agreements ("repo borrowings"), and loans from the FHLBC. We use leverage to seek to enhance our returns. Our economic net interest income, a non-GAAP measure described in "Results of Operations" below, is generated primarily from the net spread, or difference, between the interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. The amount of economic net interest income we earn on our investments depends in part on our ability to control our financing costs, which

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comprise a significant portion of our operating expenses. Although we leverage our portfolio investments in Debt Securities to seek to enhance our potential returns, leverage also may exacerbate losses.

While we use hedging to attempt to manage some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates. Our investments vary in interest rate and maturity compared with the rates and duration of the hedges we employ. As a result, it is not possible to insulate our portfolio from all potential negative consequences associated with changes in interest rates in a manner that will allow us to achieve attractive spreads on our portfolio. Consequently, changes in interest rates, particularly short-term interest rates, may significantly affect our net income.

In addition to investing in issued pools of Agency RMBS, we regularly utilize forward settling transactions to purchase and sell certain securities, including forward settling purchases and sales of Agency RMBS where the pool is "to-be-announced" ("TBA"). Pursuant to a TBA, we agree to purchase or sell for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not specifically identified until shortly before the TBA settlement date. For TBA securities that meet the regular-way securities scope exception from derivative accounting under ASC 815 - Derivatives and Hedging, the Company records TBAs on the trade date utilizing information associated with the specified terms of the transaction. TBAs are carried at fair value and begin earning interest on the settlement date. At times, the Company may enter into TBA contracts without having the contractual obligation to accept or make delivery ("TBA Derivatives"), as a means of investing in and financing Agency RMBS via "dollar roll" transactions. TBA dollar roll transactions are accounted for as a series of derivative transactions. For other forward settling transactions, we agree to purchase or sell, for future delivery, Agency RMBS. However, unlike TBA Derivatives, these forward settling transactions reference an identified Agency RMBS.

In March 2015, our captive insurance subsidiary, CYS Insurance Services, LLC ("CYS Insurance"), was granted membership in the FHLBC and commenced obtaining FHLBC Advances from the FHLBC in the form of secured borrowings. Membership in the FHLBC permitted CYS Insurance to access a variety of products and services offered by the FHLBC, and obligated CYS Insurance to purchase FHLBC membership stock and activity stock, the latter being a percentage of the advances it obtains from the FHLBC. On January 12, 2016, the Federal Housing Finance Agency ("FHFA") issued a final rule (the "Final Rule") amending its regulations governing FHLB Membership criteria for captive insurance companies. The Final Rule defines "insurance company" to exclude "captive insurers". Under this Final Rule, which became effective on February 19, 2016, CYS Insurance must terminate its membership in the FHLBC within one year of the effective date and will not be permitted to secure any new advances. In response to this action, the Company has reduced outstanding FHLB Advances to $650 million as of March 31, 2016, and all outstanding advances are required to be repaid on or before February 19, 2017. As with our repo borrowings, if the value of any assets pledged to FHLBC as collateral for advances decreases, the FHLBC could require posting of additional collateral to the amount of advances outstanding.

We have elected to be treated as a REIT for U.S. federal income tax purposes, and have complied with, and intend to continue to comply with, the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), with respect thereto. Accordingly, we generally do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we may be subject to federal, state and local taxes on our income.

Trends and Recent Market Activity

Overview

Our business is largely influenced by interest rates and credit conditions principally in the United States (U.S.), but is also influenced, to a lesser extent, by global financial conditions. Our earnings power benefits from a steep yield curve, and the volatility of our book value is affected by the volatility of long-term interest rates and mortgage rates.

Following the U.S. Federal Reserve’s (the "Fed") initial interest rate hike in December 2015, the bond market entered 2016 with expectations for continued increases in short term rates as the Fed continues its rate normalization process. However, as data emerged about the diminishing prospects for global economic growth, the bond market began to push out its expectations for when additional Fed rate hikes would occur. Indeed, some market participants expected four rate hikes in 2016, but by the end of March 2016, general market expectations suggested no more than one or two rate hikes in 2016. Additionally, lower oil prices, a strong dollar, and slower growth in China and other global economies have presented a growing threat of renewed deflationary pressures. Growth in the US economy had already slowed to 1.0% in the fourth quarter of 2015 (the "Fourth Quarter"), and some economists now see first quarter 2016 (the "First Quarter") growth at around 0.9%, far from showing signs of accelerating. Payrolls continued to rise in the First Quarter and the unemployment rate throughout the First Quarter remained relatively unchanged at around 5%. While the U-6 underemployment rate remained at 9.8%, inflation remains below the Fed's 2% target at around 1%. While the Federal Open Market Committee ("FOMC") continues to focus on its dual mandate of maximum employment and an inflation objective of 2%, they have expressed heightened awareness of the US economy's sensitivity to global economic conditions. During its March 2016 meeting, the FOMC voted to keep the federal

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funds rate at 0.25% and for the first time cited global economic and financial developments as influencing their decision and outlook on inflation. Current FOMC guidance provides that the pace of rate increases is likely to be slower with only two rate hikes in 2016, not the four anticipated in December 2015. The bond market began building in the lower rate expectations well before Fed officials made their public statements and updated their guidance.

Reflecting the diminishing prospects for accelerating growth, in the First Quarter, the bond market rallied and the 10-year U.S. Treasury, which began the year at 2.27%, hit a low of 1.66% in mid-February and closed at 1.77% on March 31, 2016. As a result, Agency RMBS prices moved higher. Prices of Agency RMBS followed the general trend of the bond market as Fannie Mae 30-year 3.5% RMBS rose by 1.64% and Fannie Mae 15-year 3% RMBS rose by 1.40%. Interest rates on swaps decreased during the First Quarter and spreads widened slightly resulting in a decrease in the value of our hedge book. Overall, the performance of Agency RMBS prices more than offset the decrease in the value of our hedges, and our book value increased. At the beginning of the First Quarter, our net duration gap was at 0.74 years, declining to 0.30 years at March 31, 2016.
Prepayments remained below 8% in the First Quarter; however, as mortgage rates responded to the lower rate environment with the 30-year Fixed Mortgage average rate declining from 3.90% at December 31, 2015 to a low of around 3.65% in February 2016, refinancings increased. We expect homeowners to respond to the lower rates and expect prepayments on our portfolio assets to increase in the coming months, which we expect to impact our portfolio yield. With the current Fed position of keeping interest rates lower for longer, we anticipate less volatility in the prices of Agency RMBS securities. As of March 31, 2016 we had substantial available liquidity of $1.1 billion, or 66.6% of our equity, and leverage stood at 6.76 to 1, relatively flat from the December 31, 2015 level of 6.77 to 1.

Government Activity

A clear gulf continues to exists between factions in Congress regarding housing finance reform. The FHFA and both houses of Congress have each discussed and considered separate measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. We anticipate debate and discussion on residential housing and mortgage reform to continue in 2016 and well into 2017; however, we cannot be certain if any housing and/or mortgage-related legislation will emerge from committee, or be approved by Congress, and if so what the effect will be on our business. We also believe that it is unlikely that any reforms, legislation, or other significant movement on such legislation will occur during the current presidential administration.

Recent CYS Activity in Response to These Trends

In response to the conditions in and changes to the environment described above, the Company continues to monitor, reposition, and actively manage our investment portfolio, the structure of our borrowings and our hedge positions. During the First Quarter, in response to the FHFA Final Rule we replaced $1,450 million of FHLBC Advances with repo borrowings and leverage remained stable. Our duration gap shortened to 0.30 in the First Quarter from 0.74 at the end of the Fourth Quarter. This decrease in duration gap helped our book value per common share which increased to $9.46 at the end of the First Quarter from $9.36 at the end of the Fourth Quarter, after taking into account our $0.26 dividend in the First Quarter.

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Financial Condition

The Agency RMBS in our portfolio were purchased at a net premium to their face value due to the average interest rates on these investments being higher than the market rates at the time of purchase. As of March 31, 2016 and December 31, 2015 we had approximately $459.0 million and $462.6 million, respectively, of unamortized premium included in the cost basis of our investments. Our Debt Securities portfolio including TBA Derivatives, consisted of the following assets:

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Coupon	Face Value (in 000's)	Fair Value (in 000's)	Amortized Cost Basis per Face Value (in 000's)	Weighted-Average Loan Balance (in 000's)(1)	Weighted-Average Loan Age (in months)(1)	3 Month CPR(1)(2)		Duration(3)
March 31, 2016								
15 Year Agency Mortgage Securities								
3.0%	$4,134,510	$4,324,099	$ 102.98	$278	20	6.6	%	2.36
TBA 3.0% *	146,807	153,345	103.91	n/a	n/a	n/a		2.34
3.5%	968,925	1,025,880	103.11	219	43	10.5		2.43
4.0%	131,750	140,652	101.11	168	61	14.7		2.44
4.5%	18,618	19,891	102.46	244	74	19.0		2.04
Subtotal	5,400,610	5,663,867	102.98	265	25	7.6		2.37
20 Year Agency Mortgage Securities								
4.5%	48,012	52,505	102.77	215	68	21.2		2.59
30 Year Agency Mortgage Securities								
3.5%	3,177,941	3,333,834	103.64	329	9	5.2		3.03
TBA 3.5% *	900,000	943,188	104.49	n/a	n/a	n/a		3.14
4.0%	2,481,707	2,659,171	105.31	286	16	7.8		2.74
TBA 4.0% *	47,000	50,217	106.75	n/a	n/a	n/a		2.46
4.5%	137,375	149,940	106.74	284	59	13.2		2.82
Subtotal	6,744,023	7,136,350	104.45	310	13	6.6		2.93
Agency Hybrid ARMs								
TBA 2.8% *	35,000	36,159	102.57	n/a	n/a	n/a		2.05
3.0%(4)	294,943	307,194	102.83	313	36	15.2		1.62
Subtotal	329,943	343,353	102.81	313	36	15.2		1.67
U.S. Treasuries								
0.4%	30,000	29,972	99.86	n/a	n/a	n/a		0.33
Total	$12,552,588	$13,226,047	$ 103.76	$289	19	7.4	%	2.65
December 31, 2015								
15-Year Agency Mortgage Securities								
3.0%	$4,840,936	$4,994,705	$ 103.16	$283	16	7.2	%	3.46
TBA 3.0%	222,600	229,310	103.33	n/a	n/a	n/a		3.66
3.5%	1,014,790	1,064,726	103.15	220	41	9.8		3.05
4.0%	140,196	148,692	101.13	169	58	14.8		2.84
4.5%	20,152	21,432	102.51	243	71	14.7		2.45
Subtotal	6,238,674	6,458,865	103.12	270	22	7.9		3.38
20-Year Agency Mortgage Securities								
4.5%	51,664	56,102	102.79	215	65	16.4		2.95
30-Year Agency Mortgage Securities								
3.5%	2,741,525	2,830,295	103.70	328	7	3.3		4.88
TBA 3.5%	250,000	256,739	102.39	n/a	n/a	n/a		5.15
4.0%	2,321,917	2,461,698	105.20	277	16	9.6		4.01
TBA 4.0%	323,000	341,611	105.80	n/a	n/a	n/a		3.70
4.5%	143,081	154,869	106.78	283	56	16.3		3.65
Subtotal	5,779,523	6,045,212	104.44	304	12	6.2		4.44
Agency Hybrid ARMs								

3.0%(4)	356,991	367,817	102.80	315	33	17.7		2.48
U.S. Treasuries								
0.9%	100,000	99,711	99.85	n/a	n/a	n/a		1.89
Total	$12,526,852	$13,027,707	$ 103.69	$286	18	7.6	%	3.83

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(1) TBAs are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
(2) The CPR ("Constant Prepayment Rate") represents the 3-month CPR of the Company's Agency RMBS held at March 31, 2016 and December 31, 2015. The CPR experienced by the Company during the period may differ. Securities with no prepayment history are excluded from this calculation.
(3) Duration essentially measures the market price volatility of financial instruments as interest rates change, using DV01 methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities. Source: The Yield Book®.
(4) Coupon represents the weighted-average coupon of Agency Hybrid ARMs.
* Includes TBA Derivatives with a fair value of $307.6 million at March 31, 2016.

In April 2016, the weighted average experienced CPR of the Company's Debt Securities was 14.1% .

Hedging Instruments
The Company utilizes interest rate swap and cap contracts (a "swap" or "cap", respectively) to hedge the interest rate risk associated with the financing of our Debt Securities portfolio. As of March 31, 2016, the Company held swaps with an aggregate notional of approximately $7.45 billion, a weighted-average fixed rate of 1.26%, and a weighted-average expiration of 3.1 years. The receive rate on the Company's swaps is 3-month LIBOR. At March 31, 2016, the Company had entered into caps with a notional of $2.50 billion, a weighted-average cap rate of 1.28%, and a weighted-average expiration of 3.8 years. Below is a summary of our interest rate swaps and caps as of March 31, 2016 and December 31, 2015:

			Weighted-Average			
March 31, 2016	Number of Contracts	Notional (000's)	Rate	Maturity	Duration	Fair Value (000's)
Interest Rate Swaps	19	$7,450,000	1.26%	May 2019	(2.90)	$(83,846)
Interest Rate Caps	5	2,500,000	1.28%	January 2020	(1.79)	29,325
	24	$9,950,000	1.26%	July 2019	(2.62)	$(54,521)
December 31, 2015						
Interest Rate Swaps	21	$7,950,000	1.29%	May 2019	(3.08)	$25,411
Interest Rate Caps	5	2,500,000	1.28%	January 2020	(2.39)	61,343
	26	$10,450,000	1.29%	July 2019	(2.91)	$86,754

The Company seeks to manage its exposure to interest rate risk by expanding and/or lengthening its hedging, and reducing its pay rate, if possible, when doing so. During the three months ended March 31, 2016 we terminated swaps with a combined notional of $0.50 billion with a weighted-average pay rate of 1.81%. The terminations resulted in a net realized loss of $(11.1) million for the First Quarter. After the repositioning, our weighted-average fixed pay rate on swaps decreased to 1.26% at March 31, 2016 compared to 1.29% at December 31, 2015.
Our interest rate swap and cap notional was $9.95 billion at March 31, 2016 compared to $10.45 billion at December 31, 2015, and as a percentage of our of the repo borrowings and FHLBC Advances (collectively "Total Outstanding Borrowings") increased to 96.5% at March 31, 2016 from 94.3% at December 31, 2015.
The Company does not consider TBA Derivatives as hedging instruments.

Liabilities
We finance a portion of our assets through repo borrowings and FHLBC Advances. Repo borrowings and FHLBC Advances are secured by our assets and generally bear interest rates that have historically moved in close relationship to LIBOR. At March 31, 2016 and December 31, 2015, we had liabilities pursuant to repo borrowings and FHLBC

Advances with 35 counterparties which are summarized below:

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March 31, 2016			Weighted-Average		
Original Days to Maturity	Repo Borrowings and FHLBC Advances Outstanding (000's)	Percentage of Total	Interest Rate	Remaining Days to Maturity	Original Days to Maturity
Agency RMBS					
≤ 30 Days	$2,381,447	23%	0.69%	18	28
> 30 to ≤ 60 Days	5,085,644	49%	0.68%	28	45
> 60 Days	2,828,979	27%	0.86%	118	212
Subtotal	$10,296,070	99%	0.73%	51	87
U.S. Treasuries					
≤ 30 Days	$10,899	1%	0.55%	1	1
Total	$10,306,969	100%	0.73%	51	87

December 31, 2015			Weighted-Average		
Original Days to Maturity	Repo Borrowings and FHLBC Advances Outstanding (000's)	Percentage of Total	Interest Rate	Remaining Days to Maturity	Original Days to Maturity
Agency RMBS					
≤ 30 Days	$751,592	7%	0.49%	7	30
> 30 to ≤ 60 Days	2,507,201	24%	0.48%	9	43
> 60 Days	7,055,732	66%	0.54%	37	88
Total	$10,314,525	97%	0.52%	28	73
U.S. Treasuries					
> 30 to ≤ 60 Days	$348,251	3%	(0.13)%	2	13
Total	$10,662,776	100%	0.50%	27	71

			Weighted-Average		
Original Days to Maturity	FHLBC Advances Outstanding (000's)	Percentage of Total	Interest Rate	Next Call Date	Maturity Date
Agency RMBS					
> 360 Days	$425,000	100%	1.48%	May 2016	July 2018

In addition, as of March 31, 2016, we had payable for securities purchased, a portion of which will be or, in the case of December 31, 2015, was financed through repo borrowings and FHLBC Advances, as summarized below (in thousands).

March 31, 2016

Settle Date	Face Value	Payable

April 2016	$610,251	$639,913
May 2016	285,000	297,250
Total	$895,251	$937,163

December 31, 2015

Settle Date	Face Value	Payable
January 2016	$963,097	$1,008,133
February 2016	200,000	211,550
March 2016	250,000	256,291
	$1,413,097	$1,475,974

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Summary Financial Data

(In thousands, except per share numbers)	Three Months Ended March 31, 2016	2015
Income Statement Data:		
Interest income:		
Interest income from Agency RMBS	$81,323	$80,060
Other interest income	128	790
Total interest income	81,451	80,850
Interest expense:		
Interest expense on repurchase agreements and FHLBC Advances	17,945	9,642
Net interest income	63,506	71,208
Other income (loss):		
Net realized gain (loss) on investments	1,202	18,253
Net unrealized gain (loss) on investments	162,286	75,689
Net unrealized gain (loss) on FHLBC Advances	(851)	—
Other income	463	40
Subtotal	163,100	93,982
Swap and cap interest expense	(18,398)	(27,468)
Net realized and unrealized gain (loss) on derivative instruments	(140,524)	(77,368)
Net gain (loss) on derivative instruments	(158,922)	(104,836)
Total other income (loss)	4,178	(10,854)
Expenses:		
Compensation and benefits	3,865	3,554
General, administrative and other	2,488	2,203
Total expenses	6,353	5,757
Net income (loss)	$61,331	$54,597
Dividend on preferred stock	(5,203)	(5,203)
Net income (loss) available to common stockholders	$56,128	$49,394
Net income (loss) per common share basic & diluted	$0.37	$0.31
Distributions per common share	$0.26	$0.30
Key Balance Sheet Metrics		
Average settled Debt Securities (1)	$11,905,997	$12,653,266
Average total Debt Securities (2)	$12,945,855	$14,810,062
Average repurchase agreements and FHLBC Advances (3)	$10,492,636	$10,954,377
Average Debt Securities liabilities (4)	$11,532,494	$13,111,173
Average stockholders' equity (5)	$1,714,728	$1,981,424
Average common shares outstanding (6)	151,788	160,523
Leverage ratio (at period end) (7)	6.76:1	6.77:1
Book value per common share (at period end) (8)	$9.46	$9.36
Key Performance Metrics*		
Average yield on settled Debt Securities (9)	2.74 %	2.56 %
Average yield on total Debt Securities including drop income (10)	2.71 %	2.57 %
Average cost of funds (11)	0.68 %	0.35 %
Average cost of funds and hedge (12)	1.39 %	1.36 %
Adjusted average cost of funds and hedge (13)	1.26 %	1.13 %
Interest rate spread net of hedge (14)	1.35 %	1.20 %

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Interest rate spread net of hedge including drop income (15)	1.45%	1.44%
Operating expense ratio (16)	1.48%	1.16%
Total stockholder return on common equity (17)	3.85%	3.14%

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(1) The average settled Debt Securities is calculated by averaging the month end cost basis of settled Debt Securities during the period.

(2) The average total Debt Securities (comprised of settled Debt Securities and all TBA contracts) is calculated by averaging the month end cost basis of total Debt Securities during the period.

(3) The average repurchase agreement borrowings and FHLBC Advances are calculated by averaging the month end repurchase agreements and FHLBC Advances balances during the period.

(4) The average Debt Securities liabilities are calculated by adding the average month end repurchase agreements and FHLBC Advances balances plus average unsettled Debt Securities (inclusive of TBA Derivatives) during the period.

(5) The average stockholders' equity is calculated by averaging the month end stockholders' equity during the period.

(6) The average common shares outstanding are calculated by averaging the daily common shares outstanding during the period.

(7) The leverage ratio is calculated by dividing (i) the Company's repurchase agreements and FHLBC Advances balance plus payable for securities purchased minus receivable for securities sold plus gross TBA Derivatives positions by (ii) stockholders' equity.

(8) Book value per common share is calculated by dividing total stockholders' equity less the liquidation value of preferred stock at period end divided by common shares outstanding at period end.

(9) The average yield on Debt Securities for the period is calculated by dividing total interest income by average settled Debt Securities.

(10) The average yield on total Debt Securities including drop income for the period is calculated by dividing total interest income plus drop income by average total Debt Securities. Drop income was $6.3 million and $14.1 million for the three months ended March 31, 2016 and 2015, respectively. Drop income is a component of our net realized and unrealized gain (loss) on investments and derivative instruments on our unaudited consolidated statements of operations. Drop income is the difference between the spot price and the forward settlement price for the same security on trade date. This difference is also the economic equivalent of the assumed net interest margin (yield minus financing costs) of the bond from trade date to settlement date. We derive drop income through utilization of forward settling transactions.

(11) The average cost of funds for the period is calculated by dividing repurchase agreement and FHLBC Advances interest expense by average repurchase agreements and FHLBC Advances for the period.

(12) The average cost of funds and hedge for the period is calculated by dividing repurchase agreement, FHLBC Advances and swap and cap interest expense by average repurchase agreements and FHLB Advances.

(13) The adjusted average cost of funds and hedge for the period is calculated by dividing repurchase agreement, FHLBC Advances and swap and cap interest expense by average Debt Securities liabilities.

(14) The interest rate spread net of hedge for the period is calculated by subtracting average cost of funds and hedge from average yield on settled Debt Securities.

(15) The interest rate spread net of hedge including drop income for the period is calculated by subtracting adjusted average cost of funds and hedge from average yield on total Debt Securities including drop income.

(16) The operating expense ratio for the period is calculated by dividing operating expenses by average stockholders' equity.

(17) The total stockholder return on common equity is calculated as the change in book value plus dividend distribution on common stock divided by book value per common share at the end of the prior period.

* All percentages are annualized except total stockholder return on common equity.

Core Earnings

"Core earnings" represents a non-U.S. GAAP financial measure and is defined as net income (loss) available to common stockholders excluding net realized and unrealized gain (loss) on investments, net realized and unrealized gain (loss) on derivative instruments and net unrealized gain (loss) on FHLBC Advances. Management uses core earnings to evaluate the effective yield of the portfolio after operating expenses. In addition, management utilizes core earnings as a key metric in conjunction with other portfolio and market factors to determine the appropriate leverage and hedging ratios, as well as the overall structure of the portfolio. The Company believes that providing users of the Company's financial information with such measures, in addition to the related GAAP measures, gives investors greater transparency and insight into the information used by the Company's management in its financial and operational decision-making.

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The primary limitation associated with core earnings as a measure of our financial performance over any period is that it excludes the effects of net realized and unrealized gain (loss) on investments in securities, derivatives, and long-term indebtedness. In addition, our presentation of core earnings may not be comparable to similarly-titled measures used by other companies, which may employ different calculations. As a result, core earnings should not be considered a substitute for our U.S. GAAP net income (loss) as a measure of our financial performance or any measure of our liquidity under U.S. GAAP.

(In thousands)	Three Months Ended March 31,	
Non-U.S. GAAP Reconciliation:	2016	2015
Net income (loss) available to common stockholders	$56,128	$49,394
Net realized (gain) loss on investments	(1,202)	(18,253)
Net unrealized (gain) loss on investments	(162,286)	(75,689)
Net realized and unrealized (gain) loss on derivative instruments	140,524	77,368
Net unrealized (gain) loss on FHLBC Advances	851	—
Core earnings	$34,015	$32,820

Results of Operations

Commencing with the report on Form 10-K for the year ended December 31, 2015, "Swap and cap interest expense", which up through September 30, 2015 was recognized as a separate component of "Total interest expense" in the consolidated statement of operations, is now recognized as a component of "Net gain (loss) on derivative instruments". This reclassification was made in order to record income, expenses and fair value changes related to derivative instruments in one line item in the consolidated statements of operations, consistent with common industry practice. Prior period balances have been reclassified to conform to the current period presentation.

The following table provides GAAP measures of interest expense and net interest income and details with respect to reconciling these line items on a non-GAAP basis for each respective period.

	Three Months Ended March 31,	
	2016	2015
Net interest income	$63,506	$71,208
Swap and cap interest expense	18,398	27,468
Economic net interest income	$45,108	$43,740
Interest expense on repurchase agreements and FHLBC Advances	$17,945	$9,642
Swap and cap interest expense	18,398	27,468
Economic interest expense	$36,343	$37,110

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Net Income (Loss)

Net income available to common stockholders increased $6.7 million to $56.1 million for the three months ended March 31, 2016, compared to $49.4 million for the three months ended March 31, 2015, primarily due to higher total interest income, lower swap and cap interest expense and net gains on investments in the First Quarter compared to the first quarter of 2015. The major components of this increase are detailed below.

Interest Income and Asset Yield

Our principal source of income is interest income that we earn on our investment securities portfolio. Interest income, which consists primarily of interest income on Debt Securities, increased by $0.6 million to $81.5 million for the three months ended March 31, 2016, as compared to $80.9 million for the three months ended March 31, 2015. Our interest income increased primarily due to an increase in the average yield on average settled debt securities even though the size of our average settled debt securities balance decreased. The most significant factors in this increase are changes both in the size of our portfolio and yield on investments, as shown below (in thousands):

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Change in Size			Change in Yield			Change in Size & Yield		
Change in average settled	$(747,269	)	Change in average yield	0.181	%	Change in average settled	$(747,269	)
2015 average yield	2.556	%	2015 average settled	$12,653,266		Change in average yield	0.181	%
Change	$(4,775	)	Change	$5,713		Change	$(337	)
						Total change	$601	

Our average settled Debt Securities for the three months ended March 31, 2016 was $11.9 billion, compared to $12.7 billion for the three months ended March 31, 2015. Our annualized yield on average settled Debt Securities for the three months ended March 31, 2016 was 2.74%, compared to 2.56% for the three months ended March 31, 2015. Our yield increase was primarily a function of lower paydown losses and lower amortization expense in the current quarter than in the comparable period. Our annualized rate of portfolio prepayment for the three months ended March 31, 2016 was 7.6%, which was lower than the rate of 10.3% for the three months ended March 31, 2015. Our amortization expense was $15.9 million for the three months ended March 31, 2016, a decrease of $5.6 million from $21.5 million for the three months ended March 31, 2015.

Economic Interest Expense and Cost of Funds

Economic interest expense for the three months ended March 31, 2016, which consists of interest expense from repo borrowings, FHLBC Advances, and interest rate swap and cap contracts, decreased $0.8 million to $36.3 million, as compared to $37.1 million for the three months ended March 31, 2015. Interest expense from repo borrowings and FHLBC Advances increased by $8.3 million to $17.9 million for the three months ended March 31, 2016, compared to $9.6 million for the three months ended March 31, 2015 due to higher cost of funds. Our weighted-average cost of funds rose to 0.68% in the First Quarter from 0.35% in the first quarter of 2015. Our average repo borrowings and FHLBC Advances decreased to $10,492.6 million for the three months ended March 31, 2016 from $10,954.4 million for the three months ended March 31, 2015, consistent with the smaller settled portfolio that existed at March 31, 2016 as compared to the portfolio at March 31, 2015. The table shown below illustrates the result of changes to the amount outstanding and rates on repo borrowings and FHLBC Advances during the three months ended March 31, 2016 and 2015 (in thousands):

Change in Size			Change in Rate			Change in Size & Yield		
Change in average outstanding	$(461,741	)	Change in average rate	0.332	%	Change in average outstanding	$(461,741	)
2015 average rate	0.352	%	2015 average outstanding	$10,954,377		Change in average rate	0.332	%
Change	$(406	)	Change	$9,092		Change	$(383	)
						Total change	$8,303	

Included in the First Quarter interest expense figure above is interest expense of $1.6 million on $425.0 million of FHLBC Advances with an initial maturity greater than one year and a weighted average rate of 1.48%.

Swap and cap interest expense decreased by $9.1 million, to $18.4 million in the three months ended March 31, 2016 compared to $27.5 million in the three months ended March 31, 2015. The decrease in interest rate swap and cap expense was in part the result of a decrease in the average aggregate swap and cap notional by $150.0 million to $10,075.0 million in the three months ended March 31, 2016 from $10,225.0 million in the three months ended March 31, 2015, and more significantly by the decrease in the average swap and cap rate to 0.73% in the three months ended March 31, 2016 from 1.08% in the three months ended March 31, 2015, as shown in the table below (in thousands):

Change in Size			Change in Rate			Change in Size & Rate		
Change in average notional outstanding	$(150,000	)	Change in average rate	(0.344	)%	Change in average notional outstanding	$(150,000	)
2015 average rate	1.075	%	2015 average notional outstanding	$10,225,000		Change in average rate	(0.344	)%
Change	$(403	)	Change	$(8,796	)	Change	$129	
						Total change	$(9,070	)

Our annualized weighted-average cost of funds including hedge was 1.39% for the three months ended March 31, 2016, as compared to 1.36% for the three months ended March 31, 2015. The components of our cost of funds including hedge are (i) rates on our repo borrowings and FHLBC Advances, (ii) rates on our interest rate swaps and caps, (iii) the size of our repo borrowings and FHLBC Advances, and (iv) the total notional amount of the interest rate swaps and caps.

Economic Net Interest Income

Our economic net interest income for the three months ended March 31, 2016 was $45.1 million, and our interest rate spread, net of hedge, was 1.35%, compared to economic net interest income of $43.7 million and interest rate spread, net of

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hedge, of 1.20% for the three months ended March 31, 2015. The increase in our net interest income was due principally to lower amortization expense and lower swap and cap interest expense in the three months ended March 31, 2016 compared to March 31, 2015. While our economic net interest income is influenced significantly by the size of our portfolio and overall interest rate levels, we believe our interest rate spread net of hedge is an important performance indicator.

Other Income (Loss)

For the three months ended March 31, 2016, our total other income (loss) was $4.2 million compared to loss of $(10.9) million for the three months ended March 31, 2015. The major components contributing to the change in total other income (loss) are discussed below.

Gain (Loss) on Investments and Drop Income

During the three months ended March 31, 2016, our net realized and unrealized gain (loss) on investments increased by $69.6 million to a $163.5 million net gain, compared to a net gain of $93.9 million for the three months ended March 31, 2015. This change was driven by an increase in prices of our Agency RMBS for the three months ended March 31, 2016, contrasted with smaller increases in prices of all our Agency RMBS for the three months ended March 31, 2015. For example, during the three months ended March 31, 2016, the price of a 30-year 4.0% Agency RMBS increased $1.06 to $106.92, and during the three months ended March 31, 2015, it increased $0.18 to $106.95. During the three months ended March 31, 2016, the price of a 15-year 3.0% Agency RMBS increased $1.04 to $104.52, and during the three months ended March 31, 2015, it increased $0.85 to $104.83.

During the three months ended March 31, 2016 and 2015, we generated drop income of approximately $6.3 million and $14.1 million, respectively. The lower drop income during the three months ended March 31, 2016 was primarily because financing in the forward market made it more advantageous to settle positions than in the three months ended March 31, 2015 and also due to lower volumes of forward settling transactions from which we derive drop income. During the three months ended March 31, 2016, the average balance in the combined TBA Securities and TBA Derivatives portfolio was $1,060.9 million, a decrease of $962.1 million compared to the average balance of $2,023.0 million for the three months ended March 31, 2015. Drop income is a component of our net realized and unrealized gain (loss) on investments and our net realized and unrealized gain (loss) on derivative instruments on our unaudited consolidated statements of operations and is therefore excluded from core earnings. Drop income is the difference between the spot price and the forward settlement price for the same Agency RMBS on the trade date. This difference is also the economic equivalent of the assumed interest rate spread net of hedge (yield less financing costs) of the Agency RMBS from trade date to settlement date. The Company derives drop income through utilization of forward settling transactions of Agency RMBS. The TBA market became slightly less attractive in the First Quarter and we settled more cash bonds than during the first quarter of 2015.

Net unrealized gain (loss) on FHLBC Advances

We held $425.0 million of FHLBC Advances that had an initial maturity greater than one year and a weighted average maturity of 0.9 years at March 31, 2016. We had no FHLBC Advances with an initial maturity more than one year for the three months ended March 31, 2015. For three months ended March 31, 2016 the net unrealized loss on FHLBC Advances was $(0.9) million. The loss was primarily due to falling interest rates in which the fair value of the liability increased during the First Quarter as 3-year swap rates decreased from 1.42% on December 31, 2015 to 0.95% at March 31, 2016.

Gain (Loss) on Derivative Instruments

As explained above in economic net interest income, swap and cap interest expense of $18.4 million and $27.5 million for the three months ended March 31, 2016 and 2015, respectively, a component of net gain (loss) on derivative instruments in other income (loss), is excluded from the discussion in this caption as already described above.

Net gain (loss) on derivative instruments is comprised of net realized and unrealized gain (loss) on swap and cap contracts and TBA Derivatives. Net realized and unrealized gain (loss) on derivative instruments was $(140.5) million (comprised of $(148.0) million net realized and unrealized loss on swap and cap contracts, and $7.5 million net realized and unrealized gain on TBA Derivatives) for the three months ended March 31, 2016 compared to a loss of $(77.4) million (comprised of $(77.4) million net realized and unrealized loss on swap and cap contracts, and $0.0 million net realized and unrealized gain on TBA Derivatives) for the three months ended March 31, 2015. The change in net realized and unrealized gain (loss) on derivative instruments for the three months ended March 31, 2016 and 2015 was primarily due to decrease in interest rates which caused the value of our derivative instruments to decrease in both periods. Our swaps and caps are designed principally to protect us in an environment of increasing interest rates. In the First Quarter we responded to declining interest rates by terminating some of our swaps, on which we realized a loss; however, continued decreasing interest rates and significant volatility resulted in unrealized losses on our swaps and caps. During the three months ended March 31, 2016 and 2015, 5-year swap rates decreased by 57 bps and decreased by 24 bps, respectively.

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Operating Expenses

Operating expenses increased to $6.4 million for the three months ended March 31, 2016 compared to $5.8 million for the three months ended March 31, 2015 mostly due to increase in employee compensation expense.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations for repo borrowings and FHLBC Advances, interest expense on repo borrowings and FHLBC Advances, and office leases at March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016	Within One Year	One to Three Years	Three to Five Years	Thereafter	Total
Repurchase agreements and FHLBC Advances	$10,306,969	$ —	$ —	$ —	$10,306,969
Interest expense on repurchase agreements and FHLBC Advances, based on rates at March 31, 2016	20,398	—	—	—	20,398
Long-term operating lease obligation	348	721	761	902	2,732
Total	$10,327,715	$ 721	$ 761	$ 902	$10,330,099

December 31, 2015	Within One Year	One to Three Years	Three to Five Years	Thereafter	Total
Repurchase agreements FHLBC Advances	$10,662,776	$ 425,000	$ —		$11,087,776
Interest expense on borrowings under repurchase agreements and FHLBC Advances, based on rates at December 31, 2015	17,972	9,564	—		27,536
Long-term operating lease obligation	327	716	756	999	2,798
Total	$10,681,075	$ 435,280	$ 756	$ 999	$11,118,110

At March 31, 2016 and December 31, 2015, we held the following interest rate swap and cap contracts (in thousands):

As of March 31, 2016

Interest Rate Swaps Expiration Year	Weighted-Average Fixed Pay Rate	Notional Amount	Fair Value
2017	0.82%	$2,250,000	$(957)
2018	1.16%	2,000,000	(13,163)
2019	1.64%	300,000	(6,148)
2020	1.49%	2,000,000	(31,437)
2022	1.93%	900,000	(32,141)
Total	1.26%	$7,450,000	$(83,846)

Interest Rate Caps Expiration Year	Weighted-Average Cap Rate	Notional Amount	Fair Value
2019	1.34%	$800,000	$5,823
2020	1.25%	1,700,000	23,502
Total	1.28%	$2,500,000	$29,325

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As of December 31, 2015

Interest Rate Swaps Expiration Year	Weighted-Average Fixed Pay Rate		Notional Amount	Fair Value
2017	0.82	%	$2,250,000	$8,968
2018	1.16	%	2,000,000	2,913
2019	1.75	%	800,000	(7,148)
2020	1.49	%	2,000,000	19,989
2022	1.93	%	900,000	689
Total	1.29	%	$7,950,000	$25,411

Interest Rate Caps Expiration Year	Weighted-Average Cap Rate		Notional Amount	Fair Value
2019	1.34	%	$800,000	$13,811
2020	1.25	%	1,700,000	47,532
Total	1.28	%	$2,500,000	$61,343

We enter into certain agreements that contain a variety of indemnification obligations, principally with our brokers and counterparties for interest rate swap contracts and repo borrowings. The maximum potential future payment amount we could be required to pay under these indemnification obligations is unlimited. We have not incurred any costs to defend a lawsuit or settle claims related to these indemnification obligations. As a result, the estimated fair value of these agreements is not material to our unaudited consolidated financial statements. Accordingly, we recorded no liabilities for these agreements as of March 31, 2016 and December 31, 2015. In addition, as of March 31, 2016 and December 31, 2015, we had $937.2 million and $1,476.0 million of payable for securities purchased, respectively, a portion of which either will be or was financed through repo borrowings and/or FHLB Advances. A summary of our payable for securities purchased as of March 31, 2016 and December 31, 2015 is included in Financial Condition—Liabilities.

Off-Balance Sheet Arrangements

As of March 31, 2016 and December 31, 2015, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of March 31, 2016 and December 31, 2015, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or had any intent to provide funding to any such entities.

We may also seek to obtain other sources of financing depending on market conditions. We may finance the acquisition of agency RMBS by entering into TBA dollar roll transactions in which we would sell a TBA contract for current month settlement and simultaneously purchase a similar TBA contract for a forward settlement date. Prior to the forward settlement date, we may choose to roll the position out to a later date by entering into an offsetting TBA position, net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a later settlement date. In such transactions, the TBA contract purchased for a forward settlement date is priced at a discount to the TBA contract sold for settlement/pair off in the current month. The discount is the difference between the spot price and the forward settlement price for the same Agency RMBS on trade date and is referred to by the Company as drop. This difference is also the economic equivalent of the assumed net interest spread (yield less financing costs) of the Agency RMBS from trade date to settlement date. Consequently, dollar roll transactions accounted for as TBA Derivatives represent a form of off-balance sheet financing. In evaluating our overall leverage at risk, we consider both our on-balance and off-balance sheet financing.

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Liquidity and Capital Resources

Our primary sources of funds are repo borrowings, FHLBC Advances, equity offerings, asset sales and monthly principal and interest payments on our investment portfolio. Because the level of our borrowings can be adjusted on a daily basis, the level of cash carried on our balance sheet is significantly less important than the potential liquidity available under our borrowing arrangements. We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on borrowings, maintenance of any margin requirements and the payment of cash dividends as required for our continued qualification as a REIT. To qualify as a REIT, we must distribute annually at least 90% of our net taxable income. To the extent that we annually distribute all of our net taxable income in a timely manner, we will generally not be subject to federal and state income taxes. We currently expect to distribute all or substantially all of our taxable income in a timely manner so that we are not subject to federal and state income taxation. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital from operations.

As of March 31, 2016 and December 31, 2015, we had approximately $1,137.9 million and $1,121.1 million, respectively, in Agency RMBS, U.S. Treasuries, and cash available to satisfy future margin calls. To date, we have maintained sufficient liquidity to meet margin calls, and we have never been unable to satisfy a margin call, although no assurance can be given that we will be able to satisfy requests from our lenders to post additional collateral in the future. During the three months ended March 31, 2016, we maintained an average liquidity level of approximately 59% and never less than 50% of stockholders' equity.

During the First Quarter, we had average repo borrowings and FHLBC Advances outstanding of $10,492.6 million with an average cost of funds of 0.68%, and during the first quarter of 2015 we had average repo borrowings and FHLBC Advances of $10,954.4 million with an average cost of funds of 0.35%. At March 31, 2016, repo borrowing financing was generally stable with interest rates between 0.55% and 0.88% for 30-90 day repo borrowings. At March 31, 2016, FHLBC Advances totaled $649.6 million at fair value, with a weighted average rate of 1.15% and remaining term of 244 days (which reflects a final maturity date of February 19, 2017). Certain FHLBC Advances had an original term of three years and were callable by the Company after the one-year anniversary of the advance and thereafter every six months. As with our repo borrowings, if the value of any assets pledged to FHLBC as collateral for advances decreases, the FHLBC could require posting of additional collateral to the amount of advances outstanding. During the First Quarter, as mentioned above, on January 12, 2016, the FHFA issued a Final Rule amending its regulations governing FHLB membership criteria for captive insurance companies, which has terminated our ability to access additional advances from the FHLBC. As a direct result of the Final Rule, the Company has reduced outstanding FHLBC Advances to $650 million as of March 31, 2016, and all outstanding advances with the FHLBC are required to be repaid on or before February 19, 2017. The Company replaced $1,450.0 million of FHLBC Advances with its existing repo counterparties and expects that it will be able to replace the remaining FHLBC Advances with existing repo counterparties. The Company’s FHLBC membership and activity stock totaling $26.0 million at March 31, 2016 is expected to be redeemed in full when FHLBC Advances are repaid.

To limit our exposure to counterparty credit risk, we diversify our funding across multiple counterparties and by counterparty region. As of March 31, 2016 and December 31, 2015, we had access to 48 and 48 counterparties respectively, subject to certain conditions, located throughout North America, Europe and Asia. At March 31, 2016, FHLBC Advances were 6.31% of the Total Outstanding Borrowings, and repo borrowings with any individual counterparty were less than 7% of our Total Outstanding Borrowings. The table below includes a summary of our repo borrowings and FHLBC Advances funding by number of repo borrowings/FHLBC Advances counterparties, and counterparty region as of March 31, 2016 and December 31, 2015:

	March 31, 2016		
Counterparty Region	Number of Counterparties	Percent of Total Outstanding Borrowings	
North America	22	60.9	%
Europe	8	22.7	%

Asia	5	16.4	%
	35	100.0	%

	December 31, 2015		
Counterparty Region	Number of Counterparties	Percent of Total Outstanding Borrowings	
North America	22	64.4	%
Europe	8	21.8	%
Asia	5	13.8	%
	35	100.0	%

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Our repurchase agreements contain typical provisions and covenants as set forth in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association. Our repurchase agreements generally require us to transfer additional securities to the counterparty in the event the value of the securities then held by the counterparty in the margin account falls below specified levels and contain events of default in cases where we or the counterparty breaches our respective obligations under the agreement.

The credit arrangement pursuant to which CYS Insurance maintains FHLBC Advances (the "FHLBC Arrangement") involves observance by CYS Insurance of the rules of FHLBC membership, is subject to the FHLBC's credit policy, and is governed by the terms and conditions of a blanket security agreement, and the consent and guaranty of the Company. The FHLBC Arrangement requires CYS Insurance to transfer additional securities to the FHLBC in the event the value of the securities then held by the FHLBC falls below specified levels, and contains events of default in cases where we or the FHLBC breaches our respective obligations under the FHLBC Arrangement. An event of default or termination event under the FHLBC Arrangement would give the FHLBC the option to terminate all FHLBC Advances existing with us and make any amount due by us to the FHLBC immediately payable. As mentioned above, on January 12, 2016, the FHFA issued a Final Rule amending its regulations governing FHLB membership criteria for captive insurance companies, which has terminated our ability to access additional advances from the FHLBC.

We receive margin calls from our counterparties in the ordinary course of business similar to other entities in the specialty finance business. We receive two types of margin call from our counterparties. The first, known as a "factor call", is a margin call that occurs periodically and relates to the timing difference between the reduction of principal balances of our Agency RMBS, due to monthly principal payments on the underlying mortgages, and the receipt of the corresponding cash. The second type of margin call we may receive is a "valuation call", which occurs due to market and interest rate movements. Both factor and valuation margin calls occur if the total value of our assets pledged as collateral to a counterparty drops beyond a threshold level, typically between $100,000 and $500,000 (although no such minimum applies under the FHLBC Arrangement). Both types of margin call require a dollar for dollar restoration of the margin shortfall. Similarly, we may initiate a margin call to a counterparty when the value of our assets pledged as collateral with the counterparty increases above the threshold level, thereby increasing our liquidity. All unrestricted cash plus any unpledged securities are available to satisfy margin calls.

Our collateral is generally valued on the basis of prices provided by recognized bond market sources agreed to by the parties. Inputs to the models used by pricing sources may include, but are not necessarily limited to, reported trades, executable bid and asked prices, broker quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. Our master agreements for repo borrowing transactions contain mostly standard provisions for the valuation of collateral. These agreements typically provide that both the repurchase seller (the borrower) and the repurchase buyer (the lender) value the collateral on a daily basis. Each party uses prices that it obtains from generally recognized pricing sources, or the most recent closing bid quotation from such a source. If the buyer, or the seller, as the case may be, determines that additional collateral is required, it may call for the delivery of such collateral. Under certain of our repurchase agreements, in limited circumstances, such as when a pricing source is not available, our lenders have the right to determine the value of the collateral we have provided to secure our repurchase borrowings. In instances where we have agreed to permit our lenders to make a determination of the value of such collateral, such lenders are expected to act reasonably and in good faith in making such valuation determinations.

An event of default or termination event under the standard master repurchase agreement would give our counterparty the option to terminate all repurchase transactions existing with us and make any amount due by us to the counterparty immediately payable.

During the three months ended March 31, 2016 and 2015, we recorded $348.5 million and $462.4 million of principal repayments, respectively, and received $82.0 million and $81.4 million of interest payments, respectively. We held cash of $6.3 million and $7.2 million at March 31, 2016 and December 31, 2015, respectively. For the three months ended March 31, 2016 and 2015, net cash provided by operating activities was $36.2 million and $53.9 million, respectively.

Our investment portfolio is comprised principally of highly liquid Agency RMBS guaranteed by Freddie Mac or Fannie Mae, and Ginnie Mae RMBS and U.S. Treasuries both backed by the full faith and credit of the U.S. government. We regularly monitor the creditworthiness of the U.S. government. While the U.S. government has had its credit rating downgraded in recent years by one of the credit rating agencies, it remains one of the most secure creditors in the world as of March 31, 2016.

We may increase our capital resources by obtaining long-term credit facilities or making public or private offerings of equity or debt securities. Such financings will depend on market conditions for capital raises and for the investment of any proceeds. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, it may have an adverse effect on our business and results of operations.

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From time to time we raise capital through the sale and issuance of our capital stock. On May 23, 2014, we filed an automatically effective shelf registration statement on Form S-3 with the SEC. We may offer and sell, from time to time, shares of common stock, preferred stock and debt securities in one or more offerings pursuant to the prospectus that is a part of the registration statement. As of March 31, 2016, we had not issued any shares of common stock, preferred stock or debt securities under the prospectus.

Another vehicle to raise capital is our Direct Share Purchase Program ("DSPP"), through which stockholders may purchase additional shares of common stock by reinvesting some or all of the cash dividends received on shares of common stock. Stockholders may also make optional cash purchases of shares of common stock subject to certain limitations detailed in the plan prospectus. We did not issue any shares under the plan during the three months ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015, there were approximately 4.1 million shares available for issuance under the DSPP.

We also repurchase our capital stock from time to time. On November 15, 2012, the Company announced that its Board of Directors authorized the repurchase of shares of the Company’s common stock having an aggregate value of up to $250 million. Pursuant to this program, through July 20, 2014, the Company repurchased approximately $115.7 million in aggregate value of its shares of common stock on the open market. On July 21, 2014, the Company announced that its Board of Directors authorized the repurchase of shares of the Company's common stock having an aggregate value of up to $250 million, which included the approximately $134.3 million available for repurchase under the November 2012 authorization. Subsequently in 2014, we repurchased 172,549 shares for an aggregate of approximately $1.5 million. For the three months ended March 31, 2016, we repurchased 510,618 shares of the Company's common stock at a weighted-average purchase price of $7.82 per share, for an aggregate of approximately $4.0 million. Accordingly, the Company had approximately $156.8 million authorized to repurchase shares of its common stock as of March 31, 2016.

Quantitative and Qualitative Disclosures about Short-Term Borrowings

The following table discloses quantitative data about our repo borrowings and short-term FHLBC advances during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(In millions)	2016	2015
Outstanding at period end	$10,307	$10,715
Weighted-average rate at period end	0.73 %	0.34 %
Average outstanding during period [1]	$10,493	$10,954
Weighted-average rate during period	0.68 %	0.35 %
Largest month end balance during period	$11,088	$11,198

(1) Calculated based on the average month end balance of repurchase agreements and FHLBC Advances with initial maturities less than one year.

The Company's borrowing rates were higher in the three months ended March 31, 2016 than in the corresponding three months ended ended March 31, 2015 due primarily to the FOMC raising the federal funds rate by 25 bps on December 16, 2015. Overall we continue to experience a stable borrowing environment. During the three months ended March 31, 2016 CYS has replaced $1,450.0 million of FHLBC Advances with repo borrowings from its existing counterparties. This change did not have a significant impact on our total interest expense. CYS Insurance has $650.0 million of the FHLBC Advances that are required to be repaid on or prior to February 19, 2017. We were able to replace borrowings from FHLBC with borrowings from existing counterparties. From quarter to quarter, fluctuations occur in our repo borrowings and FHLBC Advances that are well correlated with the expansion and contraction of our investment portfolio. Though it varies by quarter, we currently require borrowings for approximately 80-85 percent of our investment portfolio.

At March 31, 2016 and December 31, 2015, our amount at risk with any individual counterparty related to our repo borrowings or FHLBC Advances was less than 3.2% and 2.3% of stockholders' equity, respectively, and our repo borrowings or FHLBC Advances with any individual counterparty were less than 5.0% and 14.7% of our total assets, respectively.

Inflation

Our assets and liabilities are sensitive to interest rate and other related factors to a greater degree than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with U.S. GAAP and our dividend distributions are determined by our Board of Directors based in part on our REIT taxable income as calculated according to the requirements of the Internal Revenue Code. In each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk
As of March 31, 2016 and December 31, 2015, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do believe that risk can be quantified from historical experience, and actively managed, to earn sufficient compensation to justify taking risks and to maintain capital levels consistent with the risks we undertake. Our Board of Directors exercises oversight of risk management in many ways, including overseeing our senior management’s risk-related responsibilities and reviewing management and investment policies and performance against these policies and related benchmarks. See "Business—Risk Management Strategy" in our 2015 Annual Report for a further discussion of our risk management practices.
Interest Rate Risk
We are subject to interest rate risk in connection with our investments in Agency RMBS collateralized by ARMs, hybrid ARMs and fixed rate mortgage loans and our related debt obligations, which are generally repo borrowings of limited duration that are periodically refinanced at current market rates. We seek to manage this risk through utilization of derivative contracts, primarily interest rate swap and cap contracts.
Effect on Net Interest Income. We fund our investments in long-term Agency RMBS collateralized by ARMs, hybrid ARMs and fixed rate mortgage loans with short-term repo borrowings and FHLBC Advances. During periods of rising interest rates, the borrowing costs associated with those Agency RMBS tend to increase while the income earned on such Agency RMBS (during the fixed rate component of such securities) may remain substantially unchanged. This results in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses.
We are a party to interest rate swap and cap contracts as of March 31, 2016 and December 31, 2015 described in detail under Item 2. "Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments" in this Quarterly Report.
Hedging techniques are partly based on assumed levels of prepayments of our Agency RMBS. If prepayments are slower or faster than assumed, the life of the Agency RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.
Effect on Fair Value. Another component of interest rate risk is the effect changes in interest rates will have on the fair value of our assets. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments.
We assess our interest rate risk primarily by estimating the duration of our assets and the duration of our liabilities. Duration, in its simplest form, measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different durations for the same securities.
Extension Risk. We invest in Agency RMBS collateralized by hybrid ARMs, which have interest rates that are fixed for the first few years of the loan (typically three, five, seven or ten years) and thereafter reset periodically on the same basis as Agency RMBS collateralized by ARMs. We compute the projected weighted-average life of our Agency RMBS collateralized by hybrid ARMs based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when Agency RMBS collateralized by fixed rate or hybrid ARMs is acquired with borrowings, we may, but are not required to, enter into an interest rate swap contract or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated weighted-average life of the fixed rate portion of the related Agency RMBS. This strategy is designed to protect us from rising interest rates by fixing our borrowing costs for the duration of the fixed rate period of the collateral underlying the related Agency RMBS.
We have structured our swaps to expire in conjunction with the estimated weighted-average life of the fixed period of the mortgages underlying our Agency RMBS portfolio. However, in a rising interest rate environment, the weighted-average life of the fixed rate mortgages underlying our Agency RMBS could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the term of the hedging instrument while the income earned on the remaining Agency RMBS would remain fixed for a period of time. This situation may also cause the market value of our Agency RMBS to decline with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Interest Rate Cap Risk. Both the ARMs and hybrid ARMs that collateralize our Agency RMBS are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security's interest yield may change during any given period. However, our borrowing costs will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, the interest costs on our borrowings could increase without limitation by caps while the interest rate yields on our Agency RMBS would effectively be limited by caps. This problem will be magnified to the extent that we acquire

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Agency RMBS that are collateralized by hybrid ARMs that are not fully indexed. In addition, the underlying mortgages may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our Agency RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk. We intend to fund a substantial portion of our acquisitions of Agency RMBS with borrowings that, after the effect of hedging, have interest rates based on indices and repricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and repricing terms of the Agency RMBS. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our Agency RMBS and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Therefore, our cost of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations. To manage interest rate mismatches, we may utilize the hedging strategies discussed above.

Our analysis of risks is based on management’s experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results reflected herein.

Prepayment Risk

Prepayments are the full or partial repayment of principal prior to the original contractual maturity of a mortgage loan, and typically occur due to refinancing of mortgage loans. Prepayment rates for existing Agency RMBS generally increase when prevailing mortgage interest rates fall, and vice-versa. In addition, prepayment rates on Agency RMBS collateralized by ARMs and hybrid ARMs generally increase when the difference between long-term and short-term interest rates declines or becomes negative, and vice-versa. Additionally, we own Agency RMBS that were purchased at a premium. The prepayment of such Agency RMBS at a rate faster than anticipated would result in a write-off of any remaining capitalized premium amount.

We seek to manage our prepayment risk by investing in Agency RMBS with (i) a variety of prepayment characteristics, (ii) prepayment prohibitions and penalties and (iii) prepayment protections, as well as by balancing Agency RMBS purchased at a premium with Agency RMBS purchased at a discount.

Effect on Fair Value and Net Income

Another component of interest rate risk is the effect that changes in interest rates will have on the fair value of our assets and our net income exclusive of the effect on fair value. We face the risk that the fair value of our assets and net interest income will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We assess our interest rate risk primarily by estimating the duration of our assets and of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different durations for the same securities.

The following sensitivity analysis table estimates the impact of our interest rate-sensitive investments and repo borrowing liabilities on the fair value of our assets and our net income, exclusive of the effect of changes in fair value on our net income, at March 31, 2016 and December 31, 2015, assuming a static portfolio and that rates instantaneously fall 25, 50 and 75 bps and rise 25, 50 and 75 bps:

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March 31, 2016

Change in Interest Rates	Projected Change in Our Net Income [1]	Projected Change in the Fair Value of Our Assets (including hedging instruments) [1]	Projected Change in Stockholders' Equity
- 75 basis points	7.75 % [2]	(0.18)%	(1.36)%
- 50 basis points	6.72 % [2]	0.04 %	0.33 %
- 25 basis points	5.04 % [2]	0.07 %	0.57 %
No Change	— %	— %	— %
+ 25 basis points	(5.16)%	(0.20)%	(1.53)%
+ 50 basis points	(10.31)%	(0.55)%	(4.23)%
+ 75 basis points	(15.47)%	(1.01)%	(7.82)%

December 31, 2015

Change in Interest Rates	Projected Change in Our Net Income	Projected Change in the Fair Value of Our Assets (including hedging instruments) [1]	Projected Change in Stockholders' Equity
- 75 basis points	5.56 % [2]	0.34 %	2.66 %
- 50 basis points	4.45 % [2]	0.39 %	2.99 %
- 25 basis points	2.22 % [2]	0.26 %	2.05 %
No Change	— %	— %	— %
+ 25 basis points	(5.56)%	(0.39)%	(2.99)%
+ 50 basis points	(11.12)%	(0.89)%	(6.87)%
+ 75 basis points	(16.67)%	(1.48)%	(11.43)%

(1) Analytics provided by The Yield Book® Software.

(2) Given the historically low level of interest rates at March 31, 2016 and December 31, 2015, we reduced 3-month LIBOR and our repo borrowing rates by 10, 20 and 25 bps for the down 10, 25 and 35 bps net income scenarios, respectively. All other interest rate-sensitive instruments were calculated in accordance with the table.

While the tables above reflect the estimated immediate impact of interest rate increases and decreases on a static portfolio, we rebalance our portfolio periodically either to take advantage of, or minimize the impact of, changes in interest rates. Generally, our interest rate swaps reset in the quarter following rate changes. The impact of changing interest rates on fair value and net income can change significantly when interest rates change beyond 75 bps from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 75 bps. In addition, other factors impact the fair value of and net income from our 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, when actual interest rates change, the change in the fair value of our assets and our net income will likely differ from that shown above, and such difference may be material and adverse for our stockholders.

Risk Management

Our Board of Directors exercises its oversight of risk management in many ways, including overseeing our senior management’s risk-related responsibilities, and reviewing management policies and performance.

As part of our risk management process, we actively manage the interest rate, liquidity, prepayment and counterparty risks associated with our Agency RMBS portfolio. We seek to manage our interest rate risk exposure by entering into various hedging instruments in order to minimize our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs.

We seek to manage our liquidity risks by monitoring our liquidity position on a daily basis and maintaining a prudent level of leverage, which we currently consider to be between five and ten times the amount of stockholders' equity in our overall portfolio, based on current market conditions and various other factors, including the health of the financial institutions that lend to us under our repurchase agreements and the presence of special liquidity programs provided by domestic and foreign central banks, and by the FHLBC.

We seek to manage our prepayment risk by investing in Agency RMBS with a variety of prepayment characteristics as well as by balancing Agency RMBS purchased at a premium with Agency RMBS purchased at a discount.

We seek to manage our counterparty risk by (i) diversifying our exposure across a broad number of counterparties, (ii) limiting our exposure to any one counterparty, and (iii) monitoring the financial stability of our counterparties.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

There have been no changes in our internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are not currently subject to any material legal proceedings other than ordinary, routine litigation incidental to the business.

Item 1A. Risk Factors

There were no material changes during the period covered by this Quarterly Report to the risk factors previously disclosed in our 2015 Annual Report. Additional risks not presently known, or that we currently deem immaterial, also may have a material adverse effect on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of shares of its common stock during the three months ended March 31, 2016 (dollars in thousands except per share amounts):

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share [1]	Dollar Value of Shares That May Yet Be Purchased [1]
January 1, 2016 - January 31, 2016	—	$ —	$ 160,796
February 1, 2016 - February 29, 2016	—	—	160,796
March 1, 2016 - March 31, 2016	510,618	7.82	156,794
Total	510,618	$ 7.82	

[1] The Company repurchased shares of its common stock in open-market transactions pursuant to its share repurchase program, authorized by its Board of Directors and publicly announced on July 21, 2014. Pursuant to this authority, the Company may repurchase shares of its common stock up to $250 million in aggregate value. Between July 21, 2014

and December 31, 2014, the Company repurchased approximately $1.5 million in aggregate value of its common stock. As of March 31, 2016, the Company still had approximately $156.8 million remaining authorized to repurchase shares of its common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

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None.
Item 6. Exhibits
(a) Exhibits.

Exhibit Number	Description of Exhibit
3.1[(1)]	Articles of Amendment and Restatement of CYS Investments, Inc.
3.2[(2)]	Articles of Amendment to the Articles of Amendment and Restatement
3.3[(2)]	Articles of Amendment to the Articles of Amendment and Restatement
3.4[(3)]	Articles of Amendment to the Articles of Amendment and Restatement
3.5[(4)]	Articles Supplementary of 7.75% Series A Cumulative Redeemable Preferred Stock
3.6[(5)]	Articles Supplementary of 7.50% Series B Cumulative Redeemable Preferred Stock
3.7[(6)]	Amended and Restated Bylaws of CYS Investments, Inc.
10.1	2016 Incentive Compensation Plan
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1**	Certification of 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
Exhibit 101.INS XBRL	Instance Document (7)
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document (7)
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document (7)
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created (7)
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document (7)
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document (7)

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* Filed herewith.
** Furnished herewith.
(1)

Incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission (File No. 333-142236).

(2) Incorporated by reference from the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 10, 2010.

(3) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 1, 2011.

(4) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2012.

(5) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2013.

(6) Incorporated by reference from the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 10, 2012.

(7) Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2016 (Unaudited) and December 31, 2015 (Derived from the audited balance sheet at December 31, 2015); (ii) Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2016 and 2015; (iii) Consolidated Statement of

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Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2016; (iv) Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2016 and 2015; and (v) Consolidated Notes to Financial Statements (Unaudited) for the three months ended March 31, 2016 and 2015.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYS INVESTMENTS, INC.

Dated: April 22, 2016 BY: /s/ FRANCES R. SPARK

Frances R. Spark

Chief Financial Officer and Treasurer

(Principal Financial Officer)

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Statements of Cash Flows (Unaudited) for the three months ended March 31, 2016 and 2014; and (v) Consolidated Notes to Financial Statements (Unaudited) for the three months ended March 31, 2016 and 2015.