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PennyMac Mortgage Investment Trust  
Form 10-Q  
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of

incorporation or organization)

3043 Townsgate Road, Westlake Village, California  
(Address of principal executive offices)

27-0186273  
(IRS Employer

Identification No.)

91361  
(Zip Code)

(818) 224-7442

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

| Class  | Outstanding at August 3, 2017 |
|--|-------------------------------|
| Common Shares of Beneficial Interest, \$0.01 par value | 66,842,495                    |

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 2017

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Report”) contains certain forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “approximately,” “believe,” “predict,” “continue,” “plan” or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Examples of forward-looking statements include the following:

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management’s expectations. Some of these factors are discussed below.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (“SEC”) on February 28, 2017.

Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;
- volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise;
- events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;
- changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;
  - declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market;
- the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives;
- the inherent difficulty in winning bids to acquire mortgage loans, and our success in doing so;
- the concentration of credit risks to which we are exposed;
- the degree and nature of our competition;
- our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities;
- changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates;

the availability, terms and deployment of short-term and long-term capital;  
the adequacy of our cash reserves and working capital;

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our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;

the timing and amount of cash flows, if any, from our investments;

unanticipated increases or volatility in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards;

incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize;

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

the performance of mortgage loans underlying mortgage-backed securities (“MBS”) in which we retain credit risk;

our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our MBS or relating to our mortgage servicing rights (“MSRs”), excess servicing spread (“ESS”) and other investments;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

technologies for loans and our ability to mitigate security risks and cyber intrusions;

our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;

- our ability to detect misconduct and fraud;

our ability to comply with various federal, state and local laws and regulations that govern our business;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

- changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Government National Mortgage Association (“Ginnie Mae”), the Federal Housing Administration (the “FHA”) or the Veterans Administration (the “VA”), the U.S. Department of Agriculture (“USDA”), or government-sponsored entities such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an “Agency” and, collectively, as the “Agencies”), or such changes that increase the cost of doing business with such entities;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;

the Consumer Financial Protection Bureau (“CFPB”) and its issued and future rules and the enforcement thereof;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 (the “Investment Company Act”) and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries (“TRSs”) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;



- changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);
- our ability to make distributions to our shareholders in the future;
- the effect of public opinion on our reputation;
- the occurrence of natural disasters or other events or circumstances that could impact our operations; and
- our organizational structure and certain requirements in our charter documents.

Other factors that could also cause results to differ from our expectations may not be described in this Report or any other document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

|  | June 30,<br>2017                            | December 31,<br>2016 |
|--|---|----------------------|
|  | (in thousands, except share<br>information) |                      |
| <b>ASSETS</b>  |   |                      |
| Cash   | \$ 69,893                                   | \$ 34,476            |
| Short-term investments   | 77,366                                      | 122,088              |
| Mortgage-backed securities at fair value (includes \$1,065,540 and \$863,802 pledged<br>to creditors, respectively)  | 1,065,540                                   | 865,061              |
| Mortgage loans acquired for sale at fair value (includes \$1,300,596 and \$1,653,748<br>pledged to creditors, respectively)  | 1,318,603                                   | 1,673,112            |
| Mortgage loans at fair value (includes \$1,521,211 and \$1,712,190 pledged to creditors,<br>respectively)  | 1,527,812                                   | 1,721,741            |
| Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value<br>pledged to secure assets sold under agreements to repurchase to<br>PennyMac Financial Services, Inc. | 261,796                                     | 288,669              |
| Derivative assets (includes \$19,291 and \$9,078 pledged to creditors, respectively)   | 73,875                                      | 33,709               |
| Real estate acquired in settlement of loans (includes \$108,353 and \$215,713<br>pledged to creditors, respectively)   | 207,034                                     | 274,069              |
| Real estate held for investment (includes \$13,602 pledged to creditors at June 30, 2017)  | 40,316                                      | 29,324               |
| Mortgage servicing rights (includes \$77,624 and \$64,136 at fair value;<br>\$723,896 and \$656,567 pledged to creditors)  | 734,800                                     | 656,567              |
| Servicing advances   | 67,172                                      | 76,950               |
| Deposits securing credit risk transfer agreements (includes \$410,512 and \$414,610<br>pledged to creditors, respectively)   | 503,108                                     | 450,059              |
| Due from PennyMac Financial Services, Inc.   | 5,013                                       | 7,091                |
| Other  | 57,916                                      | 124,586              |
| <b>Total assets</b>  | <b>\$ 6,010,244</b>                         | <b>\$ 6,357,502</b>  |
| <b>LIABILITIES</b>   |   |                      |
| Assets sold under agreements to repurchase   | \$ 3,497,999                                | \$ 3,784,001         |
| Mortgage loan participation and sale agreements  | 38,345                                      | 25,917               |

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|   |             |              |
|---|-------------|--------------|
| Notes payable   | 159,980     | 275,106      |
| Asset-backed financing of a variable interest entity at fair value                        | 329,459     | 353,898      |
| Exchangeable senior notes   | 246,629     | 246,089      |
| Assets sold to PennyMac Financial Services, Inc. under agreement to repurchase            | 150,000     | 150,000      |
| Interest-only security payable at fair value  | 6,577       | 4,114        |
| Derivative liabilities  | 8,856       | 9,573        |
| Accounts payable and accrued liabilities  | 74,253      | 107,758      |
| Due to PennyMac Financial Services, Inc.  | 17,725      | 16,416       |
| Income taxes payable  | 14,892      | 18,166       |
| Liability for losses under representations and warranties                                 | 10,697      | 15,350       |
| Total liabilities   | 4,555,412   | 5,006,388    |
| Commitments and contingencies — See Note 19   |             |              |
| <b>SHAREHOLDERS' EQUITY</b>   |             |              |
| 8.125% Series A fixed-to floating rate redeemable cumulative preferred shares of          |             |              |
| beneficial interest, \$0.01 par value per share, 4,600,000 shares issued and outstanding, |             |              |
| \$115,000,000 aggregate liquidation preference  | 46          | —            |
| Common shares of beneficial interest—authorized, 500,000,000 common shares of \$0.01      |             |              |
| par value; issued and outstanding, 66,842,495 and 66,697,286 common shares,               |             |              |
| respectively  | 668         | 667          |
| Additional paid-in capital  | 1,489,116   | 1,377,171    |
| Accumulated deficit   | (34,998 )   | (26,724 )    |
| Total shareholders' equity  | 1,454,832   | 1,351,114    |
| Total liabilities and shareholders' equity  | \$6,010,244 | \$ 6,357,502 |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets and liabilities of consolidated variable interest entities (“VIEs”) included in total assets and liabilities (the assets of each VIE can only be used to settle liabilities of that VIE):

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| <b>ASSETS</b>   |                  |                      |
| Mortgage loans at fair value                              | \$343,192        | \$ 367,169           |
| Derivative assets   | 52,716           | 15,610               |
| Deposits securing credit risk transfer agreements         | 503,108          | 450,059              |
| Other—interest receivable                                 | 972              | 1,058                |
|   | \$899,988        | \$ 833,896           |
| <b>LIABILITIES</b>  |                  |                      |
| Asset-backed financing at fair value                      | \$329,459        | \$ 353,898           |
| Interest-only security payable at fair value              | 6,577            | 4,114                |
| Accounts payable and accrued liabilities—interest payable | 972              | 1,058                |
|   | \$337,008        | \$ 359,070           |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

|  | Quarter ended June<br>30,                |           | Six months ended<br>June 30, |           |
|--|--|-----------|------------------------------|-----------|
|  | 2017                                     | 2016      | 2017                         | 2016      |
|  | (in thousands, except per share amounts) |           |                              |           |
| Net investment income:                                 |  |           |                              |           |
| Net gain on mortgage loans acquired for sale:          |  |           |                              |           |
| From nonaffiliates                                     | \$ 14,088                                | \$ 22,095 | \$ 30,252                    | \$ 35,582 |
| From PennyMac Financial Services, Inc.                 | 3,204                                    | 2,131     | 6,065                        | 3,693     |
|  | 17,292                                   | 24,226    | 36,317                       | 39,275    |
| Mortgage loan origination fees                         | 10,467                                   | 8,519     | 18,757                       | 15,420    |
| Net gain (loss) on investments:                        |  |           |                              |           |
| From nonaffiliates                                     | 33,477                                   | 337       | 51,568                       | 14,066    |
| From PennyMac Financial Services, Inc.                 | (5,885 )                                 | (15,824 ) | (7,255 )                     | (33,451 ) |
|  | 27,592                                   | (15,487 ) | 44,313                       | (19,385 ) |
| Net mortgage loan servicing fees:                      |  |           |                              |           |
| From nonaffiliates                                     | 15,463                                   | 15,380    | 26,923                       | 30,804    |
| From PennyMac Financial Services, Inc.                 | 234                                      | 311       | 526                          | 441       |
|  | 15,697                                   | 15,691    | 27,449                       | 31,245    |
| Interest income:                                       |  |           |                              |           |
| From nonaffiliates                                     | 48,020                                   | 46,053    | 91,473                       | 93,404    |
| From PennyMac Financial Services, Inc.                 | 4,366                                    | 5,713     | 9,013                        | 12,728    |
|  | 52,386                                   | 51,766    | 100,486                      | 106,132   |
| Interest expense:                                      |  |           |                              |           |
| To nonaffiliates                                       | 36,401                                   | 34,371    | 71,775                       | 64,773    |
| To PennyMac Financial Services, Inc.                   | 2,025                                    | 2,222     | 3,830                        | 3,824     |
|  | 38,426                                   | 36,593    | 75,605                       | 68,597    |
| Net interest income                                    | 13,960                                   | 15,173    | 24,881                       | 37,535    |
| Results of real estate acquired in settlement of loans | (3,465 )                                 | (2,565 )  | (7,711 )                     | (8,601 )  |
| Other  | 2,416                                    | 2,061     | 4,427                        | 4,345     |
| Net investment income                                  | 83,959                                   | 47,618    | 148,433                      | 99,834    |
| Expenses   |  |           |                              |           |
| Earned by PennyMac Financial Services, Inc.:           |  |           |                              |           |
| Mortgage loan fulfillment fees                         | 21,107                                   | 19,111    | 37,677                       | 32,046    |
| Mortgage loan servicing fees                           | 10,099                                   | 16,427    | 20,585                       | 27,880    |
| Management fees  | 5,638                                    | 5,199     | 10,646                       | 10,551    |
| Professional services                                  | 2,747                                    | 2,011     | 4,200                        | 4,304     |
| Compensation   | 1,959                                    | 2,224     | 3,851                        | 3,513     |
| Mortgage loan collection and liquidation               | 3,338                                    | 4,290     | 3,692                        | 6,504     |
| Mortgage loan origination                              | 1,993                                    | 1,557     | 3,505                        | 2,678     |
| Other  | 5,252                                    | 4,958     | 9,844                        | 9,473     |
| Total expenses   | 52,133                                   | 55,777    | 94,000                       | 96,949    |
| Income (loss) before benefit from income taxes         | 31,826                                   | (8,159 )  | 54,433                       | 2,885     |
| Provision for (benefit from) income taxes              | 3,046                                    | (2,892 )  | (3,083 )                     | (6,344 )  |

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|  |          |            |          |         |
|--|----------|------------|----------|---------|
| Net income (loss)                              | 28,780   | (5,267 )   | 57,516   | 9,229   |
| Dividends on preferred stock                   | 2,336    | —          | 2,907    | —       |
| Net income attributable to common shareholders | \$26,444 | \$(5,267 ) | \$54,609 | \$9,229 |
| Earnings (loss) per common share               |          |            |          |         |
| Basic  | \$0.39   | \$(0.08 )  | \$0.81   | \$0.12  |
| Diluted  | \$0.38   | \$(0.08 )  | \$0.78   | \$0.12  |
| Weighted-average common shares outstanding     |          |            |          |         |
| Basic  | 66,761   | 68,446     | 66,740   | 70,165  |
| Diluted  | 75,228   | 68,446     | 75,207   | 70,165  |
| Dividends declared per common share            | \$0.47   | \$0.47     | \$0.94   | \$0.94  |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

|  | Series A<br>preferred                              |              | Common   |              | Additional<br>paid-in<br>capital | Retained<br>earnings<br>(Accumulated<br>deficit) | Total        |
|--|--|--------------|--|--------------|----------------------------------|--|--------------|
|  | shares<br>Number<br>of<br>shares<br>(in thousands, | Par<br>value | shares<br>Number<br>of<br>shares<br>(in thousands, | Par<br>value |                                  |  |              |
| Balance at December 31, 2015                               | —  | \$ —         | 73,767   | \$ 738       | \$ 1,469,722                     | \$ 25,653  | \$ 1,496,113 |
| Net income   | —  | —            | —  | —            | —                                | 9,229  | 9,229        |
| Share-based compensation                                   | —  | —            | 298  | 3            | 3,010                            | —  | 3,013        |
| Common share dividends, \$0.94 per share                   | —  | —            | —  | —            | —                                | (64,694 )  | (64,694 )    |
| Repurchase of common shares                                | —  | —            | (6,342 )   | (64 )        | (82,770 )                        | —  | (82,834 )    |
| Balance at June 30, 2016                                   | —  | \$ —         | 67,723   | \$ 677       | \$ 1,389,962                     | \$ (29,812 )                                     | \$ 1,360,827 |
| Balance at December 31, 2016                               | —  | \$ —         | 66,697   | \$ 667       | \$ 1,377,171                     | \$ (26,724 )                                     | \$ 1,351,114 |
| Net income   | —  | —            | —  | —            | —                                | 57,516   | 57,516       |
| Share-based compensation                                   | —  | —            | 284  | 2            | 3,125                            | —  | 3,127        |
| Issuance of Series A preferred shares                      | 4,600  | 46           | —  | —            | 114,954                          | —  | 115,000      |
| Issuance costs relating to Series A<br>preferred<br>shares | —  | —            | —  | —            | (3,828 )                         | —  | (3,828 )     |
| Common share dividends, \$0.94 per share                   | —  | —            | —  | —            | —                                | (63,298 )  | (63,298 )    |
| Series A preferred share dividends, \$0.54<br>per share    | —  | —            | —  | —            | —                                | (2,492 )   | (2,492 )     |
| Repurchase of common shares                                | —  | —            | (139 )   | (1 )         | (2,306 )                         | —  | (2,307 )     |
| Balance at June 30, 2017                                   | 4,600  | \$ 46        | 66,842   | \$ 668       | \$ 1,489,116                     | \$ (34,998 )                                     | \$ 1,454,832 |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|  | Six months ended June 30, |              |
|--|---------------------------|--------------|
|  | 2017                      | 2016         |
|  | (in thousands)            |              |
| <b>Cash flows from operating activities</b>  |                           |              |
| Net income   | \$57,516                  | \$9,229      |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:  |                           |              |
| Net gain on mortgage loans acquired for sale   | (36,317 )                 | (39,275 )    |
| Net (gain) loss on investments   | (44,313 )                 | 19,385       |
| Change in fair value, amortization and impairment of mortgage servicing rights   | 52,666                    | 29,656       |
| Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed financing of a variable interest entity | 3,007                     | (1,086 )     |
| Capitalization of interest on mortgage loans at fair value   | (20,717 )                 | (39,715 )    |
| Capitalization of interest on excess servicing spread  | (9,013 )                  | (12,728 )    |
| Amortization of debt issuance costs  | 7,004                     | 6,472        |
| Results of real estate acquired in settlement of loans   | 7,711                     | 8,601        |
| Share-based compensation expense   | 3,127                     | 3,013        |
| Purchase of mortgage loans acquired for sale at fair value from nonaffiliates  | (31,573,356)              | (25,461,808) |
| Purchase of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.  | (40,222 )                 | (8,139 )     |
| Repurchase of mortgage loans subject to representation and warranties  | (6,079 )                  | (6,654 )     |
| Sale and repayment of mortgage loans acquired for sale at fair value to nonaffiliates  | 10,647,450                | 8,465,753    |
| Sale of mortgage loans acquired for sale to PennyMac Financial Services, Inc.  | 21,244,194                | 16,790,189   |
| Decrease in servicing advances   | 4,218                     | 12,277       |
| Decrease (increase) in due from PennyMac Financial Services, Inc.  | 1,800                     | (2,688 )     |
| Decrease in other assets   | 23,970                    | 39,774       |
| (Decrease) increase in accounts payable and accrued liabilities  | (33,496 )                 | 14,084       |
| Increase in due to PennyMac Financial Services, Inc.   | 1,309                     | 2,032        |
| Decrease in income taxes payable   | (3,274 )                  | (6,731 )     |
| Net cash provided by (used in) operating activities  | 287,185                   | (178,359 )   |
| <b>Cash flows from investing activities</b>  |                           |              |
| Net decrease in short-term investments   | 44,722                    | 24,988       |
| Purchase of mortgage-backed securities at fair value   | (251,872 )                | (249,925 )   |
| Sale and repayment of mortgage-backed securities at fair value   | 52,753                    | 49,141       |
| Sale and repayment of mortgage loans at fair value   | 175,016                   | 458,466      |
| Repayment of excess servicing spread by PennyMac Financial Services, Inc.  | 28,910                    | 38,281       |
| Sale of excess servicing spread to PennyMac Financial Services, Inc.   | —                         | 59,045       |
| Net settlement of derivative financial instruments   | 288                       | (2,793 )     |

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|  |           |            |
|--|-----------|------------|
| Sale of real estate acquired in settlement of loans        | 101,609   | 135,573    |
| Purchase of mortgage servicing rights                      | (69 )     | (2,602 )   |
| Sale of mortgage servicing rights                          | —         | 106        |
| Deposit of cash securing credit risk transfer agreements   | (57,148 ) | (192,737 ) |
| Distribution from credit risk transfer agreements          | 29,923    | 7,320      |
| Decrease (increase) in margin deposits and restricted cash | 5,132     | (16,769 )  |
| Purchase of Federal Home Loan Bank capital stock           | —         | (225 )     |
| Redemption of Federal Home Loan Bank capital stock         | —         | 7,320      |
| Net cash provided by investing activities                  | 129,264   | 315,189    |

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



## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | Six months ended June 30, |              |
|---|---------------------------|--------------|
|   | 2017                      | 2016         |
|   | (in thousands)            |              |
| Cash flows from financing activities  |                           |              |
| Sale of assets under agreements to repurchase                                   | 37,885,967                | 27,426,511   |
| Repurchase of assets sold under agreements to repurchase                        | (38,171,465)              | (27,279,985) |
| Issuance of mortgage loan participation certificates                            | 3,660,014                 | 3,166,373    |
| Repayment of mortgage loan participation certificates                           | (3,647,460 )              | (3,070,038 ) |
| Federal Home Loan Bank advances   | —                         | 28,000       |
| Repayment of Federal Home Loan Bank advances                                    | —                         | (211,000 )   |
| Advance under notes payable   | 20,000                    | 69,282       |
| Repayment of notes payable  | (135,000 )                | (141,386 )   |
| Issuance of asset-backed financing of a variable interest entity at fair value  | —                         | 99,499       |
| Repayment of asset-backed financing of a variable interest entity at fair value | (28,934 )                 | (30,479 )    |
| Payment of debt issuance costs  | (7,220 )                  | (5,512 )     |
| Issuance of preferred shares  | 115,000                   | —            |
| Payment of issuance costs related to preferred shares                           | (3,828 )                  | —            |
| Payment of dividends to preferred shareholders                                  | (2,492 )                  | —            |
| Repurchase of common shares   | (2,307 )                  | (82,834 )    |
| Payment of dividends to common shareholders                                     | (63,307 )                 | (67,664 )    |
| Net cash used in financing activities   | (381,032 )                | (99,233 )    |
| Net increase in cash  | 35,417                    | 37,597       |
| Cash at beginning of period   | 34,476                    | 58,108       |
| Cash at end of period   | \$69,893                  | \$95,705     |

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization and Basis of Presentation

PennyMac Mortgage Investment Trust (“PMT” or the “Company”) was organized in Maryland on May 18, 2009, and commenced operations on August 4, 2009, when it completed its initial offerings of common shares of beneficial interest (“common shares”). The Company is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage-related assets.

The Company operates in four segments: correspondent production, credit sensitive strategies, interest rate sensitive strategies and corporate:

• The correspondent production segment represents the Company’s operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling newly originated prime credit quality mortgage loans either directly or in the form of mortgage-backed securities (“MBS”), using the services of PNMAC Capital Management, LLC (“PCM” or the “Manager”) and PennyMac Loan Services, LLC (“PLS”), both indirect controlled subsidiaries of PennyMac Financial Services, Inc. (“PFSI”).

Most of the mortgage loans the Company has acquired in its correspondent production activities have been eligible for sale to government-sponsored entities such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or through government agencies such as the Government National Mortgage Association (“Ginnie Mae”). Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an “Agency” and, collectively, as the “Agencies.”

• The credit sensitive strategies segment represents the Company’s investments in distressed mortgage loans, real estate acquired in settlement of mortgage loans (“REO”), credit risk transfer agreements (“CRT Agreements”), non-Agency subordinated bonds and small balance commercial real estate mortgage loans.

• The interest rate sensitive strategies segment represents the Company’s investments in mortgage servicing rights (“MSRs”), excess servicing spread (“ESS”), Agency and senior non-Agency MBS and the related interest rate hedging activities.

• The corporate segment includes certain interest income, management fee and corporate expense amounts.

The Company believes that it qualifies, and has elected to be taxed, as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended, beginning with its taxable period ended on December 31, 2009. To maintain its tax status as a REIT, the Company has to distribute at least 90% of its taxable income in the form of qualifying distributions to shareholders.

The Company conducts substantially all of its operations and makes substantially all of its investments through its subsidiary, PennyMac Operating Partnership, L.P. (the “Operating Partnership”), and the Operating Partnership’s subsidiaries. A wholly-owned subsidiary of the Company is the sole general partner, and the Company is the sole limited partner, of the Operating Partnership.

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (“GAAP”) as codified in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) for interim financial information and with the Securities and Exchange Commission’s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. The interim

consolidated information should be read together with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations that may be anticipated for the full year. Intercompany accounts and transactions have been eliminated.

Preparation of financial statements in compliance with GAAP requires the Manager to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will likely differ from those estimates.

## Note 2—Concentration of Risks

As discussed in Note 1— Organization and Basis of Presentation above, PMT’s operations and investing activities are centered in residential mortgage-related assets, a substantial portion of which were distressed at acquisition. The mortgage loans at fair value not acquired for sale or held in a variable interest entity (“VIE”) are generally purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies.

Due to the nature of a substantial portion of the Company’s investments, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks associated with loan resolution, including that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and that fluctuations in the residential real estate market may affect the performance of its investments. Factors influencing these risks include, but are not limited to:

- changes in the overall economy, unemployment rates and residential real estate values in the markets where the properties securing the Company’s mortgage loans are located;
- PPM’s ability to identify and PLS’ ability to execute optimal resolutions of certain mortgage loans;
- the accuracy of valuation information obtained during the Company’s due diligence activities;
- PPM’s ability to effectively model, and to develop appropriate model inputs that properly anticipate, future outcomes;
- the level of government support for resolution of certain mortgage loans and the effect of current and future proposed and enacted legislative and regulatory changes on the Company’s ability to effect cures or resolutions to distressed mortgage loans; and
- regulatory, judicial and legislative support of the foreclosure process, and the resulting effect on the Company’s ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

Due to these uncertainties, there can be no assurance that risk management activities identified and executed on PMT’s behalf will prevent significant losses arising from the Company’s investments in real estate-related assets.

A substantial portion of the distressed mortgage loans and REO has been acquired by the Company in prior years from or through one or more subsidiaries of JPMorgan Chase & Co. and Citigroup Inc., as presented in the following summary:

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| <b>JPMorgan Chase &amp; Co.</b>   |                  |                      |
| Mortgage loans at fair value  | \$437,101        | \$ 505,167           |
| REO   | 97,988           | 118,737              |
|   | 535,089          | 623,904              |
| <b>Citigroup Inc.</b>   |                  |                      |
| Mortgage loans at fair value  | 476,517          | 519,698              |
| REO   | 34,127           | 49,048               |
|   | 510,644          | 568,746              |
|   | \$1,045,733      | \$ 1,192,650         |
| Total carrying value of distressed mortgage loans at fair value and REO | \$1,391,654      | \$ 1,628,641         |

Note 3—Transactions with Related Parties

Operating Activities

Correspondent Production Activities

The Company is provided fulfillment and other services by PLS under a mortgage banking services agreement. The Company's mortgage banking services agreement provides for a fulfillment fee paid to PLS based on the type of mortgage loan that the Company acquires. The fulfillment fee is equal to a percentage of the unpaid principal balance of mortgage loans purchased by the Company. PLS has also agreed to provide such services exclusively for the Company's benefit, and PLS and its affiliates are prohibited from providing such services for any other party.

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Before September 12, 2016, the applicable fulfillment fee percentages were (i) 0.50% for conventional mortgage loans, (ii) 0.88% for loans sold in accordance with the Ginnie Mae Mortgage-Backed Securities Guide, and (iii) 0.50% for all other mortgage loans not contemplated above; provided, however, that PLS was permitted, in its sole discretion, to reduce the amount of the applicable fulfillment fee and credit the amount of such reduction to any reimbursement that would have otherwise been due based on volumes tied to the aggregate unpaid principal balance of the mortgage loans purchased by the Company in the related month. This reduction was only credited to the reimbursement applicable to the month in which the related mortgage was funded.

Effective as of September 12, 2016, pursuant to the terms of an amended and restated mortgage banking services agreement the applicable fulfillment fee percentages are (i) 0.35% for mortgage loans sold or delivered to Fannie Mae or Freddie Mac, and (ii) 0.85% for all other mortgage loans; provided however, that no fulfillment fee shall be due or payable to PLS with respect to any mortgage loans underwritten to Ginnie Mae guidelines. The Company does not hold the Ginnie Mae approval required to issue securities guaranteed by Ginnie Mae MBS and act as a servicer. Accordingly, under the agreement, PLS currently purchases loans salable in accordance with the Ginnie Mae Mortgage-Backed Securities Guide “as is” and without recourse of any kind from the Company at cost less any administrative fees paid by the Correspondent to PMT plus accrued interest and a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days loans are held by the Company prior to purchase by PLS. The discretionary reductions and volume reimbursements described above are no longer in effect.

In consideration for the mortgage banking services provided by PLS with respect to the Company’s acquisition of mortgage loans under PLS’s early purchase program, PLS is entitled to fees accruing (i) at a rate equal to \$1,500 per annum per early purchase facility, and (ii) in the amount of \$35 for each mortgage loan that the Company acquires.

The mortgage banking services agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

Following is a summary of correspondent production activity between the Company and PLS:

|   | Quarter ended June 30, |             | Six months ended June 30, |              |
|---|------------------------|-------------|---------------------------|--------------|
|   | 2017                   | 2016        | 2017                      | 2016         |
|   | (in thousands)         |             |                           |              |
| Mortgage loans fulfillment fees earned by PLS         | \$21,107               | \$19,111    | \$37,677                  | \$32,046     |
| Unpaid principal balance (“UPB”) of mortgage loans    |                        |             |                           |              |
| fulfilled by PLS                                      | \$5,918,027            | \$5,174,020 | \$10,549,933              | \$8,433,383  |
| Sourcing fees received from PLS included in           |                        |             |                           |              |
| Net gain on mortgage loans acquired for sale          | \$3,204                | \$2,824     | \$6,065                   | \$4,773      |
| UPB of mortgage loans sold to PLS                     | \$10,641,243           | \$9,409,399 | \$20,215,960              | \$15,905,121 |
| Purchases of mortgage loans acquired for sale at      |                        |             |                           |              |
| fair value from PLS                                   | \$18,692               | \$3,424     | \$40,222                  | \$8,139      |
| Tax service fee paid to PLS included in Other expense | \$1,891                | \$1,464     | \$3,269                   | \$2,471      |
| Early purchase program fees paid to PLS included      |                        |             |                           |              |
| in Mortgage loan servicing fees                       | \$1                    | \$1         | \$6                       | \$2          |

|  | June 30,<br>2017 | December 31, 2016 |
|--|------------------|-------------------|
| Mortgage loans included in Mortgage loans acquired<br>for sale at fair value pending sale to PLS | \$246,259        | \$ 804,616        |

## Mortgage Loan Servicing Activities

The Company, through its Operating Partnership, has a mortgage loan servicing agreement with PLS. The servicing agreement provides for servicing fees earned by PLS that are based on a percentage of the mortgage loan's unpaid principal balance or fixed per loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced mortgage loan or the REO. PLS is also entitled to market-based fees and charges including boarding and deboarding fees, liquidation and disposition, assumption, modification and origination fees and late charges relating to mortgage loans it services for the Company. The servicing agreement was amended and restated as of September 12, 2016; however, the fee structure was not amended in any material respect.

• The base servicing fees for distressed mortgage loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each mortgage loan based on the delinquency, bankruptcy and/or foreclosure status of such mortgage loan or the related underlying real estate. Presently, the base servicing fees for distressed mortgage loans range from \$30 per month for current mortgage loans up to \$100 per month for mortgage loans where the borrower has declared bankruptcy. PLS is also entitled to certain activity-based fees for distressed mortgage loans that are charged based on the achievement of certain events. These fees range from 0.50% for a streamline modification to 1.50% for a liquidation and \$500 for a deed-in-lieu of foreclosure. PLS is not entitled to earn more than one liquidation fee, reperformance fee or modification fee in any 18-month period.

• The base servicing fee rate for REO is \$75 per month. To the extent that the Company rents its REO under an REO rental program, the Company pays PLS an REO rental fee of \$30 per month per REO, an REO property lease renewal fee of \$100 per lease renewal, and a property management fee in an amount equal to PLS' cost if property management services and/or any related software costs are outsourced to a third-party property management firm or 9% of gross rental income if PLS provides property management services directly. PLS is also entitled to retain any tenant paid application fees and late rent fees and seek reimbursement for certain third party vendor fees.

• The base servicing fees for non-distressed mortgage loans subserviced by PLS on the Company's behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on the Company's behalf are \$7.50 per month for fixed-rate loans and \$8.50 per month for adjustable-rate mortgage loans.

• To the extent that these non-distressed mortgage loans become delinquent, PLS is entitled to an additional servicing fee per mortgage loan ranging from \$10 to \$55 per month and based on the delinquency, bankruptcy and foreclosure status of the mortgage loan or \$75 per month if the underlying mortgaged property becomes REO. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees.

• PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement because the Company does not have any employees or infrastructure. For these services, PLS received a supplemental fee of \$25 per month for each distressed whole loan. PLS is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred in performance of its servicing obligations.

• PLS, on behalf of the Company, is entitled to retain any incentive payments made to it and to which it is entitled under the U.S. Department of Treasury's Home Affordable Modification Plan ("HAMP"); provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the incentive payments.



The term of the servicing agreement, as amended, expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the servicing agreement.

Pursuant to the terms of an MSR recapture agreement, if PLS refinances mortgage loans for which the Company previously held the MSRs, PLS is generally required to transfer and convey to one of the Company's wholly-owned subsidiaries without cost to the Company, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. Where the fair value of the aggregate MSRs to be transferred for the applicable month is less than \$200,000, PLS may, at its option, pay cash to the Company in an amount equal to such fair value instead of transferring such MSRs.

The MSR recapture agreement was amended and restated as of September 12, 2016; however, the fee structure was not amended in any material respect. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on September 12, 2020, subject to automatic renewal for additional 18-month periods.

Following is a summary of mortgage loan servicing fees earned by PLS and MSR recapture income earned from PLS:

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2017                   | 2016         | 2017                      | 2016         |
|  | (in thousands)         |              |                           |              |
| <b>Mortgage loans servicing fees:</b>                  |                        |              |                           |              |
| <b>Mortgage loans acquired for sale at fair value:</b> |                        |              |                           |              |
| Base   | \$82                   | \$79         | \$147                     | \$135        |
| Activity-based   | 176                    | 172          | 319                       | 287          |
|  | 258                    | 251          | 466                       | 422          |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| <b>Distressed mortgage loans</b>                       |                        |              |                           |              |
| Base   | 1,755                  | 2,908        | 3,713                     | 6,267        |
| Activity-based   | 1,767                  | 8,518        | 4,157                     | 11,967       |
|  | 3,522                  | 11,426       | 7,870                     | 18,234       |
| <b>Mortgage loans held in VIE:</b>                     |                        |              |                           |              |
| Base   | 11                     | 51           | 42                        | 92           |
| Activity-based   | —                      | —            | —                         | —            |
|  | 11                     | 51           | 42                        | 92           |
| <b>MSRs:</b>   |                        |              |                           |              |
| Base   | 6,176                  | 4,583        | 11,982                    | 8,927        |
| Activity-based   | 132                    | 116          | 225                       | 205          |
|  | 6,308                  | 4,699        | 12,207                    | 9,132        |
|  | \$10,099               | \$16,427     | \$20,585                  | \$27,880     |
| <b>MSR recapture income recognized included in Net</b> |                        |              |                           |              |
| mortgage loan servicing fees                           | \$234                  | \$311        | \$526                     | \$440        |
| <b>Average investment in:</b>                          |                        |              |                           |              |
| Mortgage loans acquired for sale at fair value         | \$1,274,817            | \$1,422,945  | \$1,174,417               | \$1,170,720  |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| Distressed mortgage loans                              | \$1,199,786            | \$1,791,429  | \$1,264,752               | \$1,925,605  |
| Mortgage loans held in a VIE                           | \$352,589              | \$437,542    | \$356,271                 | \$446,013    |
| Average MSR portfolio                                  | \$61,414,348           | \$45,647,524 | \$59,710,787              | \$44,531,795 |

## Management Fees

Under a management agreement, the Company pays PCM management fees as follows:

- A base management fee that is calculated quarterly and is equal to the sum of (i) 1.5% per year of average shareholders' equity up to \$2 billion, (ii) 1.375% per year of average shareholders' equity in excess of \$2 billion and up to \$5 billion, and (iii) 1.25% per year of average shareholders' equity in excess of \$5 billion.
- A performance incentive fee that is calculated at a defined annualized percentage of the amount by which "net income," on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on "equity."

The performance incentive fee is calculated quarterly and is equal to: (a) 10% of the amount by which net income for the quarter exceeds (i) an 8% return on equity plus the high watermark, up to (ii) a 12% return on equity; plus (b) 15%

of the amount by which net income for the quarter exceeds (i) a 12% return on equity plus the high watermark, up to (ii) a 16% return on equity; plus (c) 20% of the amount by which net income for the quarter exceeds a 16% return on equity plus the high watermark.

For the purpose of determining the amount of the performance incentive fee:

“Net income” is defined as net income or loss computed in accordance with GAAP and certain other non-cash charges determined after discussions between PCM and PMT’s independent trustees and after approval by a majority of PMT’s independent trustees.

“Equity” is the weighted average of the issue price per common share of all of PMT’s public offerings, multiplied by the weighted average number of common shares outstanding (including restricted share units) in the rolling four-quarter period.

The “high watermark” is the quarterly adjustment that reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the Fannie Mae MBS yield (the target yield) for such quarter. The “high watermark” starts at zero and is adjusted quarterly. If the net income is lower than the target yield, the high watermark is increased by the difference. If the net income is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for PCM to earn a performance incentive fee are adjusted cumulatively based on the performance of PMT’s net income over (or under) the target yield, until the net income in excess of the target yield exceeds the then-current cumulative high watermark amount, and a performance incentive fee is earned.

The base management fee and the performance incentive fee are both payable quarterly in arrears. The performance incentive fee may be paid in cash or a combination of cash and PMT’s common shares (subject to a limit of no more than 50% paid in common shares), at the Company’s option.

The management agreement was amended and restated as of September 12, 2016; however, the fee structure was not amended in any material respect. Following is a summary of the base management and performance incentive fees payable to PCM recorded by the Company:

|                       | Quarter ended  |         | Six months ended |          |
|-----------------------|----------------|---------|------------------|----------|
|                       | June 30,       |         | June 30,         |          |
|                       | 2017           | 2016    | 2017             | 2016     |
|                       | (in thousands) |         |                  |          |
| Base management       | \$5,334        | \$5,199 | \$10,342         | \$10,551 |
| Performance incentive | 304            | —       | 304              | —        |
|                       | \$5,638        | \$5,199 | \$10,646         | \$10,551 |

In the event of termination of the management agreement between the Company and PFSI, PFSI may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by PFSI, in each case during the 24-month period before termination.

#### Expense Reimbursement and Amounts Payable to and Receivable from PFSI

Under the management agreement, PCM is entitled to reimbursement of its organizational and operating expenses, including third-party expenses, incurred on the Company’s behalf, it being understood that PCM and its affiliates shall allocate a portion of their personnel’s time to provide certain legal, tax and investor relations services for the direct benefit of the Company. With respect to the allocation of PCM’s and its affiliates personnel, from and after September 12, 2016, PCM shall be reimbursed \$120,000 per fiscal quarter, such amount to be reviewed annually and to not preclude reimbursement for any other services performed by PCM or its affiliates.

The Company is required to pay PCM and its affiliates a pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of PCM and its affiliates required for the Company’s and its subsidiaries’ operations. These expenses will be allocated based on the ratio of the Company’s and its subsidiaries’ proportion of gross assets compared to all remaining gross assets managed by PCM as calculated at each fiscal quarter end:

The Company reimbursed PCM and its affiliates for expenses:

|  | Quarter ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--|---------------------------|----------|------------------------------|----------|
|  | 2017                      | 2016     | 2017                         | 2016     |
|  | (in thousands)            |          |                              |          |
| Reimbursement of:                                  |                           |          |                              |          |
| Common overhead incurred by PCM and its affiliates | \$1,593                   | \$2,435  | \$3,027                      | \$4,996  |
| Expenses incurred on the Company's behalf, net     | 398                       | (169 )   | 653                          | (114 )   |
|  | \$1,991                   | \$2,266  | \$3,680                      | \$4,882  |
| Payments and settlements during the year (1)       | \$16,070                  | \$28,952 | \$40,463                     | \$56,613 |

(1) Payments and settlements include payments and netting settlements made pursuant to master netting agreements between the Company and PFSI for operating, investment and financing activities itemized in this Note.

## Amounts Receivable from and Payable to PFSI

Amounts receivable from and payable to PFSI are summarized below:

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
|  | (in thousands)   |                      |
| <b>Receivable from PFSI:</b>                           |                  |                      |
| MSR recapture receivable                               | \$428            | \$ 707               |
| Other  | 4,585            | 6,384                |
|  | \$5,013          | \$ 7,091             |
| <b>Payable to PFSI:</b>                                |                  |                      |
| Management fees  | \$5,638          | \$ 5,081             |
| Mortgage loan servicing fees                           | 4,231            | 5,465                |
| Correspondent production fees                          | 2,495            | 2,371                |
| <b>Allocated expenses and expenses paid by PFSI</b>    |                  |                      |
| on PMT's behalf  | 2,324            | 1,046                |
| Fulfillment fees                                       | 2,022            | 1,300                |
| Conditional Reimbursement                              | 900              | 900                  |
| <b>Interest on Assets sold to PFSI under agreement</b> |                  |                      |
| to repurchase and Note payable to PFSI                 | 115              | 253                  |
|  | \$17,725         | \$ 16,416            |

## Investing Activities

On February 29, 2016, the Company and PLS terminated that certain master spread acquisition and MSR servicing agreement that the parties entered into effective February 1, 2013 (the "2/1/13 Spread Acquisition Agreement") and all amendments thereto. In connection with the termination of the 2/1/13 Spread Acquisition Agreement, PLS reacquired from the Company all of its right, title and interest in and to all of the Fannie Mae ESS previously sold by PLS to the Company under the 2/1/13 Spread Acquisition Agreement and then subject to such 2/1/13 Spread Acquisition Agreement. On February 29, 2016, PLS also reacquired from the Company all of its right, title and interest in and to all of the Freddie Mac ESS previously sold to the Company by PLS. The amount of ESS sold by the Company to PLS under these reacquisitions was \$59.0 million.

Following is a summary of investing activities between the Company and PFSI:

|  | Quarter ended June<br>30, |          | Six months ended<br>June 30, |          |
|--|---------------------------|----------|------------------------------|----------|
|  | 2017                      | 2016     | 2017                         | 2016     |
|  | (in thousands)            |          |                              |          |
| <b>ESS:</b>                                |                           |          |                              |          |
| Received pursuant to a recapture agreement | \$1,380                   | \$1,690  | \$2,953                      | \$3,601  |
| Repayments and sales                       | \$14,278                  | \$17,400 | \$28,910                     | \$97,326 |
| Interest income                            | \$4,366                   | \$5,713  | \$9,013                      | \$12,728 |

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|  |             |              |             |              |
|--|-------------|--------------|-------------|--------------|
| Net (loss) gain included in Net (loss) gain on |             |              |             |              |
| investments:                                   |             |              |             |              |
| Valuation changes                              | \$ (7,156 ) | \$ (17,428 ) | \$ (9,929 ) | \$ (36,877 ) |
| Recapture income                               | 1,271       | 1,604        | 2,674       | 3,426        |
|  | \$ (5,885 ) | \$ (15,824 ) | \$ (7,255 ) | \$ (33,451 ) |

Financing Activities

PFSI held 75,000 of the Company's common shares at both June 30, 2017 and December 31, 2016.

### Repurchase Agreement with PLS

On December 19, 2016, the Company, through a wholly-owned subsidiary, PennyMac Holdings, LLC (“PMH”), entered into a master repurchase agreement with PLS (the “PMH Repurchase Agreement”), pursuant to which PMH may borrow from PLS for the purpose of financing PMH’s participation certificates representing beneficial ownership in ESS. PLS then re-pledges such participation certificates to PNMAC GMSR ISSUER TRUST (the “Issuer Trust”) under a master repurchase agreement by and among PLS, the Issuer Trust and Private National Mortgage Acceptance Company, LLC, as guarantor (the “PC Repurchase Agreement”). The Issuer Trust was formed for the purpose of allowing PLS to finance MSR and ESS relating to such MSRs (the “GNMA MSR Facility”).

In connection with the GNMA MSR Facility, PLS pledges and/or sells to the Issuer Trust participation certificates representing beneficial interests in MSRs and ESS pursuant to the terms of the PC Repurchase Agreement. In return, the Issuer Trust (a) has issued to PLS, pursuant to the terms of an indenture, the Series 2016-MSRVF1 Variable Funding Note, dated December 19, 2016, known as the “PNMAC GMSR ISSUER TRUST MSR Collateralized Notes, Series 2016-MSRVF1” (the “VFN”), and (b) may, from time to time pursuant to the terms of any supplemental indenture, issue to institutional investors additional term notes (“Term Notes”), in each case secured on a pari passu basis by the participation certificates relating to the MSRs and ESS. The maximum principal balance of the VFN is \$1,000,000,000.

The principal amount paid by PLS for the participation certificates under the PMH Repurchase Agreement is based upon a percentage of the market value of the underlying ESS. Upon PMH’s repurchase of the participation certificates, PMH is required to repay PLS the principal amount relating thereto plus accrued interest (at a rate reflective of the current market and consistent with the weighted average note rate of the VFN and any outstanding Term Notes) to the date of such repurchase. PLS is then required to repay the Issuer Trust the corresponding amount under the PC Repurchase Agreement.

### Note Payable to PLS

Before entering into the PMH Repurchase Agreement, PLS was a party to a repurchase agreement between it and Credit Suisse First Boston Mortgage Capital LLC (“CSFB”) (the “MSR Repo”), pursuant to which PLS financed Ginnie Mae MSRs and servicing advance receivables and pledged all of its rights and interests in any Ginnie Mae MSRs it owned to CSFB, and a separate acknowledgement agreement with respect thereto, by and among Ginnie Mae, CSFB and PLS. In connection with the MSR Repo, the Company was party to an underlying loan and security agreement with PLS, pursuant to which the Company was able to borrow up to \$150 million from PLS for the purpose of financing its investment in ESS (the “Underlying LSA”). The principal amount of the borrowings under the Underlying LSA was based upon a percentage of the market value of the ESS pledged to PLS, subject to the \$150 million sublimit described above. Pursuant to the Underlying LSA, the Company granted to PLS a security interest in all of its right, title and interest in, to and under the ESS pledged to secure the borrowings, and PLS, in turn, re-pledged such ESS to CSFB under the MSR Repo. Interest accrued on the Company’s note relating to the Underlying LSA at a rate based on CSFB’s cost of funds under the MSR Repo. The underlying LSA was terminated in connection with the execution of the PMH Agreement.

### Conditional Reimbursement of Initial Public Offering (“IPO”) Underwriting Fees

In connection with its IPO, the Company conditionally agreed to reimburse PCM up to \$2.9 million for underwriting fees paid to the IPO underwriters by PCM on the Company’s behalf (the “Conditional Reimbursement”). Also in connection with its IPO, the Company agreed to pay the IPO underwriters up to \$5.9 million in contingent underwriting fees.



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Following is a summary of financing activities between the Company and PFSI:

|  | Quarter ended<br>June 30, |         | Six months<br>ended June 30, |         |
|--|---------------------------|---------|------------------------------|---------|
|  | 2017                      | 2016    | 2017                         | 2016    |
|  | (in thousands)            |         |                              |         |
| Interest expense                       | \$2,025                   | \$2,222 | \$3,830                      | \$3,824 |
| Conditional Reimbursements paid to PCM | \$—                       | \$—     | \$—                          | \$—     |

|   | June 30,       | December 31, |
|---|----------------|--------------|
|   | 2017           | 2016         |
|   | (in thousands) |              |
| Assets sold to PFSI under agreement to repurchase     | \$150,000      | \$150,000    |
| Conditional Reimbursement payable to PFSI included in |                |              |
| Accounts payable and accrued liabilities              | \$900          | \$900        |

## Note 4—Earnings Per Share

The Company grants restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, “dividends”) are classified as “participating securities” and are included in the basic earnings per share calculation using the two-class method.

Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company’s exchangeable senior notes (the “Exchangeable Notes”), by the weighted-average common shares outstanding, assuming all dilutive securities were issued. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

The following table summarizes the basic and diluted earnings per share calculations:

|  | Quarter ended                           |           | Six months ended |         |
|--|---|-----------|------------------|---------|
|  | June 30,                                |           | June 30,         |         |
|  | 2017                                    | 2016      | 2017             | 2016    |
|  | (in thousands except per share amounts) |           |                  |         |
| Net income   | \$28,780                                | \$(5,267) | \$57,516         | \$9,229 |
| Preferred share dividends  | (2,336)                                 | —         | (2,907)          | —       |
| Effect of participating securities—share-based compensation awards | (230)                                   | (307)     | (529)            | (718)   |
| Net income available to common shareholders                        | \$26,214                                | \$(5,574) | \$54,080         | \$8,511 |
| Net income available to common shareholders                        | \$26,214                                | \$(5,574) | \$54,080         | \$8,511 |
| Interest on Exchangeable Notes, net of income taxes                | 2,188                                   | —         | 4,374            | —       |
| Diluted net income attributable to common shareholders             | \$28,402                                | \$(5,574) | \$58,454         | \$8,511 |
| Weighted-average basic shares outstanding                          | 66,761                                  | 68,446    | 66,740           | 70,165  |
| Dilutive securities:   |   |           |                  |         |
| Shares issuable pursuant to exchange of the Exchangeable Notes     | 8,467                                   | —         | 8,467            | —       |
| Diluted weighted-average number of shares outstanding              | 75,228                                  | 68,446    | 75,207           | 70,165  |
| Basic earnings (loss) per share                                    | \$0.39                                  | \$(0.08)  | \$0.81           | \$0.12  |

|                                   |        |           |        |        |
|-----------------------------------|--------|-----------|--------|--------|
| Diluted earnings (loss) per share | \$0.38 | \$(0.08 ) | \$0.78 | \$0.12 |
|-----------------------------------|--------|-----------|--------|--------|

Calculation of diluted earnings per share requires certain potentially dilutive shares to be excluded based on whether the inclusion of such shares in the diluted earnings per share calculation would be antidilutive. The following table summarizes the potentially dilutive shares excluded from the diluted earnings per share calculation for the periods as inclusion of such shares would have been antidilutive:

|   | Quarter        |            | Six months |            |
|---|----------------|------------|------------|------------|
|   | ended June     | ended June | ended June | ended June |
|   | 30,            | 30,        | 30,        | 30,        |
|   | 2017           | 2016       | 2017       | 2016       |
|   | (in thousands) |            |            |            |
| Shares issuable under share-based compensation awards | 776            | 766        | 793        | 766        |
| Shares issuable pursuant to exchange of the           |                |            |            |            |
| Exchangeable Notes                                    | —              | 8,467      | —          | 8,467      |

## Note 5—Loan Sales and Variable Interest Entities

The Company is a variable interest holder in various special purpose entities that relate to its mortgage loan transfer and financing activities. These entities are classified as VIEs for accounting purposes. The Company has distinguished its involvement with VIEs between those VIEs which the Company does not consolidate and those VIEs which the Company consolidates.

## Unconsolidated VIEs with Continuing Involvement

The following table summarizes cash flows between the Company and transferees in transfers of mortgage loans that are accounted for as sales where the Company maintains continuing involvement with the mortgage loans, as well as UPB information at end of period:

|   | Quarter ended June 30, |             | Six months ended June |             |
|---|------------------------|-------------|-----------------------|-------------|
|   | 2017                   | 2016        | 2017                  | 2016        |
|   | (in thousands)         |             |                       |             |
| Cash flows:                               |                        |             |                       |             |
| Proceeds from sales                       | \$5,788,605            | \$5,231,974 | \$10,647,450          | \$8,465,753 |
| Mortgage loan servicing fees received (1) | \$39,705               | \$29,179    | \$76,986              | \$56,755    |

(1) Net of guarantee fees

|  | June 30,       | December 31, |
|--|----------------|--------------|
|  | 2017           | 2016         |
|  | (in thousands) |              |
| UPB of mortgage loans outstanding          | \$62,751,484   | \$56,303,664 |
| Delinquent mortgage loans:                 |                |              |
| 30-89 days delinquent                      | \$281,790      | \$262,467    |
| 90 or more days delinquent:                |                |              |
| Not in foreclosure                         | \$83,821       | \$53,200     |
| In foreclosure                             | \$20,194       | \$25,180     |
| Bankruptcy                                 | \$42,173       | \$36,357     |
| Custodial funds managed by the Company (1) | \$972,911      | \$736,398    |

(1) Custodial funds include borrower and investor custodial cash accounts relating to mortgage loans serviced under the servicing agreements and are not recorded on the Company's consolidated balance sheets. The Company earns placement fees on certain of the custodial funds it manages on behalf of the mortgage loans' investors, which are included in Interest income in the Company's consolidated statements of operations.

## Consolidated VIEs

## Credit Risk Transfer Agreements

The Company, through its wholly-owned subsidiary, PennyMac Corp. (“PMC”), entered into CRT Agreements with Fannie Mae, pursuant to which PMC, through subsidiary trust entities, sells pools of mortgage loans into Fannie Mae-guaranteed securitizations while retaining a portion of the credit risk underlying such mortgage loans (“Recourse Obligations”) as part of the retention of an interest-only ownership interest in such mortgage loans. The mortgage loans subject to the CRT Agreements are transferred by PMC to subsidiary trust entities which sell the mortgage loans into Fannie Mae mortgage loan securitizations. Transfers of mortgage loans subject to CRT Agreements receive sale accounting treatment upon fulfillment of the criteria for sale recognition contained in the Transfers and Servicing topic of the ASC. The pledged cash represents the Company’s maximum contractual exposure to claims under its Recourse Obligations and is the sole source of settlement of losses under the CRT Agreements. Gains and losses on derivatives related to CRT Agreements are included in Net gain on investments in the consolidated statements of operations.

Following is a summary of the CRT Agreements:

|  | Quarter ended June 30, |             | Six months ended June |             |
|--|------------------------|-------------|-----------------------|-------------|
|  | 2017                   | 2016        | 2017                  | 2016        |
|  | (in thousands)         |             |                       |             |
| UPB of mortgage loans sold under CRT Agreements        | \$3,760,825            | \$3,162,746 | \$5,595,121           | \$5,084,744 |
| Deposits of cash securing CRT Agreements               | \$41,355               | \$126,031   | \$57,148              | \$192,737   |
| Increase in commitments to fund Deposits securing      |                        |             |                       |             |
| CRT Agreements resulting from sale of mortgage         |                        |             |                       |             |
| loans under CRT Agreements                             | \$98,722               | \$—         | \$146,872             | \$—         |
| Interest earned on Deposits securing CRT Agreements    | \$855                  | \$235       | \$1,264               | \$375       |
| Gains recognized on CRT Agreements                     |                        |             |                       |             |
| included in Net gain (loss) on investments             |                        |             |                       |             |
| Realized   | \$11,361               | \$3,859     | \$21,650              | \$6,395     |
| Resulting from valuation changes                       | 27,087                 | 3,905       | 37,106                | (2,774)     |
|  | 38,448                 | 7,764       | 58,756                | 3,621       |
| Change in fair value of interest-only security payable |                        |             |                       |             |
| at fair value  | (5,595)                | —           | (7,316)               | —           |
|  | \$32,853               | \$7,764     | \$51,440              | \$3,621     |
| Payments made to settle losses                         | \$262                  | \$—         | \$411                 | \$—         |

|   | June 30,       | December 31, |
|---|----------------|--------------|
|   | 2017           | 2016         |
|   | (in thousands) |              |
| UPB of mortgage loans subject to credit guarantee obligations | \$19,301,982   | \$14,379,850 |
| Delinquency status (in UPB):                                  |                |              |
| Current—89 days delinquent                                    | \$19,285,561   | \$14,372,247 |
| 90 or more days delinquent                                    | \$13,922       | \$5,711      |
| Foreclosure   | \$2,499        | \$1,892      |
| Carrying value of CRT Agreements:                             |                |              |
| Derivative assets   | \$52,716       | \$15,610     |
| Deposits securing CRT Agreements                              | \$503,108      | \$450,059    |
| Interest-only security payable at fair value                  | \$6,577        | \$4,114      |
| CRT Agreement assets pledged to secure assets sold            |                |              |
| under agreements to repurchase:                               |                |              |
| Deposits securing credit risk CRT Agreements                  | \$410,512      | \$414,610    |
| Derivative assets   | \$19,291       | \$9,078      |
| Commitments to fund Deposits securing credit risk             |                |              |
| transfer agreements   | \$247,942      | \$92,109     |

### Jumbo Mortgage Loan Financing

On September 30, 2013, the Company completed a securitization transaction in which PMT Loan Trust 2013-J1, a VIE, issued \$537.0 million in UPB of certificates backed by fixed-rate prime jumbo mortgage loans, at a 3.9% weighted yield. The Company initially retained \$366.8 million in fair value of such certificates. During the quarter ended June 30, 2016 the Company sold \$100.6 million in UPB of those certificates, which reduced the fair value of the certificates retained by the Company to \$9.4 million as of June 30, 2017. The Company included the proceeds from the sales in Asset backed financing of a variable interest entity at fair value. The Company issued no certificates during the quarter ended June 30, 2017.

Note 6—Derivative Activities

The Company's activities involving derivative financial instruments are summarized below:

•The Company recognizes IRLCs when it commits to purchase mortgage loans acquired for sale.

•The Company enters into CRT Agreements whereby it retains a Recourse Obligation relating to certain mortgage loans it sells into Fannie Mae guaranteed securitizations and an interest-only ownership interest in such mortgage loans. The fair values of the Recourse Obligations and the Company's retention of the interest-only ownership interest are accounted for as derivative financial instruments.

•The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by the effects of changes in interest rates on the fair value of certain of its assets and liabilities. To manage the price risk resulting from interest rate risk, the Company uses derivative financial instruments acquired with the intention of moderating the risk that changes in market interest rates will result in unfavorable changes in the fair value of the Company's MBS, inventory of mortgage loans acquired for sale, mortgage loans held in a VIE, ESS, IRLCs and MSRs.

The Company records all derivative financial instruments at fair value and records changes in fair value in current period results of operations.

The Company is exposed to price risk relative to the IRLCs it issues to correspondent sellers and to the mortgage loans it purchases as a result of issuing the IRLCs. The Company bears price risk from the time an IRLC is issued to a correspondent seller until the time the purchased mortgage loan is sold. The Company is exposed to loss if market mortgage interest rates increase, because market interest rate increases generally cause the fair value of the IRLC or mortgage loan acquired for sale to decrease. The Company is exposed to losses related to its investment in MSRs if market mortgage interest rates decrease, because market interest rate decreases generally cause the fair value of MSRs to decrease.



## Derivative Notional Amounts and Fair Value of Derivatives

The Company had the following derivative assets and liabilities recorded within Derivative assets and Derivative liabilities and related margin deposits recorded in Other assets on the consolidated balance sheets:

| Instrument   | June 30, 2017                     |                                 |                        | December 31, 2016 |                                 |                        |
|--|-----------------------------------|---------------------------------|------------------------|-------------------|---------------------------------|------------------------|
|  | Notional amount<br>(in thousands) | Fair value<br>Derivative assets | Derivative liabilities | Notional amount   | Fair value<br>Derivative assets | Derivative liabilities |
| Derivatives not designated as hedging instruments:   |                                   |                                 |                        |                   |                                 |                        |
| Not subject to master netting arrangements:  |                                   |                                 |                        |                   |                                 |                        |
| Interest rate lock commitments   | 1,931,374                         | \$3,542                         | \$ 3,147               | 1,420,468         | \$7,069                         | \$ 3,292               |
| CRT Agreements   | 19,301,982                        | 52,716                          | —                      | 14,379,850        | 15,610                          | —                      |
| Subject to master netting agreements-used for hedging purposes:  |                                   |                                 |                        |                   |                                 |                        |
| Forward purchase contracts   | 1,933,390                         | 458                             | 7,631                  | 4,840,707         | 30,879                          | 7,619                  |
| Forward sale contracts   | 3,644,636                         | 13,358                          | 655                    | 6,148,242         | 13,164                          | 17,974                 |
| MBS put options  | 1,475,000                         | —                               | —                      | 925,000           | 1,697                           | —                      |
| MBS call options   | 200,000                           | 2,695                           | —                      | 750,000           | 142                             | —                      |
| Call options on interest rate futures  | 200,000                           | 2,531                           | —                      | 200,000           | 63                              | —                      |
| Put options on interest rate futures   | 925,000                           | —                               | —                      | 550,000           | 2,469                           | —                      |
| Swap futures   | 175,000                           | —                               | —                      | 150,000           | —                               | —                      |
| Eurodollar future contracts  | 1,139,000                         | —                               | —                      | 1,351,000         | —                               | —                      |
| Total derivative instruments before netting  |                                   | 75,300                          | 11,433                 |                   | 71,093                          | 28,885                 |
| Netting  |                                   | (1,425 )                        | (2,577 )               |                   | (37,384)                        | (19,312 )              |
|  |                                   | \$73,875                        | \$ 8,856               |                   | \$33,709                        | \$ 9,573               |
| Margin deposits placed with (received from) derivatives counterparties included in Other assets (Accounts payable and accrued liabilities) |                                   |                                 |                        |                   |                                 |                        |
|  |                                   | \$1,154                         |                        |                   | \$(18,071)                      |                        |
| Derivative assets pledged to secure assets sold  |                                   |                                 |                        |                   |                                 |                        |
|  |                                   |                                 |                        |                   |                                 |                        |
| under agreements to repurchase   |                                   | \$19,291                        |                        |                   | \$9,078                         |                        |

The following tables summarize the notional amount activity for derivative contracts used to hedge the Company's MBS, inventory of mortgage loans acquired for sale, mortgage loans at fair value held in a VIE, IRLCs and MSRs and for CRT Agreements.

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| Instrument                            | Quarter ended June 30, 2017                          |            |                              | Balance,<br>end<br>of period |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations |                              |
| CRT Agreements                        | 15,978,755   | 3,760,825  | (437,598 )                   | 19,301,982                   |
| Forward purchase contracts            | 4,115,159  | 15,486,147 | (17,667,916 )                | 1,933,390                    |
| Forward sales contracts               | 5,673,414  | 21,590,830 | (23,619,608 )                | 3,644,636                    |
| MBS put options                       | 950,000  | 525,000    | —                            | 1,475,000                    |
| MBS call options                      | —  | 200,000    | —                            | 200,000                      |
| Call options on interest rate futures | 262,500  | 62,500     | (125,000 )                   | 200,000                      |
| Put options on interest rate futures  | 500,000  | 1,625,000  | (1,200,000 )                 | 925,000                      |
| Swap futures                          | 150,000  | 550,000    | (525,000 )                   | 175,000                      |
| Eurodollar future contracts           | 1,240,000  | —          | (101,000 )                   | 1,139,000                    |
| Treasury future buy contracts         | —  | 6,400      | (6,400 )                     | —                            |
| Treasury future sale contracts        | —  | 6,400      | (6,400 )                     | —                            |

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| Instrument                            | Quarter ended June 30, 2016                          |            |                              |                              |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations | Balance,<br>end<br>of period |
| CRT Agreements                        | 5,931,409  | 3,162,746  | (117,194 )                   | 8,976,961                    |
| Forward purchase contracts            | 2,981,134  | 15,361,702 | (14,152,487 )                | 4,190,349                    |
| Forward sales contracts               | 3,466,697  | 21,138,542 | (20,257,713 )                | 4,347,526                    |
| MBS call option                       | 425,000  | 1,975,000  | (875,000 )                   | 1,525,000                    |
| Swap futures                          | 12,500   | 12,500     | (12,500 )                    | 12,500                       |
| Eurodollar future contracts           | 1,734,000  | —          | (191,000 )                   | 1,543,000                    |
| Call options on interest rate futures | 1,250,000  | 275,000    | (1,000,000 )                 | 525,000                      |
| Put options on interest rate futures  | 1,525,000  | 550,000    | (1,650,000 )                 | 425,000                      |

| Instrument                            | Six months ended June 30, 2017                       |            |                              |                              |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations | Balance,<br>end<br>of period |
| CRT Agreements                        | 14,379,850   | 5,595,121  | (672,989 )                   | 19,301,982                   |
| Forward purchase contracts            | 4,840,707  | 34,392,176 | (37,299,493 )                | 1,933,390                    |
| Forward sales contracts               | 6,148,242  | 45,815,933 | (48,319,539 )                | 3,644,636                    |
| MBS put options                       | 925,000  | 1,925,000  | (1,375,000 )                 | 1,475,000                    |
| MBS call options                      | 750,000  | 200,000    | (750,000 )                   | 200,000                      |
| Call options on interest rate futures | 200,000  | 125,000    | (125,000 )                   | 200,000                      |
| Put options on interest rate futures  | 550,000  | 3,375,000  | (3,000,000 )                 | 925,000                      |
| Swap futures                          | 150,000  | 850,000    | (825,000 )                   | 175,000                      |
| Eurodollar future sale contracts      | 1,351,000  | 101,000    | (313,000 )                   | 1,139,000                    |
| Treasury future buy contracts         | —  | 55,700     | (55,700 )                    | —                            |
| Treasury future sale contracts        | —  | 55,700     | (55,700 )                    | —                            |

| Instrument                            | Six months ended June 30, 2016                       |            |                              |                              |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations | Balance,<br>end<br>of period |
| CRT Agreements                        | 4,546,265  | 5,084,744  | (654,048 )                   | 8,976,961                    |
| Forward purchase contracts            | 2,469,550  | 25,430,142 | (23,709,343 )                | 4,190,349                    |
| Forward sales contracts               | 2,450,642  | 35,292,415 | (33,395,531 )                | 4,347,526                    |
| MBS call option                       | 375,000  | 2,725,000  | (1,575,000 )                 | 1,525,000                    |
| Swap futures                          | —  | 25,000     | (12,500 )                    | 12,500                       |
| Eurodollar future sale contracts      | 1,755,000  | 80,000     | (292,000 )                   | 1,543,000                    |
| Call options on interest rate futures | 50,000   | 1,575,000  | (1,100,000 )                 | 525,000                      |
| Put options on interest rate futures  | 1,600,000  | 2,600,000  | (3,775,000 )                 | 425,000                      |

Netting of Financial Instruments

The Company has elected to net derivative asset and liability positions, and cash collateral obtained from (or posted to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs and the derivatives related to CRT Agreements. As of June 30, 2017 and December 31, 2016, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following tables.

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## Offsetting of Derivative Assets

Following is a summary of net derivative assets.

|   | June 30, 2017 |                | Net  | December 31, 2016 |                | Net   |
|---|---------------|----------------|--|-------------------|----------------|---|
|   | Gross amounts | offset amounts | amounts of assets presented in the consolidated balance sheet (in thousands) | Gross amounts     | offset amounts | amounts of assets presented in the consolidated balance sheet |
| <b>Derivative assets</b>                    |               |                |  |                   |                |   |
| Not subject to master netting arrangements: |               |                |  |                   |                |   |
| Interest rate lock commitments              | \$3,542       | \$ —           | \$ 3,542   | \$7,069           | \$ —           | \$ 7,069  |
| CRT Agreements                              | 52,716        | —              | 52,716   | 15,610            | —              | 15,610  |
|   | 56,258        | —              | 56,258   | 22,679            | —              | 22,679  |
| Subject to master netting arrangements:     |               |                |  |                   |                |   |
| Forward purchase contracts                  | 458           | —              | 458  | 30,879            | —              | 30,879  |
| Forward sale contracts                      | 13,358        | —              | 13,358   | 13,164            | —              | 13,164  |
| MBS put options                             | —             | —              | —  | 1,697             | —              | 1,697   |
| MBS call options                            | 2,695         | —              | 2,695  | 142               | —              | 142   |
| Call options on interest rate futures       | 2,531         | —              | 2,531  | 63                | —              | 63  |
| Put options on interest rate futures        | —             | —              | —  | 2,469             | —              | 2,469   |
| Netting                                     | —             | (1,425 )       | (1,425 )   | —                 | (37,384 )      | (37,384 )   |
|   | 19,042        | (1,425 )       | 17,617   | 48,414            | (37,384 )      | 11,030  |
|   | \$75,300      | \$ (1,425 )    | \$ 73,875  | \$71,093          | \$ (37,384 )   | \$ 33,709   |

## Derivative Assets, Financial Instruments and Collateral Held by Counterparty

The following table summarizes by significant counterparty the amount of derivative asset positions after considering master netting arrangements and financial instruments or cash pledged that do not meet the accounting guidance qualifying for setoff accounting.

|                                | June 30, 2017                     |               |               |  | December 31, 2016                 |               |               |  |          |
|--------------------------------|-----------------------------------|---------------|---------------|--|-----------------------------------|---------------|---------------|--|----------|
|                                | Net amount                        | Gross amounts | of assets     | not offset in the presented consolidated | Net amount                        | Gross amounts | of assets     | not offset in the presented consolidated |          |
|                                | in the consolidated balance sheet | Cash          | balance sheet | Financial instruments received           | in the consolidated balance sheet | Cash          | balance sheet | Financial instruments received           |          |
|                                | amount                            | amount        | amount        | amount                                   | amount                            | amount        | amount        | amount                                   |          |
|                                | (in thousands)                    |               |               |  |                                   |               |               |  |          |
| CRT Agreements                 | \$52,716                          | \$ —          | \$ —          | \$ —                                     | \$52,716                          | \$15,610      | \$ —          | \$ —                                     | \$15,610 |
| Interest rate lock commitments | 3,542                             | —             | —             | 3,542                                    | 7,069                             | —             | —             | 7,069                                    | —        |
| Goldman Sachs                  | 3,311                             | —             | —             | 3,311                                    | 1,164                             | —             | —             | 1,164                                    | —        |
| Morgan Stanley Bank, N.A.      | 2,604                             | —             | —             | 2,604                                    | —                                 | —             | —             | —  | —        |
| RBS Securities Inc.            | 2,531                             | —             | —             | 2,531                                    | —                                 | —             | —             | —  | —        |
| Bank of America, N.A.          | 2,162                             | —             | —             | 2,162                                    | 1,881                             | —             | —             | 1,881                                    | —        |
| Citibank                       | 1,648                             | —             | —             | 1,648                                    | —                                 | —             | —             | —  | —        |
| Barclays Capital               | 1,395                             | —             | —             | 1,395                                    | 855                               | —             | —             | 855                                      | —        |
| Credit Suisse                  | 1,152                             | —             | —             | 1,152                                    | —                                 | —             | —             | —  | —        |
| JPMorgan Chase & Co.           | 948                               | —             | —             | 948                                      | —                                 | —             | —             | —  | —        |
| Royal Bank of Canada           | 400                               | —             | —             | 400                                      | 1,194                             | —             | —             | 1,194                                    | —        |
| RJ O'Brien & Associates, LLC   | —                                 | —             | —             | —  | 1,531                             | —             | —             | 1,531                                    | —        |
| Bank of Oklahoma               | —                                 | —             | —             | —  | 629                               | —             | —             | 629                                      | —        |
| Jefferies Group, Inc           | —                                 | —             | —             | —  | 967                               | —             | —             | 967                                      | —        |
| Other                          | 1,466                             | —             | —             | 1,466                                    | 2,809                             | —             | —             | 2,809                                    | —        |
|                                | \$73,875                          | \$ —          | \$ —          | \$ —                                     | \$73,875                          | \$33,709      | \$ —          | \$ —                                     | \$33,709 |

## Offsetting of Derivative Liabilities and Financial Liabilities

Following is a summary of net derivative liabilities and assets sold under agreements to repurchase. Assets sold under agreements to repurchase do not qualify for setoff accounting.

|  | June 30, 2017                            |   | December 31, 2016                        |   |  |   |
|--|--|---|--|---|--|---|
|  | Gross amounts                            | Net amounts of liabilities                  | Gross amounts                            | Net amounts of liabilities                  | Gross amounts                            | Net amounts of liabilities                  |
|  | offset in the consolidated balance sheet | presented in the consolidated balance sheet | offset in the consolidated balance sheet | presented in the consolidated balance sheet | offset in the consolidated balance sheet | presented in the consolidated balance sheet |
|  | (in thousands)                           |   |  |   |  |   |
| <b>Derivative liabilities:</b>                     |  |   |  |   |  |   |
| Not subject to master netting arrangements:        |  |   |  |   |  |   |
| Interest rate lock commitments                     | \$ 3,147                                 | \$ —  | \$ 3,147                                 | \$ 3,292                                    | \$ —                                     | \$ 3,292                                    |
|  | 3,147                                    | —   | 3,147                                    | 3,292                                       | —  | 3,292                                       |
| Subject to master netting arrangements:            |  |   |  |   |  |   |
| Forward purchase contracts                         | 7,631                                    | —   | 7,631                                    | 7,619                                       | —  | 7,619                                       |
| Forward sales contracts                            | 655                                      | —   | 655                                      | 17,974                                      | —  | 17,974                                      |
| Netting  | —  | (2,577 )                                    | (2,577 )                                 | —   | (19,312 )                                | (19,312 )                                   |
|  | 8,286                                    | (2,577 )                                    | 5,709                                    | 25,593                                      | (19,312 )                                | 6,281                                       |
|  | 11,433                                   | (2,577 )                                    | 8,856                                    | 28,885                                      | (19,312 )                                | 9,573                                       |
| <b>Assets sold under agreements to repurchase:</b> |  |   |  |   |  |   |
| UPB  | 3,498,916                                | —   | 3,498,916                                | 3,784,685                                   | —  | 3,784,685                                   |
| Unamortized debt issuance costs                    | (917 )                                   | —   | (917 )                                   | (684 )                                      | —  | (684 )                                      |
|  | 3,497,999                                | —   | 3,497,999                                | 3,784,001                                   | —  | 3,784,001                                   |
|  | \$ 3,509,432                             | \$ (2,577 )                                 | \$ 3,506,855                             | \$ 3,812,886                                | \$ (19,312 )                             | \$ 3,793,574                                |

Derivative Liabilities, Financial Liabilities and Collateral Pledged by Counterparty

The following table summarizes by significant counterparty the amount of derivative liabilities and assets sold under agreements to repurchase after considering master netting arrangements and financial instruments or cash pledged that do not meet the accounting guidance qualifying for setoff accounting. All assets sold under agreements to repurchase represent sufficient collateral or exceed the liability amount recorded on the consolidated balance sheet.

|                                     | June 30, 2017  |  |                         | December 31, 2016  |  |                         |
|-------------------------------------|--|--|-------------------------|--|--|-------------------------|
|                                     | Net amount of liabilities presented in the consolidated balance sheet (in thousands) | Gross amounts not offset in the consolidated balance sheet instruments | Cash collateral pledged | Net amount of liabilities presented in the consolidated balance sheet (in thousands) | Gross amounts not offset in the consolidated balance sheet instruments | Cash collateral pledged |
| Interest rate lock commitments      | \$3,147  | \$—  | \$ —                    | \$3,292  | \$—  | \$ —                    |
| Credit Suisse First Boston Mortgage |  |  |                         |  |  |                         |
| Capital LLC                         | 1,003,884  | (1,003,884)  | —                       | 1,181,441  | (1,181,235)  | 206                     |
| Bank of America, N.A.               | 968,749  | (968,749)  | —                       | 847,683  | (847,683)  | —                       |
| Citibank                            | 451,096  | (451,096)  | —                       | 575,092  | (573,589)  | 1,503                   |
| JPMorgan Chase & Co.                | 374,354  | (374,354)  | —                       | 544,009  | (542,542)  | 1,467                   |
| Daiwa Capital Markets               | 162,742  | (162,742)  | —                       | 177,316  | (177,077)  | 239                     |
| Morgan Stanley Bank, N.A.           | 153,434  | (153,434)  | —                       | 143,951  | (142,055)  | 1,896                   |
| Wells Fargo, N.A.                   | 110,234  | (110,234)  | —                       | 116,648  | (116,648)  | —                       |
| Barclays Capital                    | 130,917  | (130,917)  | —                       | 92,796   | (92,796)   | —                       |
| Royal Bank of Canada                | 96,881   | (96,881)   | —                       | 63,926   | (63,926)   | —                       |
| BNP Paribas                         | 46,625   | (46,625)   | —                       | 47,785   | (47,134)   | 651                     |
| Jefferies Group LLC                 | 3,026  | —  | 3,026                   | 98   | —  | 98                      |
| UBS Securities LLC                  | 1,497  | —  | 1,497                   | —  | —  | —                       |
| Other                               | 1,186  | —  | 1,186                   | 221  | —  | 221                     |
| Unamortized debt issuance costs     | (917)  | 917  | —                       | (684)  | 684  | —                       |
|                                     | \$3,506,855  | \$(3,497,999)  | \$ —                    | \$3,793,574  | \$(3,784,001)  | \$ —                    |



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Following are the net gains (losses) recognized by the Company on derivative financial instruments and the consolidated statements of operations line items where such gains and losses are included:

| Derivative activity                  | Statement of operations line | Quarter ended June 30, |            | Six months ended June 30, |            |
|--------------------------------------|------------------------------|------------------------|------------|---------------------------|------------|
|                                      |                              | 2017                   | 2016       | 2017                      | 2016       |
| (in thousands)                       |                              |                        |            |                           |            |
| Interest rate lock commitments       | Net gain on mortgage loans   |                        |            |                           |            |
|                                      | acquired for sale            | \$24,372               | \$44,112   | \$45,438                  | \$75,475   |
| Hedged item:                         |                              |                        |            |                           |            |
| Interest rate lock commitments and   | Net gain on mortgage loans   |                        |            |                           |            |
| mortgage loans acquired for sale     | acquired for sale            | \$(11,773)             | \$(29,210) | \$(15,365)                | \$(59,882) |
| Mortgage servicing rights            | Net loan servicing fees      | \$2,391                | \$27,433   | \$(6,307)                 | \$57,393   |
| Fixed-rate assets and LIBOR- indexed |                              |                        |            |                           |            |
| repurchase agreements                | Net gain on investments      | \$(4,889)              | \$862      | \$(9,033)                 | \$698      |
| CRT agreements                       | Net gain on investments      | \$38,448               | \$7,764    | \$58,756                  | \$3,621    |

Note 7—Fair Value

The Company's consolidated financial statements include assets and liabilities that are measured based on their fair values. Measurement at fair value may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability and whether the Manager has elected to carry the item at its fair value as discussed in the following paragraphs.

The Company groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the inputs used to determine fair value. These levels are:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Prices determined or determinable using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company. These may include quoted prices for similar assets or liabilities, interest rates, prepayment speeds, credit risk and other inputs.

Level 3—Prices determined using significant unobservable inputs. In situations where significant observable inputs are unavailable unobservable inputs may be used. Unobservable inputs reflect the Company's own judgments about the factors that market participants use in pricing assets and liabilities, and are based on the best information available in the circumstances.

As a result of the difficulty in observing certain significant valuation inputs affecting "Level 3" fair value assets and liabilities, the Manager is required to make judgments regarding these items' fair values. Different persons in possession of the same facts may reasonably arrive at different conclusions as to the inputs to be applied in valuing these assets and liabilities and to their fair values. Likewise, due to the general illiquidity of some of these assets and liabilities, subsequent transactions may be at values significantly different from those reported.

#### Fair Value Accounting Elections

The Manager identified all of the Company's non-cash financial assets and MSR's relating to non-commercial real estate secured mortgage loans with initial interest rates of more than 4.5%, to be accounted for at fair value. The Manager has elected to account for these assets at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance.

The Manager has also identified the Company's asset-backed financing of a VIE and interest only security payable at fair value to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans at fair value or other assets collateralizing these financings. For other borrowings, the Manager has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt, thereby matching the debt issuance cost to the periods benefiting from the availability of the debt.

Financial Statement Items Measured at Fair Value on a Recurring Basis

Following is a summary of financial statement items that are measured at fair value on a recurring basis:

|  | June 30, 2017  |             |             |             |
|--|----------------|-------------|-------------|-------------|
|  | Level 1        | Level 2     | Level 3     | Total       |
|  | (in thousands) |             |             |             |
| <b>Assets:</b>                                 |                |             |             |             |
| Short-term investments                         | \$77,366       | \$—         | \$—         | \$77,366    |
| Mortgage-backed securities at fair value       | —              | 1,065,540   | —           | 1,065,540   |
| Mortgage loans acquired for sale at fair value | —              | 1,318,603   | —           | 1,318,603   |
| Mortgage loans at fair value                   | —              | 343,192     | 1,184,620   | 1,527,812   |
| Excess servicing spread purchased from PFSI    | —              | —           | 261,796     | 261,796     |
| <b>Derivative assets:</b>                      |                |             |             |             |
| Interest rate lock commitments                 | —              | —           | 3,542       | 3,542       |
| CRT Agreements                                 | —              | —           | 52,716      | 52,716      |
| Forward purchase contracts                     | —              | 458         | —           | 458         |
| Forward sales contracts                        | —              | 13,358      | —           | 13,358      |
| MBS put options                                | —              | —           | —           | —           |
| MBS call options                               | —              | 2,695       | —           | 2,695       |
| Call options on interest rate futures          | 2,531          | —           | —           | 2,531       |
| Total derivative assets before netting         | 2,531          | 16,511      | 56,258      | 75,300      |
| Netting  | —              | —           | —           | (1,425 )    |
| Total derivative assets after netting          | 2,531          | 16,511      | 56,258      | 73,875      |
| Mortgage servicing rights at fair value        | —              | —           | 77,624      | 77,624      |
|  | \$79,897       | \$2,743,846 | \$1,580,298 | \$4,402,616 |
| <b>Liabilities:</b>                            |                |             |             |             |
| Asset-backed financing of a VIE at fair value  | \$—            | \$329,459   | \$—         | \$329,459   |
| Interest-only security payable at fair value   | —              | —           | 6,577       | 6,577       |
| <b>Derivative liabilities:</b>                 |                |             |             |             |
| Interest rate lock commitments                 | —              | —           | 3,147       | 3,147       |
| Forward purchase contracts                     | —              | 7,631       | —           | 7,631       |
| Forward sales contracts                        | —              | 655         | —           | 655         |
| Total derivative liabilities before netting    | —              | 8,286       | 3,147       | 11,433      |
| Netting  | —              | —           | —           | (2,577 )    |
| Total derivative liabilities after netting     | —              | 8,286       | 3,147       | 8,856       |
|  | \$—            | \$337,745   | \$9,724     | \$344,892   |

|   | December 31, 2016 |              |              | Total        |
|---|-------------------|--------------|--------------|--------------|
|   | Level 1           | Level 2      | Level 3      |              |
|   | (in thousands)    |              |              |              |
| <b>Assets:</b>                                  |                   |              |              |              |
| Short-term investments                          | \$ 122,088        | \$—          | \$—          | \$ 122,088   |
| Mortgage-backed securities at fair value        | —                 | 865,061      | —            | 865,061      |
| Mortgage loans acquired for sale at fair value  | —                 | 1,673,112    | —            | 1,673,112    |
| Mortgage loans at fair value                    | —                 | 367,169      | 1,354,572    | 1,721,741    |
| Excess servicing spread purchased from PFSI     | —                 | —            | 288,669      | 288,669      |
| <b>Derivative assets:</b>                       |                   |              |              |              |
| Interest rate lock commitments                  | —                 | —            | 7,069        | 7,069        |
| CRT Agreements                                  | —                 | —            | 15,610       | 15,610       |
| Forward purchase contracts                      | —                 | 30,879       | —            | 30,879       |
| Forward sales contracts                         | —                 | 13,164       | —            | 13,164       |
| MBS put options                                 | —                 | 1,697        | —            | 1,697        |
| MBS call options                                | —                 | 142          | —            | 142          |
| Call options on interest rate futures           | 63                | —            | —            | 63           |
| Put options on interest rate futures            | 2,469             | —            | —            | 2,469        |
| Total derivative assets                         | 2,532             | 45,882       | 22,679       | 71,093       |
| Netting   | —                 | —            | —            | (37,384 )    |
| Total derivative assets after netting           | 2,532             | 45,882       | 22,679       | 33,709       |
| Mortgage servicing rights at fair value         | —                 | —            | 64,136       | 64,136       |
|   | \$ 124,620        | \$ 2,951,224 | \$ 1,730,056 | \$ 4,768,516 |
| <b>Liabilities:</b>                             |                   |              |              |              |
| Asset-backed financing of the VIE at fair value | \$—               | \$353,898    | \$—          | \$353,898    |
| Interest-only security payable at fair value    | —                 | —            | 4,114        | 4,114        |
| <b>Derivative liabilities:</b>                  |                   |              |              |              |
| Interest rate lock commitments                  | —                 | —            | 3,292        | 3,292        |
| Forward purchase contracts                      | —                 | 7,619        | —            | 7,619        |
| Forward sales contracts                         | —                 | 17,974       | —            | 17,974       |
| Total derivative liabilities                    | —                 | 25,593       | 3,292        | 28,885       |
| Netting   | —                 | —            | —            | (19,312 )    |
| Total derivative liabilities after netting      | —                 | 25,593       | 3,292        | 9,573        |
|   | \$—               | \$379,491    | \$7,406      | \$367,585    |

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The following is a summary of changes in items measured using Level 3 inputs on a recurring basis:

|  | Quarter ended June 30, 2017                             |                               |                                      |                          |                                 |             |
|--|---|-------------------------------|--------------------------------------|--------------------------|---------------------------------|-------------|
|  | Mortgage<br>loans<br>at fair<br>value<br>(in thousands) | Excess<br>servicing<br>spread | Interest<br>rate lock<br>commitments | CRT<br>Agreements<br>(1) | Mortgage<br>servicing<br>rights | Total       |
| <b>Assets:</b>                                     |   |                               |                                      |                          |                                 |             |
| Balance, March 31, 2017                            | \$1,229,553   | \$277,484                     | \$ 8,721                             | \$ 25,629                | \$ 69,683                       | \$1,611,070 |
| Purchases and issuances                            | —   | —                             | 7,026                                | —                        | 7                               | 7,033       |
| Repayments and sales                               | (32,433 )   | (14,278 )                     | —                                    | (11,361 )                | —                               | (58,072 )   |
| Capitalization of interest                         | 10,814  | 4,366                         | —                                    | —                        | —                               | 15,180      |
| Capitalization of advances                         | 6,799   | —                             | —                                    | —                        | —                               | 6,799       |
| ESS received pursuant to a recapture agreement     |   |                               |                                      |                          |                                 |             |
| with PFSI  | —   | 1,380                         | —                                    | —                        | —                               | 1,380       |
| Servicing received as proceeds from sales of       |   |                               |                                      |                          |                                 |             |
| mortgage loans                                     | —   | —                             | —                                    | —                        | 12,334                          | 12,334      |
| Changes in fair value included in income           |   |                               |                                      |                          |                                 |             |
| arising from:                                      |   |                               |                                      |                          |                                 |             |
| Changes in instrument-specific credit risk         | 7,777   | —                             | —                                    | —                        | —                               | 7,777       |
| Other factors                                      | (6,747 )  | (7,156 )                      | 17,346                               | 38,448                   | (4,400 )                        | 37,491      |
|  | 1,030   | (7,156 )                      | 17,346                               | 38,448                   | (4,400 )                        | 45,268      |
| Transfers of mortgage loans to REO and real estate |   |                               |                                      |                          |                                 |             |
| held for investment                                | (31,143 )   | —                             | —                                    | —                        | —                               | (31,143 )   |
| Transfers of interest rate lock commitments to     |   |                               |                                      |                          |                                 |             |
| mortgage loans acquired for sale                   | —   | —                             | (32,698 )                            | —                        | —                               | (32,698 )   |
| Balance, June 30, 2017                             | \$1,184,620   | \$261,796                     | \$ 395                               | \$ 52,716                | \$ 77,624                       | \$1,577,151 |
| Changes in fair value recognized during the period |   |                               |                                      |                          |                                 |             |
| relating to assets still held at June 30, 2017     | \$3,037   | \$(7,156 )                    | \$ 395                               | \$ 27,087                | \$(4,400 )                      | \$ 18,963   |

(1)For the purpose of this table, the IRLC “Level 3” asset and liability positions are shown net.

|   | Quarter<br>ended June<br>30, 2017<br>Interest-only<br>security<br>payable<br>(in<br>thousands) |
|---|--|
| <b>Liabilities:</b>   |  |
| Balance, March 31, 2017   | \$ 4,601   |
| Changes in fair value included  |  |
| in income arising from:   |  |
| Changes in instrument- specific credit risk                           | —  |
| Other factors   | 1,976  |
|   | 1,976  |
| Balance, June 30, 2017  | \$ 6,577   |
| Changes in fair value recognized during the period relating to assets |  |
| still held at June 30, 2017   | \$ 1,976   |

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|   | Quarter ended June 30, 2016                 |                         |                                |                    |                           |             |
|---|---|-------------------------|--------------------------------|--------------------|---------------------------|-------------|
|   | Mortgage loans at fair value (in thousands) | Excess servicing spread | Interest rate lock commitments | CRT Agreements (1) | Mortgage servicing rights | Total       |
| <b>Assets:</b>  |   |                         |                                |                    |                           |             |
| Balance, March 31, 2016   | \$2,047,563                                 | \$321,976               | \$ 9,335                       | \$ (4,218 )        | \$ 61,071                 | \$2,435,727 |
| Purchases and issuances   | —   | —                       | —                              | —                  | —                         | —           |
| Repayments and sales  | (387,661 )                                  | (17,400 )               | —                              | —                  | —                         | (405,061 )  |
| Capitalization of interest  | 16,421                                      | 5,713                   | —                              | —                  | —                         | 22,134      |
| ESS received pursuant to a recapture agreement                                  |   |                         |                                |                    |                           |             |
| with PFSI   | —   | 1,690                   | —                              | —                  | —                         | 1,690       |
| Interest rate lock commitments issued, net                                      | —   | —                       | 17,036                         | —                  | —                         | 17,036      |
| Servicing received as proceeds from sales of mortgage loans                     | —   | —                       | —                              | —                  | 1,847                     | 1,847       |
| Proceeds from CRT Agreements  | —   | —                       | —                              | (3,859 )           | —                         | (3,859 )    |
| Changes in fair value included in income arising from:                          |   |                         |                                |                    |                           |             |
| Changes in instrument-specific credit risk                                      |   |                         |                                |                    |                           |             |
|   | (22,287 )                                   | —                       | —                              | —                  | —                         | (22,287 )   |
| Other factors   |   |                         |                                |                    |                           |             |
|   | 8,824                                       | (17,428 )               | 27,076                         | 7,878              | (4,941 )                  | 21,409      |
|   | (13,463 )                                   | (17,428 )               | 27,076                         | 7,878              | (4,941 )                  | (878 )      |
| Transfers of mortgage loans to REO  | (53,954 )                                   | —                       | —                              | —                  | —                         | (53,954 )   |
| Transfers of interest rate lock commitments to mortgage loans acquired for sale | —   | —                       | (36,690 )                      | —                  | —                         | (36,690 )   |
| Balance, June 30, 2016  | \$1,608,906                                 | \$294,551               | \$ 16,757                      | \$ (199 )          | \$ 57,977                 | \$1,977,992 |
| Changes in fair value recognized during the period                              |   |                         |                                |                    |                           |             |
| relating to assets still held at June 30, 2016                                  | \$(5,335 )                                  | \$(17,428 )             | \$ 16,757                      | \$ 7,878           | \$(4,941 )                | \$(3,069 )  |

(1)For the purpose of this table, the IRLC and CRT Agreement “Level 3” asset and liability positions are shown net.

Quarter  
ended June  
30, 2016  
Interest-only

|   | security<br>payable<br>(in<br>thousands) |
|---|--|
| <b>Liabilities:</b>   |  |
| Balance, March 30, 2016   | \$ 675                                   |
| Purchases and issuances   | 1,454                                    |
| Changes in fair value included  |  |
| in income arising from:   |  |
| Changes in instrument- specific credit risk                           | —  |
| Other factors   | (466 )                                   |
|   | (466 )                                   |
| Balance, June 30, 2016  | \$ 1,663                                 |
| Changes in fair value recognized during the period relating to assets |  |
| still held at June 30, 2016   | \$ (466 )                                |



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|  | Six months ended June 30, 2017                          |                               |  |                       |                                 |             |
|--|---|-------------------------------|--|-----------------------|---------------------------------|-------------|
|  | Mortgage<br>loans<br>at fair<br>value<br>(in thousands) | Excess<br>servicing<br>spread | Interest<br>rate lock<br>commitments (1) | CRT<br>Agreements (1) | Mortgage<br>servicing<br>rights | Total       |
| <b>Assets:</b>   |   |                               |  |                       |                                 |             |
| Balance, December 31, 2016                                     | \$1,354,572   | \$288,669                     | \$ 3,777                                 | \$ 15,610             | \$ 64,136                       | \$1,726,764 |
| Purchases and issuances  | —   | —                             | 16,920                                   | —                     | 69                              | 16,989      |
| Repayments and sales   | (146,008 )  | (28,910 )                     | —  | (21,650 )             | —                               | (196,568 )  |
| Capitalization of interest                                     | 20,717  | 9,013                         | —  | —                     | —                               | 29,730      |
| Capitalization of advances                                     | 13,148  | —                             | —  | —                     | —                               | 13,148      |
| ESS received pursuant to a<br>recapture agreement with         |   |                               |  |                       |                                 |             |
| PFSI   | —   | 2,953                         | —  | —                     | —                               | 2,953       |
| Servicing received as proceeds from<br>sales of mortgage loans | —   | —                             | —  | —                     | 19,812                          | 19,812      |
| Proceeds from CRT Agreements                                   | —   | —                             | —  | —                     | —                               | —           |
| Changes in fair value included in<br>income arising from:      |   |                               |  |                       |                                 |             |
| Changes in instrument-specific<br>credit risk                  | 13,934  | —                             | —  | —                     | —                               | 13,934      |
| Other factors  | (9,688 )  | (9,929 )                      | 28,518                                   | 58,756                | (6,393 )                        | 61,264      |
|  | 4,246   | (9,929 )                      | 28,518                                   | 58,756                | (6,393 )                        | 75,198      |
| Transfers of mortgage loans to REO<br>and real estate held for |   |                               |  |                       |                                 |             |
| investment   | (62,055 )   | —                             | —  | —                     | —                               | (62,055 )   |
| Transfers of interest rate lock<br>commitments to              |   |                               |  |                       |                                 |             |
| mortgage loans acquired for sale                               | —   | —                             | (48,820 )                                | —                     | —                               | (48,820 )   |
| Balance, June 30, 2017   | \$1,184,620   | \$261,796                     | \$ 395                                   | \$ 52,716             | \$ 77,624                       | \$1,577,151 |
| Changes in fair value recognized<br>during the period          |   |                               |  |                       |                                 |             |
| relating to assets still held at June<br>30, 2017              | \$2,290   | \$(9,929 )                    | \$ 395                                   | \$ 37,106             | \$(6,393 )                      | \$23,469    |

(1) For the purpose of this table, the IRLC and CRT Agreement “Level 3” asset and liability positions are shown net.

Six months  
ended June  
30, 2017

|   | Interest-only<br>security<br>payable<br>(in<br>thousands) |
|---|---|
| <b>Liabilities:</b>   |   |
| Balance, December 31, 2016  | \$ 4,114  |
| Issuances   | —   |
| Changes in fair value included  |   |
| in income arising from:   |   |
| Changes in instrument- specific credit risk                           | —   |
| Other factors   | 2,463   |
|   | 2,463   |
| Balance, June 30, 2017  | \$ 6,577  |
| Changes in fair value recognized during the period relating to assets |   |
| still held at June 30, 2017   | \$ 2,463  |

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|  | Six months ended June 30, 2016              |                         |                                |                    |                           |             |
|--|---|-------------------------|--------------------------------|--------------------|---------------------------|-------------|
|  | Mortgage loans at fair value (in thousands) | Excess servicing spread | Interest rate lock commitments | CRT Agreements (1) | Mortgage servicing rights | Total       |
| <b>Assets:</b>                                     |   |                         |                                |                    |                           |             |
| Balance, December 31, 2015                         | \$2,100,394                                 | \$412,425               | \$ 4,646                       | \$ 593             | \$66,584                  | \$2,584,642 |
| Purchases and issuances                            | —   | —                       | —                              | 682                | 2,602                     | 3,284       |
| Repayments and sales                               | (419,726 )                                  | (97,326 )               | —                              | —                  | —                         | (517,052 )  |
| Capitalization of interest                         | 39,715                                      | 12,728                  | —                              | —                  | —                         | 52,443      |
| ESS received pursuant to a recapture agreement     |   |                         |                                |                    |                           |             |
| with PFSI  | —   | 3,601                   | —                              | —                  | —                         | 3,601       |
| Interest rate lock commitments issued, net         | —   | —                       | 27,733                         | —                  | —                         | 27,733      |
| Servicing received as proceeds from sales          |   |                         |                                |                    |                           |             |
| of mortgage loans                                  | —   | —                       | —                              | —                  | 5,147                     | 5,147       |
| Proceeds from CRT Agreements                       | —   | —                       | —                              | (6,395 )           | —                         | (6,395 )    |
| Changes in fair value included in income arising   |   |                         |                                |                    |                           |             |
| from:  |   |                         |                                |                    |                           |             |
| Changes in instrument-specific credit risk         | (19,004 )                                   | —                       | —                              | —                  | —                         | (19,004 )   |
| Other factors                                      | 19,936                                      | (36,877 )               | 47,742                         | 4,921              | (16,356 )                 | 19,366      |
|  | 932   | (36,877 )               | 47,742                         | 4,921              | (16,356 )                 | 362         |
| Transfers of mortgage loans to REO                 | (112,409 )                                  | —                       | —                              | —                  | —                         | (112,409 )  |
| Transfers of interest rate lock commitments to     |   |                         |                                |                    |                           |             |
| mortgage loans acquired for sale                   | —   | —                       | (63,364 )                      | —                  | —                         | (63,364 )   |
| Balance, June 30, 2016                             | \$1,608,906                                 | \$294,551               | \$ 16,757                      | \$ (199 )          | \$57,977                  | \$1,977,992 |
| Changes in fair value recognized during the period |   |                         |                                |                    |                           |             |
| relating to assets still held at June 30, 2016     | \$654                                       | \$(29,667 )             | \$ 16,757                      | \$ 4,921           | \$(16,356 )               | \$(23,691 ) |

(1)For the purpose of this table, the IRLC and CRT Agreement “Level 3” asset and liability positions are shown net.

|   | Six months<br>ended June<br>30, 2016<br>Interest-only<br>security<br>payable<br>(in<br>thousands) |
|---|---|
| <b>Liabilities:</b>   |   |
| Balance, December 31, 2016  | \$ —  |
| Issuances   | 2,136   |
| Changes in fair value included  |   |
| in income arising from:   |   |
| Changes in instrument- specific credit risk                           | —   |
| Other factors   | (473 )  |
|   | (473 )  |
| Balance, June 30, 2017  | 1,663   |
| Changes in fair value recognized during the period relating to assets |   |
| still held at June 30, 2017   | \$ (473 )   |

The information used in the preceding roll forwards represents activity for financial statement items measured at fair value on a recurring basis and identified as using “Level 3” inputs that are significant to the estimation of the fair values of the assets and liabilities at either the beginning or the end of the periods presented. The Company had transfers among the fair value levels arising from transfers of IRLCs to mortgage loans held for sale at fair value upon purchase of the respective mortgage loans.

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Following are the fair values and related principal amounts due upon maturity of mortgage loans accounted for under the fair value option (including mortgage loans acquired for sale, mortgage loans held in a consolidated VIE, and distressed mortgage loans at fair value):

|  | June 30, 2017  |               |             | December 31, 2016 |               |             |
|--|----------------|---------------|-------------|-------------------|---------------|-------------|
|  | Principal      |               |             | Principal         |               |             |
|  | amount due     |               |             | amount due        |               |             |
|  | Fair value     | upon maturity | Difference  | Fair value        | upon maturity | Difference  |
|  | (in thousands) |               |             |                   |               |             |
| <b>Mortgage loans acquired for sale at fair value:</b> |                |               |             |                   |               |             |
| Current through 89 days delinquent:                    | \$1,317,800    | \$1,265,463   | \$52,337    | \$1,672,181       | \$1,633,569   | \$38,612    |
| 90 or more days delinquent:                            |                |               |             |                   |               |             |
| Not in foreclosure                                     | 554            | 657           | (103 )      | 145               | 189           | (44 )       |
| In foreclosure   | 249            | 307           | (58 )       | 786               | 717           | 69          |
|  | 803            | 964           | (161 )      | 931               | 906           | 25          |
|  | \$1,318,603    | \$1,266,427   | \$52,176    | \$1,673,112       | \$1,634,475   | \$38,637    |
| <b>Mortgage loans at fair value:</b>                   |                |               |             |                   |               |             |
| <b>Mortgage loans held in a consolidated VIE:</b>      |                |               |             |                   |               |             |
| Current through 89 days delinquent:                    | \$343,192      | \$339,515     | \$3,677     | \$367,169         | \$368,524     | \$(1,355 )  |
| 90 or more days delinquent:                            |                |               |             |                   |               |             |
| Not in foreclosure                                     | —              | —             | —           | —                 | —             | —           |
| In foreclosure   | —              | —             | —           | —                 | —             | —           |
|  | —              | —             | —           | —                 | —             | —           |
|  | 343,192        | 339,515       | 3,677       | 367,169           | 368,524       | (1,355 )    |
| <b>Distressed mortgage loans at fair value:</b>        |                |               |             |                   |               |             |
| Current through 89 days delinquent:                    | 626,024        | 803,280       | (177,256)   | 611,584           | 818,665       | (207,081)   |
| 90 or more days delinquent:                            |                |               |             |                   |               |             |
| Not in foreclosure                                     | 259,840        | 372,666       | (112,826)   | 305,431           | 425,460       | (120,029)   |
| In foreclosure   | 298,756        | 422,384       | (123,628)   | 437,557           | 595,534       | (157,977)   |
|  | 558,596        | 795,050       | (236,454)   | 742,988           | 1,020,994     | (278,006)   |
|  | 1,184,620      | 1,598,330     | (413,710)   | 1,354,572         | 1,839,659     | (485,087)   |
|  | \$1,527,812    | \$1,937,845   | \$(410,033) | \$1,721,741       | \$2,208,183   | \$(486,442) |

Following are the changes in fair value included in current period income by consolidated statement of operations line item for financial statement items accounted for under the fair value option:

Quarter ended June 30, 2017  
Net

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|  | Net gain<br>on<br>mortgage<br>loans<br>acquired<br>for sale<br>(in thousands) | Net<br>interest<br>income | mortgage<br>loan<br>servicing<br>fees | Net gain<br>on<br>investments | Total      |
|--|---|---------------------------|---------------------------------------|-------------------------------|------------|
| <b>Assets:</b>                                 |   |                           |                                       |                               |            |
| Short-term investments                         | \$—   | \$—                       | \$—                                   | \$—                           | \$—        |
| Mortgage-backed securities at fair value       | —   | (1,478 )                  | —                                     | 4,027                         | 2,549      |
| Mortgage loans acquired for sale at fair value | 36,746  | —                         | —                                     | —                             | 36,746     |
| Mortgage loans at fair value                   | —   | 11,376                    | —                                     | 4,885                         | 16,261     |
| ESS at fair value                              | —   | 4,366                     | —                                     | (7,156 )                      | (2,790 )   |
| MSRs at fair value                             | —   | —                         | (4,400 )                              | —                             | (4,400 )   |
|  | \$36,746  | \$14,264                  | \$ (4,400 )                           | \$ 1,756                      | \$48,366   |
| <b>Liabilities:</b>                            |   |                           |                                       |                               |            |
| Interest-only security payable                 | \$—   | \$—                       | \$—                                   | \$ (1,976 )                   | \$(1,976 ) |
| Asset-backed financing of a VIE at fair value  | —   | (685 )                    | —                                     | (3,399 )                      | (4,084 )   |
|  | \$—   | \$(685 )                  | \$—                                   | \$ (5,375 )                   | \$(6,060 ) |

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|  | Quarter ended June 30, 2016                                 |           |                                  |              |                         |          |
|--|---|-----------|----------------------------------|--------------|-------------------------|----------|
|  | Net gain on mortgage loans acquired for sale (in thousands) |           | Net mortgage loan servicing fees |              | Net gain on investments | Total    |
|  |   | (1)       |                                  |              |                         |          |
| <b>Assets:</b>                                 |   |           |                                  |              |                         |          |
| Short-term investments                         | \$—   | \$—       | \$—                              | \$—          | \$—                     | \$—      |
| Mortgage-backed securities at fair value       | —   | (750 )    | —                                | —            | 4,332                   | 3,582    |
| Mortgage loans acquired for sale at fair value | 47,003  | —         | —                                | —            | —                       | 47,003   |
| Mortgage loans at fair value                   | —   | 17,286    | —                                | —            | (13,511 )               | 3,775    |
| ESS at fair value                              | —   | 5,713     | —                                | —            | (17,428 )               | (11,715) |
| MSRs at fair value                             | —   | —         | (4,941 )                         | —            | —                       | (4,941 ) |
|  | \$47,003  | \$22,249  | \$ (4,941 )                      | \$ (26,607 ) | \$ (26,607 )            | \$37,704 |
| <b>Liabilities:</b>                            |   |           |                                  |              |                         |          |
| Asset-backed financing of a VIE at fair value  | \$—   | \$ (781 ) | \$—                              | \$—          | \$ 890                  | \$ 109   |
|  | \$—   | \$ (781 ) | \$—                              | \$—          | \$ 890                  | \$ 109   |

(1) The amounts in the above table have been expanded to conform with current period presentation. The table includes the effect of capitalization of interest and accrual of unearned discounts on fair value.

|  | Six months ended June 30, 2017                              |             |                                  |             |                         |             |
|--|---|-------------|----------------------------------|-------------|-------------------------|-------------|
|  | Net gain on mortgage loans acquired for sale (in thousands) |             | Net mortgage loan servicing fees |             | Net gain on investments | Total       |
|  |   |             |                                  |             |                         |             |
| <b>Assets:</b>                                 |   |             |                                  |             |                         |             |
| Short-term investments                         | \$—   | \$—         | \$—                              | \$—         | \$—                     | \$—         |
| Mortgage-backed securities at fair value       | —   | (2,796 )    | —                                | —           | 4,167                   | 1,371       |
| Mortgage loans acquired for sale at fair value | 50,904  | —           | —                                | —           | —                       | 50,904      |
| Mortgage loans at fair value                   | —   | 21,578      | —                                | —           | 8,417                   | 29,995      |
| ESS at fair value                              | —   | 9,013       | —                                | —           | (9,929 )                | (916 )      |
| MSRs at fair value                             | —   | —           | (6,393 )                         | —           | —                       | (6,393 )    |
|  | \$50,904  | \$27,795    | \$ (6,393 )                      | \$ (6,393 ) | \$ 2,655                | \$74,961    |
| <b>Liabilities:</b>                            |   |             |                                  |             |                         |             |
| Interest-only security payable                 | \$—   | \$—         | \$—                              | \$—         | \$ (2,463 )             | \$ (2,463 ) |
| Asset-backed financing of a VIE at fair value  | —   | (1,072 )    | —                                | —           | (3,423 )                | (4,495 )    |
|  | \$—   | \$ (1,072 ) | \$—                              | \$—         | \$ (5,886 )             | \$ (6,958 ) |





|  | Six months ended June 30, 2016                              |          |                                  |     |                         |            |
|--|---|----------|----------------------------------|-----|-------------------------|------------|
|  | Net gain on mortgage loans acquired for sale (in thousands) |          | Net mortgage loan servicing fees |     | Net gain on investments | Total      |
|  |   | (1)      |                                  |     |                         |            |
| <b>Assets:</b>                                 |   |          |                                  |     |                         |            |
| Short-term investments                         | \$—   | \$—      | \$—                              | \$— | \$—                     | \$—        |
| Mortgage-backed securities at fair value       | —   | (738 )   | —                                | —   | 9,431                   | 8,693      |
| Mortgage loans acquired for sale at fair value | 89,008  | —        | —                                | —   | —                       | 89,008     |
| Mortgage loans at fair value                   | —   | 41,809   | —                                | —   | 9,279                   | 51,088     |
| ESS at fair value                              | —   | 12,728   | —                                | —   | (36,877 )               | (24,149 )  |
| MSRs at fair value                             | —   | —        | (16,356)                         | —   | —                       | (16,356 )  |
|  | \$89,008  | \$53,799 | \$(16,356)                       | —   | \$(18,167 )             | \$108,284  |
| <b>Liabilities:</b>                            |   |          |                                  |     |                         |            |
| Asset-backed financing of a VIE at fair value  | \$—   | \$536    | \$—                              | —   | \$(8,963 )              | \$(8,427 ) |
|  | \$—   | \$536    | \$—                              | —   | \$(8,963 )              | \$(8,427 ) |

(1) The amounts in the above table have been expanded to conform with current period presentation. The table includes the effect of capitalization of interest and accrual of unearned discounts on fair value.

#### Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

Following is a summary of financial statement items that were re-measured at fair value on a nonrecurring basis during the periods presented:

|   | June 30, 2017  |     |         |             |           |
|---|----------------|-----|---------|-------------|-----------|
|   | Level 1        |     | Level 2 | Level 3     | Total     |
|   |                |     |         |             |           |
|   | (in thousands) |     |         |             |           |
| Real estate acquired in settlement of loans   | \$—            | \$— | —       | \$87,046    | \$87,046  |
| MSRs at lower of amortized cost or fair value | —              | —   | —       | 231,195     | 231,195   |
|   | \$—            | \$— | —       | \$(318,241) | \$318,241 |

|   | December 31, 2016 |     |         |           |           |
|---|-------------------|-----|---------|-----------|-----------|
|   | Level 1           |     | Level 2 | Level 3   | Total     |
|   |                   |     |         |           |           |
|   | (in thousands)    |     |         |           |           |
| Real estate acquired in settlement of loans | \$—               | \$— | —       | \$125,683 | \$125,683 |

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|   |     |     |           |           |
|---|-----|-----|-----------|-----------|
| MSRs at lower of amortized cost or fair value | —   | —   | 173,765   | 173,765   |
|   | \$— | \$— | \$299,448 | \$299,448 |

The following table summarizes the fair value changes recognized during the period on assets held at period end that were measured at fair value on a nonrecurring basis:

|   | Quarter ended June<br>30, |            | Six months ended<br>June 30, |             |
|---|---------------------------|------------|------------------------------|-------------|
|   | 2017                      | 2016       | 2017                         | 2016        |
|   | (in thousands)            |            |                              |             |
| Real estate asset acquired in settlement of loans | \$(6,303 )                | \$(5,836 ) | \$(11,279 )                  | \$(11,106 ) |
| MSRs at lower of amortized cost or fair value     | (4,089 )                  | (23,170 )  | (2,585 )                     | (40,876 )   |
|   | \$(10,392)                | \$(29,006) | \$(13,864)                   | \$(51,982)  |

#### Real Estate Acquired in Settlement of Loans

The Company evaluates its REO for impairment with reference to the respective properties' fair values less cost to sell on a nonrecurring basis. The initial carrying value of the REO is measured at cost as indicated by the purchase price in the case of purchased REO or as measured by the fair value of the mortgage loan immediately before REO acquisition in the case of acquisition in settlement of a mortgage loan. REO may be subsequently revalued due to the Company receiving greater access to the property, the property being held for an extended period or receiving indications that the property's fair value may not be supported by developing

market conditions. Any subsequent change in fair value to a level that is less than or equal to the property's cost is recognized in Results of real estate acquired in settlement of loans in the Company's consolidated statements of operations.

#### Mortgage Servicing Rights at Lower of Amortized Cost or Fair Value

The Company evaluates its MSR's at lower of amortized cost or fair value for impairment with reference to the asset's fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR's at lower of amortized cost or fair value based on the interest rates borne by the mortgage loans underlying the MSR's. Mortgage loans are grouped into pools with 50 basis point interest rate ranges for fixed-rate mortgage loans with interest rates between 3.0% and 4.5% and a single pool for mortgage loans with interest rates below 3.0%. MSR's relating to adjustable rate mortgage loans with initial interest rates of 4.5% or less are evaluated in a single pool. If the fair value of MSR's in any of the interest rate pools is below the amortized cost of the MSR's, those MSR's are impaired.

When MSR's are impaired, the impairment is recognized in current-period results of operations and the carrying value of the MSR's is adjusted using a valuation allowance. If the fair value of the MSR's subsequently increases, the increase in fair value is recognized in current period income only to the extent of the valuation allowance for the respective impairment stratum.

The Manager periodically reviews the various impairment strata to determine whether the fair value of the impaired MSR's in a given stratum is likely to recover. When the Manager deems recovery of fair value to be unlikely in the foreseeable future, a write-down of the cost of the MSR's for that stratum to its estimated recoverable value is charged to the valuation allowance.

#### Fair Value of Financial Instruments Carried at Amortized Cost

Certain of the Company's borrowings are carried at amortized cost. The Company's Assets sold under agreements to repurchase, Mortgage loan participation and sale agreements, Notes payable, Exchangeable senior notes and Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase are classified as "Level 3" fair value liabilities due to the Company's reliance on unobservable inputs to estimate these instruments' fair values.

The Manager has concluded that the fair values of Assets sold under agreements to repurchase, Mortgage loan participation and sale agreements, Notes payable and Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase approximate the agreements' carrying values due to the borrowing agreements' short terms and variable interest rates. The fair value of the Exchangeable senior notes at June 30, 2017 and December 31, 2016 was \$247.2 million and \$240.7 million, respectively. The fair value of the Exchangeable senior notes is estimated using a broker indication of fair value.

#### Valuation Techniques and Inputs

Most of the Company's assets, its Derivative liabilities, the Asset-backed financing of a VIE and the Interest-only security payable are carried at fair value with changes in fair value recognized in current period income. A substantial portion of these items are "Level 3" fair value assets and liabilities which require the use of unobservable inputs that are significant to the estimation of the fair values of the assets and liabilities. Unobservable inputs reflect the Manager's own judgments about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

Due to the difficulty in estimating the fair values of "Level 3" fair value assets and liabilities, the Manager has assigned responsibility for estimating fair value of these assets and liabilities to specialized staff and subjects the valuation

process to significant executive management oversight. The Manager's Financial Analysis and Valuation group (the "FAV group") is responsible for estimating the fair values of "Level 3" fair value assets and liabilities other than IRLCs and maintaining its valuation policies and procedures.

With respect to the Company's non-IRLC "Level 3" fair value assets and liabilities, the FAV group reports to PCM's valuation committee, which oversees and approves the valuations. The FAV group monitors the models used for valuation of the Company's non-IRLC "Level 3" fair value assets and liabilities, including the models' performance versus actual results, and reports those results to PCM's valuation committee. PCM's valuation committee includes PFSI's executive chairman, and chief executive, chief financial, chief enterprise operations, chief risk and deputy chief financial officers.

The FAV group is responsible for reporting to PCM's valuation committee on a monthly basis on the changes in the valuation of the non-IRLC "Level 3" assets and liabilities, including major factors affecting the valuation and any changes in model methods and inputs. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of changes to the significant inputs to the models.

The fair value of the Company's IRLCs is developed by the Manager's Capital Markets Risk Management staff and is reviewed by the Manager's Capital Markets Operations group.

The following is a description of the techniques and inputs used in estimating the fair values of "Level 2" and "Level 3" fair value assets and liabilities:

#### Mortgage-Backed Securities

The Company categorizes its current holdings of MBS as "Level 2" fair value assets. Fair value of these MBS is established based on quoted market prices for the Company's MBS or similar securities. Changes in the fair value of MBS are included in Net gain (loss) on investments in the consolidated statements of operations.

#### Mortgage Loans

Fair value of mortgage loans is estimated based on whether the mortgage loans are saleable into active markets:

• Mortgage loans that are saleable into active markets, comprised of the Company's mortgage loans acquired for sale at fair value and mortgage loans at fair value held in a VIE, are categorized as "Level 2" fair value assets. The fair values of mortgage loans acquired for sale at fair value are established using their quoted market or contracted price or market price equivalent. For the mortgage loans at fair value held in a VIE, the quoted fair values of all of the individual securities issued by the securitization trust are used to derive a fair value for the mortgage loans. The Company obtains indications of fair value from nonaffiliated brokers based on comparable securities and validates the brokers' indications of fair value using pricing models and inputs the Manager believes are similar to the models and inputs used by other market participants.

• Mortgage loans that are not saleable into active markets, comprised of distressed mortgage loans are categorized as "Level 3" fair value assets and their fair values are estimated using a discounted cash flow approach. Inputs to the discounted cash flow model include current interest rates, loan amount, payment status, property type, discount rates and forecasts of future interest rates, home prices, prepayment speeds, default speeds, loss severities and contracted selling price where applicable.

The valuation process for "Level 3" mortgage loans includes the computation by stratum of the mortgage loans' fair values and a review for reasonableness of various measures such as weighted average life, projected prepayment and default speeds, and projected default and loss percentages. The FAV group computes the effect on the valuation of changes in inputs such as interest rates, home prices, and delinquency status to assess the reasonableness of changes in the mortgage loan valuation.

Changes in fair value attributable to changes in instrument-specific credit risk are measured by the effect on fair value of the change in the respective mortgage loan's delinquency status and performance history at period-end from the later of the beginning of the period or acquisition date.

The significant unobservable inputs used in the fair value measurement of the Company's mortgage loans at fair value are discount rate, home price projections, voluntary prepayment speeds and default speeds. Significant changes in any of those inputs in isolation could result in a significant change to the mortgage loans' fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds. Changes in the fair value of mortgage loans at fair value are included in Net gain (loss) on investments in the consolidated statements of operations.



Following is a quantitative summary of key inputs used in the valuation of mortgage loans at fair value:

| Key inputs  | June<br>30,<br>2017 | December 31,<br>2016 |
|---|---------------------|----------------------|
| Discount rate                                     |                     |                      |
| Range   | 2.9% –<br>15.0%     | 2.6% – 15.0%         |
| Weighted average                                  | 7.3%                | 7.1%                 |
| Twelve-month projected housing price index change |                     |                      |
| Range   | 2.8% –<br>4.2%      | 2.5% – 4.8%          |
| Weighted average                                  | 3.9%                | 3.7%                 |
| Prepayment speed (1)                              |                     |                      |
| Range   | 2.9% –<br>6.2%      | 0.1% – 10.9%         |
| Weighted average                                  | 3.8%                | 4.0%                 |
| Total prepayment speed (2)                        |                     |                      |
| Range   | 8.9% –<br>23.3%     | 2.9% – 24.6%         |
| Weighted average                                  | 17.0%               | 17.7%                |

(1)Prepayment speed is measured using Life Voluntary Conditional Prepayment Rate (“CPR”).

(2)Total prepayment speed is measured using Life Total CPR.

Excess Servicing Spread Purchased from PFSI

The Company categorizes ESS as a “Level 3” fair value asset. The Company uses a discounted cash flow approach to estimate the fair value of ESS. The key inputs used in the estimation of the fair value of ESS include prepayment speed and discount rate. Significant changes to those inputs in isolation may result in a significant change in the ESS fair value measurement. Changes in these key inputs are not necessarily directly related.

ESS is generally subject to loss in fair value when interest rates decrease. Decreasing mortgage rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the expected life of the mortgage loans underlying the ESS, thereby reducing the cash flows expected to accrue to ESS. Reductions in the fair value of ESS affect income primarily through change in fair value. Changes in the fair value of ESS are included in Net gain (loss) on investments in the consolidated statements of operations.

Following are the key inputs used in determining the fair value of ESS:

| Key inputs                                      | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
| UPB of underlying mortgage loans (in thousands) | \$29,716,891     | \$32,376,359         |
| Average servicing fee rate (in basis points)    | 34               | 34                   |
| Average ESS rate (in basis points)              | 19               | 19                   |

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|                                   |                 |              |
|-----------------------------------|-----------------|--------------|
| Pricing spread (1)                |                 |              |
| Range                             | 3.8% - 4.4%     | 3.8% - 4.8%  |
| Weighted average                  | 4.2%            | 4.4%         |
| Annual total prepayment speed (2) |                 |              |
| Range                             | 7.7% -<br>70.9% | 7.0% - 41.3% |
| Weighted average                  | 10.7%           | 10.5%        |
| Life (in years)                   |                 |              |
| Range                             | 0.7 - 8.1       | 1.4 - 8.6    |
| Weighted average                  | 6.6             | 6.8          |

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar London Interbank Offered Rate ("LIBOR") curve for purposes of discounting cash flows relating to ESS.

(2) Prepayment speed is measured using Life Total CPR.

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## Derivative Financial Instruments

### Interest Rate Lock Commitments

The Company categorizes IRLCs as “Level 3” fair value assets and liabilities. The Company estimates the fair value of IRLCs based on quoted Agency MBS prices, its estimate of the fair value of the MSR it expects to receive in the sale of the mortgage loan and the probability that the mortgage loans will be purchased under the commitment (the “pull-through rate”).

The significant unobservable inputs used in the fair value measurement of the Company’s IRLCs are the pull-through rate and the MSR component of the Company’s estimate of the fair value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate or the MSR component of the IRLCs, in isolation, may result in a significant change in fair value. The financial effects of changes in these inputs are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC value, but increase the pull-through rate for the mortgage loan principal and interest payment cash flow component that has decreased in fair value. Changes in fair value of IRLCs are included in Net gain on mortgage loans acquired for sale in the consolidated statements of operations.

Following is a quantitative summary of key unobservable inputs used in the valuation of IRLCs:

| Key inputs                     | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------|------------------|----------------------|
| <b>Pull-through rate</b>       |                  |                      |
| Range                          | 60.5% - 100.0%   | 60.7% - 100.0%       |
| Weighted average               | 89.8%            | 88.5%                |
| <b>MSR value expressed as:</b> |                  |                      |
| <b>Servicing fee multiple</b>  |                  |                      |
| Range                          | 2.0 - 5.8        | 2.6 - 6.0            |
| Weighted average               | 4.9              | 5.0                  |
| <b>Percentage of UPB</b>       |                  |                      |
| Range                          | 0.0% - 1.5%      | 0.7% - 1.5%          |
| Weighted average               | 1.2%             | 1.3%                 |

## Hedging Derivatives

The Company estimates the fair value of commitments to sell mortgage loans based on quoted MBS prices. Fair values of derivative financial instruments based on exchange traded market prices are categorized by the Company as “Level 1” fair value assets and liabilities; fair values of derivative financial instruments based on observable interest rate volatilities in the MBS market are categorized by the Company as “Level 2” fair value assets and liabilities. Changes in the fair value of hedging derivatives are included in Net gain on mortgage loans acquired for sale, Net gain (loss) on investments, or Net mortgage loan servicing fees, as applicable, in the consolidated statements of operations.

## Real Estate Acquired in Settlement of Loans

REO is measured based on its fair value on a nonrecurring basis and is categorized as a “Level 3” fair value asset. Fair value of REO is established by using a current estimate of fair value from a broker’s price opinion or a full appraisal, or the price given in a current contract of sale.

REO fair values are reviewed by the Manager’s staff appraisers when the Company obtains multiple indications of fair value and there is a significant difference between the fair values received. PCM’s staff appraisers will attempt to resolve the difference between the indications of fair value. In circumstances where the appraisers are not able to generate adequate data to support a fair value conclusion, the staff appraisers will order an additional appraisal to determine fair value. Changes in the fair value of REO are included in Results of real estate acquired in settlement of loans in the consolidated statements of operations.

#### Mortgage Servicing Rights

MSRs are categorized as “Level 3” fair value assets. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. The key inputs used in the estimation of the fair value of MSRs include the applicable pricing spread, prepayment and default rates of the underlying mortgage loans, and annual per-loan cost to service mortgage loans, all of which are unobservable. Significant changes to any of those inputs in isolation could result in a significant change in the MSR fair value measurement. Changes in these key inputs are not necessarily directly related. Changes in the fair value of MSRs are included in Net mortgage loan servicing fees in the consolidated statements of operations.

MSRs are generally subject to loss in fair value when mortgage interest rates decrease. Decreasing mortgage interest rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the expected life of the underlying mortgage loans, thereby reducing the cash flows expected to accrue to the MSR. Reductions in the fair value of MSRs affect income primarily through change in fair value and change in impairment. For MSRs backed by mortgage loans with historically low interest rates, factors other than interest rates (such as housing price changes) take on increasing influence on prepayment behavior of the underlying mortgage loans.

Following are the key inputs used in determining the fair value of MSRs at the time of initial recognition:

|   | Quarter ended June 30,<br>2017 |                 | 2016              |                 |
|---|--------------------------------|-----------------|-------------------|-----------------|
|   | Amortized<br>cost              | Fair<br>value   | Amortized<br>cost | Fair<br>value   |
| (MSR recognized and UPB of underlying mortgage loan amounts in thousands) |                                |                 |                   |                 |
| MSR recognized  | \$53,501                       | \$12,334        | \$58,262          | \$1,847         |
| Key inputs  |                                |                 |                   |                 |
| UPB of underlying mortgage loans  | \$4,477,209                    | \$1,157,902     | \$4,846,994       | \$200,495       |
| Weighted-average annual servicing   |                                |                 |                   |                 |
| fee rate (in basis points)  | 25                             | 25              | 25                | 25              |
| Pricing spread (1)  |                                |                 |                   |                 |
| Range   | 7.6% -<br>12.6%                | 7.6% -<br>7.6%  | 7.2% -<br>12.6%   | 7.2% -<br>7.6%  |
| Weighted average  | 7.6%                           | 7.6%            | 7.4%              | 7.3%            |
| Annual total prepayment speed (2)   |                                |                 |                   |                 |
| Range   | 3.6% -<br>26.0%                | 8.5% -<br>24.2% | 3.4% -<br>47.4%   | 7.3% -<br>38.0% |
| Weighted average  | 8.5%                           | 10.8%           | 9.4%              | 14.2%           |
| Life (in years)   |                                |                 |                   |                 |
| Range   | 3.0 - 11.6                     | 3.4 - 8.4       | 1.5 - 12.2        | 2.0 - 9.3       |
| Weighted average  | 8.0                            | 7.3             | 7.6               | 6.0             |
| Annual per-loan cost of servicing   |                                |                 |                   |                 |
| Range   | \$79 - \$79                    | \$79 - \$79     | \$68 - \$79       | \$68 - \$79     |
| Weighted average  | \$79                           | \$79            | \$76              | \$74            |

(1) The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

(2) Prepayment speed is measured using Life Total CPR.

|  | Six months ended June 30,<br>2017 |      | 2016      |      |
|--|-----------------------------------|------|-----------|------|
|  | Amortized                         | Fair | Amortized | Fair |

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|                                   | cost  | value           | cost             | value           |
|-----------------------------------|---|-----------------|------------------|-----------------|
|                                   | (MSR recognized and UPB of underlying mortgage loan amounts in thousands) |                 |                  |                 |
| MSR recognized                    | \$104,711   | \$19,812        | \$91,124         | \$5,147         |
| Key inputs                        |   |                 |                  |                 |
| UPB of underlying mortgage loans  | \$8,573,815   | \$1,818,488     | \$7,606,539      | \$527,519       |
| Weighted-average annual servicing |   |                 |                  |                 |
| fee rate (in basis points)        | 25  | 25              | 25               | 26              |
| Pricing spread (1)                |   |                 |                  |                 |
| Range                             | 7.6% -<br>12.6%   | 7.6% -<br>7.6%  | 7.2% -<br>-12.6% | 7.2% -<br>7.6%  |
| Weighted average                  | 7.6%  | 7.6%            | 7.3%             | 7.3%            |
| Annual total prepayment speed (2) |   |                 |                  |                 |
| Range                             | 3.2% -<br>28.7%   | 7.9% -<br>24.2% | 3.4% -<br>49.2%  | 7.2% -<br>38.0% |
| Weighted average                  | 8.0%  | 10.8%           | 9.8%             | 15.1%           |
| Life (in years)                   |   |                 |                  |                 |
| Range                             | 2.7 - 11.9  | 3.4 - 8.5       | 1.4 - 12.3       | 2.0 - 9.4       |
| Weighted average                  | 8.1   | 7.2             | 7.4              | 5.7             |
| Annual per-loan cost of servicing |   |                 |                  |                 |
| Range                             | \$79 - \$79   | \$79 - \$79     | \$68 - \$79      | \$68 - \$79     |
| Weighted average                  | \$79  | \$79            | \$73             | \$71            |

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- (1) The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.
- (2) Prepayment speed is measured using Life Total CPR.

Following is a quantitative summary of key inputs used in the valuation of MSRs as of the dates presented, and the effect on the fair value from adverse changes in those inputs:

|  | June 30, 2017   |              | December 31, 2016 |              |
|--|---|--------------|-------------------|--------------|
|  | Amortized cost  | Fair value   | Amortized cost    | Fair value   |
|  | (Carrying value, UPB of underlying mortgage loans and effect on fair value) |              |                   |              |
|  | amounts in thousands)   |              |                   |              |
| Carrying value   | \$657,176   | \$77,624     | \$592,431         | \$64,136     |
| Key inputs:  |   |              |                   |              |
| UPB of underlying mortgage loans                             | \$56,219,587  | \$7,058,662  | \$50,539,707      | \$5,763,957  |
| Weighted-average annual servicing fee rate (in basis points) | 25  | 25           | 25                | 25           |
| Weighted-average note interest rate                          | 3.8%  | 4.7%         | 3.8%              | 4.7%         |
| Pricing spread (1)   |   |              |                   |              |
| Range  | 7.6% - 13.1%  | 7.6% - 12.6% | 7.6% - 13.0%      | 7.6% - 12.6% |
| Weighted average   | 7.6%  | 7.6%         | 7.6%              | 7.6%         |
| Effect on fair value of (2):                                 |   |              |                   |              |
| 5% adverse change  | \$(10,729)  | \$(1,174)    | \$(10,018)        | \$(979)      |
| 10% adverse change   | \$(21,142)  | \$(2,314)    | \$(19,738)        | \$(1,929)    |
| 20% adverse change   | \$(41,066)  | \$(4,496)    | \$(38,330)        | \$(3,748)    |
| Prepayment speed (3)   |   |              |                   |              |
| Range  | 7.1% - 26.6%  | 7.3% - 21.1% | 6.7% - 25.7%      | 6.8% - 24.2% |
| Weighted average   | 8.1%  | 10.9%        | 7.7%              | 10.7%        |
| Life (in years)  |   |              |                   |              |
| Range  | 3.0 - 8.2   | 3.1 - 6.9    | 3.1 - 8.5         | 3.2 - 7.0    |
| Weighted average   | 7.7   | 6.9          | 8.0               | 7.0          |
| Effect on fair value of (2):                                 |   |              |                   |              |
| 5% adverse change  | \$(10,741)  | \$(1,687)    | \$(9,436)         | \$(1,379)    |
| 10% adverse change   | \$(21,135)  | \$(3,307)    | \$(18,578)        | \$(2,704)    |
| 20% adverse change   | \$(40,945)  | \$(6,356)    | \$(36,037)        | \$(5,202)    |
| Annual per-loan cost of servicing                            |   |              |                   |              |
| Range  | \$78 - \$79   | \$77 - \$79  | \$78 - \$79       | \$77 - \$79  |
| Weighted average   | \$79  | \$79         | \$79              | \$79         |

Effect on fair value of (2):

|                    |            |           |            |           |
|--------------------|------------|-----------|------------|-----------|
| 5% adverse change  | \$(5,108)  | \$(651)   | \$(4,650)  | \$(555)   |
| 10% adverse change | \$(10,216) | \$(1,303) | \$(9,300)  | \$(1,110) |
| 20% adverse change | \$(20,432) | \$(2,606) | \$(18,600) | \$(2,220) |

(1) The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSR.

(2) For MSRs carried at fair value, an adverse change in one of the above-mentioned key inputs is expected to result in a reduction in fair value which will be recognized in income. For MSRs carried at lower of amortized cost or fair value, an adverse change in one of the above-mentioned key inputs may result in recognition of MSR impairment. The extent of the recognized MSR impairment will depend on the relationship of fair value to the carrying value of such MSRs.

(3) Prepayment speed is measured using Life Total CPR.

The preceding sensitivity analyses are limited in that they were performed as of a particular point in time; only account for the estimated effect of the movements in the indicated inputs; do not incorporate changes in the inputs in relation to other inputs; are subject to the accuracy of various models and inputs used; and do not incorporate other factors that would affect the Company's overall financial performance in such events, including operational adjustments made by the Manager to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as earnings forecasts.

## Securities Sold Under Agreements to Repurchase

Fair value of securities sold under agreements to repurchase is based on the accrued cost of the agreements, which approximates the fair values of the agreements, due to the short maturities of such agreements.

## Note 8—Mortgage Loans Acquired for Sale at Fair Value

Mortgage loans acquired for sale at fair value is comprised of recently originated mortgage loans purchased by the Company for resale. Following is a summary of the distribution of the Company's mortgage loans acquired for sale at fair value:

| Loan type   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| Conventional:   |                  |                      |
| Agency-eligible   | \$ 1,050,956     | \$ 847,810           |
| Jumbo   | —                | 6,042                |
| Held for sale to PLS — Government insured or guaranteed | 246,259          | 804,616              |
| Commercial real estate                                  | 14,572           | 8,961                |
| Repurchased pursuant to representations and warranties  | 6,816            | 5,683                |
|   | \$ 1,318,603     | \$ 1,673,112         |
| Mortgage loans pledged to secure:                       |                  |                      |
| Assets sold under agreements to repurchase              | \$ 1,260,939     | \$ 1,627,010         |
| Mortgage loan participation and sale agreements         | 39,657           | 26,738               |
|   | \$ 1,300,596     | \$ 1,653,748         |

The Company is not approved by Ginnie Mae as an issuer of Ginnie Mae-guaranteed securities which are backed by government-insured or guaranteed mortgage loans. The Company transfers government-insured or guaranteed mortgage loans that it purchases from correspondent lenders to PLS, which is a Ginnie Mae-approved issuer, and earns a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days that mortgage loans are held prior to purchase by PLS.

## Note 9—Mortgage Loans at Fair Value

Mortgage loans at fair value are comprised of mortgage loans that are not acquired for sale and, to the extent they are not held in a VIE securing an asset-backed financing, may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified mortgage loan.

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Following is a summary of the distribution of the Company's mortgage loans at fair value:

| Loan type  | June 30, 2017  |                          | December 31, 2016 |                          |
|--|----------------|--------------------------|-------------------|--------------------------|
|  | Fair value     | Unpaid principal balance | Fair value        | Unpaid principal balance |
|  | (in thousands) |                          |                   |                          |
| <b>Distressed mortgage loans:</b>                      |                |                          |                   |                          |
| Nonperforming mortgage loans                           | \$ 558,596     | \$ 795,050               | \$ 742,988        | \$ 1,020,994             |
| <b>Performing mortgage loans:</b>                      |                |                          |                   |                          |
| Fixed interest rate                                    | 299,201        | 395,748                  | 296,901           | 408,943                  |
| Interest rate step-up                                  | 257,164        | 333,360                  | 232,700           | 317,409                  |
| Adjustable-rate/hybrid                                 | 69,659         | 74,172                   | 81,983            | 92,313                   |
|  | 626,024        | 803,280                  | 611,584           | 818,665                  |
|  | 1,184,620      | 1,598,330                | 1,354,572         | 1,839,659                |
| Fixed interest rate jumbo mortgage loans held in a VIE | 343,192        | 339,515                  | 367,169           | 368,524                  |
|  | \$ 1,527,812   | \$ 1,937,845             | \$ 1,721,741      | \$ 2,208,183             |
| <b>Mortgage loans at fair value pledged to secure:</b> |                |                          |                   |                          |
| Assets sold under agreements to repurchase             | \$ 1,178,019   |                          | \$ 1,345,021      |                          |
| Asset-backed financing of a VIE at fair value          | 343,192        |                          | 367,169           |                          |
|  | \$ 1,521,211   |                          | \$ 1,712,190      |                          |



Following is a summary of certain concentrations of credit risk in the portfolio of distressed mortgage loans at fair value:

| Concentration  | June<br>30,<br>2017                | December 31,<br>2016  |
|--|------------------------------------|---|
|  | (percentages are of<br>fair value) |   |
| Portion of mortgage loans originated between 2005 and 2007 | 73%                                | 72%   |
| Mortgage loans with unpaid-principal balance-to-current    |                                    |   |
| -property-value in excess of 100%                          | 40%                                | 41%   |
| States contributing 5% or more of mortgage loans           | New<br>York                        | New York<br>California<br>California<br>New Jersey<br>New<br>Jersey<br>Florida<br>Florida<br>Massachusetts<br>Massachusetts |

Note 10—Real Estate Acquired in Settlement of Loans

Following is a summary of financial information relating to REO:

|   | Quarter ended June 30, |            | Six months ended June |           |
|---|------------------------|------------|-----------------------|-----------|
|   | 2017                   | 2016       | 2017                  | 2016      |
|   | (in thousands)         |            |                       |           |
| Balance at beginning of period                    | \$224,831              | \$ 327,212 | \$274,069             | \$341,846 |
| Transfers from mortgage loans at fair value       |                        |            |                       |           |
| and advances                                      | 29,154                 | 53,558     | 54,030                | 114,052   |
| Transfer of real estate acquired in settlement of |                        |            |                       |           |
| mortgage loans to real estate held for investment | (5,101 )               | (8,082 )   | (11,745 )             | (12,266 ) |
| Results of REO:                                   |                        |            |                       |           |
| Valuation adjustments, net                        | (7,151 )               | (7,283 )   | (15,326 )             | (17,928 ) |
| Gain on sale, net                                 | 3,686                  | 4,718      | 7,615                 | 9,327     |

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|                          |           |            |           |           |
|--------------------------|-----------|------------|-----------|-----------|
|                          | (3,465 )  | (2,565 )   | (7,711 )  | (8,601 )  |
| Proceeds from sales      | (38,385 ) | (70,665 )  | (101,609) | (135,573) |
| Balance at end of period | \$207,034 | \$ 299,458 | \$207,034 | \$299,458 |

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
|  | (in thousands)   |                      |
| REO pledged to secure assets sold under agreements |                  |                      |
| to repurchase                                      | \$56,842         | \$ 167,430           |
| REO held in a consolidated subsidiary whose stock  |                  |                      |
| is pledged to secure financings of such properties | 51,512           | 48,283               |
|  | \$108,354        | \$ 215,713           |

Note 11—Mortgage Servicing Rights

Carried at Lower of Amortized Cost or Fair Value:

Following is a summary of MSR's carried at lower of amortized cost or fair value:

|   | Quarter ended June 30, |                   | Six months ended |           |
|---|------------------------|-------------------|------------------|-----------|
|   | 2017                   | 2016              | June 30,         | 2016      |
|   | (in thousands)         |                   |                  |           |
| <b>Amortized Cost:</b>                                      |                        |                   |                  |           |
| Balance at beginning of period                              | \$639,455              | \$ 422,676        | \$606,103        | \$404,101 |
| MSR's resulting from mortgage loan sales                    | 53,501                 | 58,262            | 104,711          | 91,124    |
| Amortization  | (19,523 )              | (15,531 )         | (37,381 )        | (29,818 ) |
| Sales   | —                      | (106 )            | —                | (106 )    |
| Balance at end of period                                    | 673,433                | 465,301           | 673,433          | 465,301   |
| <b>Valuation Allowance:</b>                                 |                        |                   |                  |           |
| Balance at beginning of period                              | (12,168 )              | (28,650 )         | (13,672 )        | (10,944 ) |
| Additions to impairment valuation allowance                 | (4,089 )               | (23,170 )         | (2,585 )         | (40,876 ) |
| Balance at end of period                                    | (16,257 )              | (51,820 )         | (16,257 )        | (51,820 ) |
| MSR's, net  | \$657,176              | \$ 413,481        | \$657,176        | \$413,481 |
| Fair value at beginning of period                           | \$662,584              | \$ 405,635        | \$626,334        | \$424,154 |
| Fair value at end of period                                 | \$682,437              | \$ 417,094        |                  |           |
|   | June 30,               |                   |                  |           |
|   | 2017                   | December 31, 2016 |                  |           |
|   | (in thousands)         |                   |                  |           |
| <b>MSR's carried at lower of cost or fair value pledged</b> |                        |                   |                  |           |
| to secure notes payable                                     | \$647,169              | \$ 592,431        |                  |           |

The following table summarizes the Company's estimate of future amortization of its existing MSR's carried at amortized cost. This estimate was developed with the inputs used in the June 30, 2017 valuation of MSR's. The inputs underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time.

| 12 months ended June 30, | Estimated MSR amortization (in thousands) |
|--------------------------|---|
| 2018                     | \$ 78,845                                 |
| 2019                     | 72,092                                    |
| 2020                     | 65,627                                    |

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|            |            |
|------------|------------|
| 2021       | 59,403     |
| 2022       | 53,535     |
| Thereafter | 343,931    |
| Total      | \$ 673,433 |

Carried at Fair Value:

Following is a summary of MSRs carried at fair value:

|  | Quarter ended June 30, |           | Six months ended |           |
|--|------------------------|-----------|------------------|-----------|
|  | 2017                   | 2016      | June 30,         | 2016      |
|  | (in thousands)         |           |                  |           |
| Balance at beginning of period                       | \$69,683               | \$ 61,071 | \$64,136         | \$66,584  |
| Purchases  | 7                      | —         | 69               | 2,602     |
| MSRs resulting from mortgage loan sales              | 12,334                 | 1,847     | 19,812           | 5,147     |
| Changes in fair value:                               |                        |           |                  |           |
| Due to changes in valuation inputs used in valuation |                        |           |                  |           |
| model (1)  | (2,303 )               | (2,508 )  | (4,328 )         | (11,460 ) |
| Other changes in fair value (2)                      | (2,097 )               | (2,433 )  | (2,065 )         | (4,896 )  |
|  | (4,400 )               | (4,941 )  | (6,393 )         | (16,356 ) |
| Balance at end of period                             | \$77,624               | \$ 57,977 | \$77,624         | \$57,977  |

|  | June 30,       | December 31, 2016 |
|--|----------------|-------------------|
|  | (in thousands) |                   |
| MSRs carried at fair value pledged to secure notes payable | \$76,727       | \$ 64,136         |

(1) Principally reflects changes in pricing spread (discount rate) and prepayment speed inputs, primarily due to changes in market interest rates.

(2) Represents changes due to realization of expected cash flows.

Servicing fees relating to MSRs are recorded in Net mortgage loan servicing fees on the Company's consolidated statements of operations and are summarized below:

|  | Quarter ended  |          | Six months ended |          |
|--|----------------|----------|------------------|----------|
|  | June 30,       | 2016     | June 30,         | 2016     |
|  | (in thousands) |          |                  |          |
| Contractually-specified servicing fees | \$39,705       | \$29,991 | \$76,986         | \$57,770 |
| Ancillary and other fees:              |                |          |                  |          |
| Late charges                           | 1,203          | 1,450    | 2,240            | 2,407    |
| Other                                  | 176            | 137      | 363              | 273      |
|  | \$41,084       | \$31,578 | \$79,589         | \$60,450 |

Note 12—Assets Sold Under Agreements to Repurchase

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Following is a summary of financial information relating to assets sold under agreements to repurchase:

|                                    | Quarter ended June 30, |             | Six months ended June 30, |             |
|------------------------------------|------------------------|-------------|---------------------------|-------------|
|                                    | 2017                   | 2016        | 2017                      | 2016        |
|                                    | (dollars in thousands) |             |                           |             |
| Weighted-average interest rate (1) | 2.82                   | % 2.17      | % 2.70                    | % 2.19      |
| Average balance                    | \$3,420,836            | \$3,268,774 | \$3,344,772               | \$3,033,038 |
| Total interest expense             | \$23,941               | \$22,056    | \$46,123                  | \$42,468    |
| Maximum daily amount outstanding   | \$4,361,565            | \$4,331,706 | \$4,563,762               | \$4,402,724 |

(1) Excludes the effect of amortization of debt issuance costs of \$1.9 million and \$4.2 million for the quarter and six months ended June 30, 2017, respectively, and \$2.2 million and \$4.3 million for the quarter and six months ended June 30, 2016, respectively.

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|   | June 30,<br>2017       | December 31,<br>2016 |
|---|------------------------|----------------------|
|   | (dollars in thousands) |                      |
| Carrying value:   |                        |                      |
| Unpaid principal balance  | \$3,498,916            | \$ 3,784,685         |
| Unamortized debt issuance costs                                     | (917 )                 | (684 )               |
|   | \$3,497,999            | \$ 3,784,001         |
| Weighted-average interest rate                                      | 2.69 %                 | 2.70 %               |
| Available borrowing capacity (1):                                   |                        |                      |
| Committed   | \$252,420              | \$ 518,932           |
| Uncommitted   | 2,408,141              | 1,092,253            |
|   | \$2,660,561            | \$ 1,611,185         |
| Margin deposits placed with counterparties included in Other assets | \$8,792                | \$ 29,634            |
| Fair value of assets securing agreements to repurchase:             |                        |                      |
| Mortgage-backed securities  | \$1,065,540            | \$ 863,802           |
| Mortgage loans acquired for sale at fair value                      | \$1,260,939            | \$ 1,627,010         |
| Mortgage loans at fair value  | \$1,178,019            | \$ 1,345,021         |
| Real estate acquired in settlement of loans                         | \$108,353              | \$ 215,713           |
| Real estate held for investment                                     | \$13,602               | \$ —                 |
| CRT Agreements:   |                        |                      |
| Deposits securing CRT agreements                                    | \$410,512              | \$ 414,610           |
| Derivative assets   | \$19,291               | \$ 9,078             |

(1) At June 30, 2017, available borrowing capacity includes \$500 million of temporary increases in credit limits expiring on various dates through September 30, 2017.

Following is a summary of maturities of outstanding assets sold under agreements to repurchase by facility maturity date:

| Remaining Maturity at June 30, 2017   | Contractual<br>balance<br>(in<br>thousands) |
|---------------------------------------|---|
| Within 30 days                        | \$1,347,445                                 |
| Over 30 to 90 days                    | 153,433                                     |
| Over 90 days to 180 days              | 246,264                                     |
| Over 180 days to 1 year               | 1,751,774                                   |
| Over one year to two years            | —   |
|                                       | \$3,498,916                                 |
| Weighted average maturity (in months) | 5.3   |

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The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the fair value (as determined by the applicable lender) of the assets securing those agreements decreases.

The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) and maturity information relating to the Company's assets sold under agreements to repurchase is summarized by counterparty below as of June 30, 2017:

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Mortgage loans acquired for sale, Mortgage loans and REO sold under agreements to repurchase

| Counterparty                        | Amount at risk<br>(in thousands) | Weighted-average<br>repurchase<br>agreement maturity | Facility maturity |
|-------------------------------------|----------------------------------|--|-------------------|
| Credit Suisse First Boston Mortgage |                                  |  |                   |
| Capital LLC                         | \$ 85,097                        | September 20, 2017                                   | April 27, 2018    |
| Citibank, N.A.                      | \$ 174,564                       | August 1, 2017                                       | March 2, 2018     |
| JPMorgan Chase & Co.                | \$ 109,212                       | August 23, 2017                                      | October 13, 2017  |
| Bank of America, N.A.               | \$ 22,821                        | September 21, 2017                                   | May 25, 2018      |
| Morgan Stanley                      | \$ 9,424                         | September 17, 2017                                   | August 25, 2017   |
| Barclays Bank PLC                   | \$ 11,382                        | September 18, 2017                                   | December 1, 2017  |

Securities sold under agreements to repurchase

| Counterparty                       | Amount at<br>risk<br>(in<br>thousands) | Weighted average<br>maturity |
|------------------------------------|--|------------------------------|
| JPMorgan Chase & Co.               | \$ 1,106                               | July 5, 2017                 |
| Bank of America, N.A.              | \$ 17,286                              | July 17, 2017                |
| Daiwa Capital Markets America Inc. | \$ 5,719                               | July 18, 2017                |
| Wells Fargo, N.A.                  | \$ 5,393                               | July 10, 2017                |
| Royal Bank of Canada               | \$ 3,507                               | July 17, 2017                |

CRT Agreements

| Counterparty                                    | Amount at<br>risk<br>(in<br>thousands) | Weighted average<br>maturity |
|---|--|------------------------------|
| Credit Suisse First Boston Mortgage Capital LLC | \$ 57,732                              | July 11, 2017                |
| Bank of America, N.A.                           | \$ 31,238                              | July 12, 2017                |
| BNP Paribas Corporate & Institutional Banking   | \$ 19,302                              | July 12, 2017                |

Note 13—Mortgage Loan Participation and Sale Agreements

Certain borrowing facilities secured by mortgage loans acquired for sale are in the form of mortgage loan participation and sale agreements. Participation certificates, each of which represents an undivided beneficial ownership interest in a pool of mortgage loans that have been pooled with Fannie Mae or Freddie Mac, are sold to a lender pending the securitization of such mortgage loans and the sale of the resulting security. A commitment between the Company and a nonaffiliate to sell such security is also assigned to the lender at the time a participation certificate is sold.

The purchase price paid by the lender for each participation certificate is based on the trade price of the security, plus an amount of interest expected to accrue on the security to its anticipated delivery date, minus a present value adjustment, any related hedging costs and a holdback amount. The holdback amount is based on a percentage of the purchase price and is not required to be paid to the Company until the settlement of the security and its delivery to the lender.

Mortgage loan participation and sale agreements are summarized below:

|                                    | Quarter ended June<br>30,<br>2017 |   | 2016     |   | Six months ended<br>June 30,<br>2017 |   | 2016     |   |
|------------------------------------|-----------------------------------|---|----------|---|--------------------------------------|---|----------|---|
|                                    | (dollars in thousands)            |   |          |   |                                      |   |          |   |
| Weighted-average interest rate (1) | 2.30                              | % | 1.69     | % | 2.20                                 | % | 1.68     | % |
| Average balance                    | \$71,724                          |   | \$70,701 |   | \$68,131                             |   | \$69,649 |   |
| Total interest expense             | \$449                             |   | \$333    |   | \$816                                |   | \$661    |   |
| Maximum daily amount outstanding   | \$98,721                          |   | \$96,335 |   | \$98,721                             |   | \$97,672 |   |

(1) Excludes the effect of amortization of debt issuance costs of \$31,000 and \$63,000 for the quarter and six months ended June 30, 2017, respectively, and \$31,000 and \$68,000 for the quarter and six months ended June 30, 2016, respectively.

|  | June 30,<br>2017       |   | December 31,<br>2016 |   |
|--|------------------------|---|----------------------|---|
|  | (dollars in thousands) |   |                      |   |
| Carrying value:                                    |                        |   |                      |   |
| Amount outstanding                                 | \$ 38,470              |   | \$ 25,917            |   |
| Unamortized debt issuance costs                    | (125 )                 |   | —                    |   |
|  | \$ 38,345              |   | \$ 25,917            |   |
| Weighted-average interest rate                     | 2.47                   | % | 2.02                 | % |
| Mortgage loans acquired for sale pledged to secure |                        |   |                      |   |
| mortgage loan participation and sale agreements    | \$ 39,657              |   | \$ 26,738            |   |

#### Note 14—Federal Home Loan Bank Advances

On January 12, 2016, the Federal Housing Finance Agency (“FHFA”) issued a final rule establishing new requirements for membership in the Federal Home Loan Banks. The final rule excludes captive insurance companies such as the Company’s insurance subsidiary, Copper Insurance, LLC, from membership.

For captive insurance companies that became members since the rule was proposed in 2014, including Copper Insurance, LLC, membership must be terminated within one year, and no additional advances may be made. Accordingly, the Company has repaid all of the advances outstanding as of June 30, 2016.

The FHLB advances are summarized below:

|                                  |  |   |
|----------------------------------|--|---|
|                                  | Six months ended<br>June 30,<br>2016<br>(dollars in thousands) |   |
| Weighted-average interest rate   | 0.49   | % |
| Average balance                  | \$ 49,019  |   |
| Total interest expense           | \$ 122   |   |
| Maximum daily amount outstanding | \$ 201,130   |   |

## Note 15—Notes Payable

On March 24, 2017, the Company, through PennyMac Corp (“PMC”) and PMH, entered into a Loan and Security Agreement with Barclays Bank PLC (“Barclays”), pursuant to which PMC and PMH may finance certain mortgage servicing rights (inclusive of any related excess servicing spread arising therefrom and that maybe transferred from PMC to PMH from time to time) relating to mortgage loans pooled into Freddie Mac securities (collectively, the “Freddie MSRs”), in an aggregate loan amount not to exceed \$170 million. The note matures on December 1, 2017, subject to a wind down period of up to one year following such maturity date.

On March 24, 2017, the Company, through PMC and PMH, entered into a second Amended and Restated Loan and Security Agreement with Citibank, N.A., Pursuant to which PMC and PMH finance certain MSR's (inclusive of any related excess servicing spread and/or junior excess strips arising therefrom and that may be transferred from PMC to PMH from time to time) relating to mortgage loans pooled into Fannie Mae securities (collectively, the "Fannie MSR's") in an aggregate loan amount not to exceed \$400 million, all of which is committed. The note matures on March 2, 2018.

Following is a summary of financial information relating to the notes payable:

|                                    | Quarter ended June 30, |           | Six months ended June 30, |           |
|------------------------------------|------------------------|-----------|---------------------------|-----------|
|                                    | 2017                   | 2016      | 2017                      | 2016      |
|                                    | (dollars in thousands) |           |                           |           |
| Weighted-average interest rate (1) | 6.04                   | % 4.63    | % 5.40                    | % 4.65    |
| Average balance                    | \$119,447              | \$188,330 | \$189,526                 | \$200,973 |
| Total interest expense             | \$3,095                | \$2,991   | \$7,399                   | \$6,334   |
| Maximum daily amount outstanding   | \$160,106              | \$211,103 | \$275,106                 | \$234,476 |

(1) Excludes the effect of amortization of debt issuance costs of \$1.3 million and \$2.2 million for the quarter and six months ended June 30, 2017, respectively, and \$788,000 and \$1.6 million for the quarter and six months ended June 30, 2016, respectively.

|                                       | June 30,               | December 31, |
|---------------------------------------|------------------------|--------------|
|                                       | 2017                   | 2016         |
|                                       | (dollars in thousands) |              |
| Carrying value:                       |                        |              |
| Amount outstanding                    | \$159,980              | \$275,106    |
| Unamortized debt issuance costs       | —                      | —            |
|                                       | \$159,980              | \$275,106    |
| Weighted-average interest rate        | 5.34                   | % 4.73       |
| MSR's pledged to secure notes payable | \$723,896              | \$656,567    |

#### Note 16—Asset-Backed Financing of a Variable Interest Entity at Fair Value

Following is a summary of financial information relating to the asset-backed financing of a VIE:

|  | Quarter ended June 30, |      | Six months ended June 30, |      |
|--|------------------------|------|---------------------------|------|
|  | 2017                   | 2016 | 2017                      | 2016 |
|  | (dollars in thousands) |      |                           |      |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Weighted-average fair value              | \$337,844 | \$334,233 | \$342,822 | \$325,112 |
| Interest expense                         | \$3,596   | \$3,606   | \$7,005   | \$4,958   |
| Weighted-average effective interest rate | 3.41 %    | 3.34 %    | 3.44 %    | 3.34 %    |

|                                | June 30,<br>2017       | December 31, 2016 |
|--------------------------------|------------------------|-------------------|
|                                | (dollars in thousands) |                   |
| Carrying value                 | \$329,459              | \$ 353,898        |
| UPB                            | \$339,515              | \$ 355,494        |
| Weighted-average interest rate | 3.50 %                 | 3.50 %            |

The asset-backed financing of a VIE is a non-recourse liability and secured solely by the assets of a consolidated VIE and not by any other assets of the Company. The assets of the VIE are the only source of funds for repayment of the certificates.

Note 17—Exchangeable Senior Notes

PMC issued in a private offering \$250 million aggregate principal amount of Exchangeable Notes due May 1, 2020. The Exchangeable Notes bear interest at a rate of 5.375% per year, payable semiannually. The Exchangeable Notes are exchangeable into common shares of the Company at a rate of 33.8667 common shares per \$1,000 principal amount of the Exchangeable Notes as of June 30, 2017, which is an increase over the initial exchange rate of 33.5149. The increase in the calculated exchange rate was the result of quarterly cash dividends exceeding the quarterly dividend threshold amount of \$0.57 per share in prior reporting periods, as provided in the related indenture.

Following is financial information relating to the Exchangeable Notes:

|                      | Quarter ended June 30, |           | Six months ended June 30, |           |
|----------------------|------------------------|-----------|---------------------------|-----------|
|                      | 2017                   | 2016      | 2017                      | 2016      |
|                      | (in thousands)         |           |                           |           |
| Weighted-average UPB | \$250,000              | \$250,000 | \$250,000                 | \$250,000 |
| Interest expense     | \$3,631                | \$3,616   | \$7,260                   | \$7,228   |

|                                 | June 30, 2017  | December 31, 2016 |
|---------------------------------|----------------|-------------------|
|                                 | (in thousands) |                   |
| Carrying value:                 |                |                   |
| UPB                             | \$250,000      | \$250,000         |
| Unamortized debt issuance costs | (3,371 )       | (3,911 )          |
|                                 | \$246,629      | \$246,089         |

Note 18—Liability for Losses Under Representations and Warranties

Following is a summary of the Company's liability for losses under representations and warranties:

|  | Quarter ended June 30, |              | Six months ended June 30, |          |
|--|------------------------|--------------|---------------------------|----------|
|  | 2017                   | 2016         | 2017                      | 2016     |
|  | (in thousands)         |              |                           |          |
| Balance, beginning of period   | \$11,447               | \$18,712     | \$15,350                  | \$20,171 |
| Provision for losses:  |                        |              |                           |          |
| Pursuant to mortgage loan sales  | 607                    | 650          | 1,280                     | 1,221    |
| Reduction in liability due to change in estimate                                 | (1,305 )               | —            | (5,881 )                  | (1,724 ) |
| Losses incurred  | (52 )                  | (104 )       | (52 )                     | (410 )   |
| Recoveries   | —                      | —            | —                         | —        |
| Balance, end of period   | \$10,697               | \$19,258     | \$10,697                  | \$19,258 |
| UPB of mortgage loans subject to representations and warranties at end of period | \$62,530,609           | \$46,339,653 |                           |          |

Note 19—Commitments and Contingencies

Litigation

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of June 30, 2017, the Company was not involved in any such proceedings, claims or legal actions that in management’s view would reasonably be likely to have a material adverse effect on the Company.

Commitments

The following table summarizes the Company’s outstanding contractual commitments:

|  | June 30,<br>2017<br>(in<br>thousands) |
|--|---------------------------------------|
| Commitments to purchase mortgage loans acquired for sale | \$1,931,374                           |
| Commitments to fund Deposits securing CRT agreements (1) | \$247,942                             |

(1) Certain deposits of cash collateral on CRT Agreements are made upon the first to occur of fulfillment of the aggregation obligation or the lapse of the aggregation period.

Note 20—Shareholders’ Equity

Issuance of Preferred Shares of Beneficial Interest

On March 9, 2017, the Company issued 4,600,000 of its 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share (“Series A Preferred Shares”). From, and including, the date of original issuance to, but not including, March 15, 2024, the Company will pay cumulative dividends on the Series A Preferred Shares



at a fixed rate of 8.125% per annum based on the \$25.00 per share liquidation preference. From, and including, March 15, 2024 and thereafter, the Company will pay cumulative dividends on the Series A Preferred Shares at a floating rate equal to three-month LIBOR as calculated on each applicable dividend determination date plus a spread of 5.831% per annum based on the \$25.00 per share liquidation preference. PMT will pay quarterly cumulative dividends on the Series A Preferred Shares, in arrears, on the 15th day of each March, June, September and December, beginning on June 15, 2017 (provided that if any dividend payment date is not a business day, then the dividend that would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day).

The Series A Preferred Shares will not be redeemable before March 15, 2024, except in connection with the Company's qualification as a REIT for U.S. federal income tax purposes or upon the occurrence of a change of control of the Company as described in the prospectus supplement filed with the SEC on March 6, 2017. On or after March 15, 2024 or within 120 days of the occurrence of a change in control, the Company may, at its option, redeem any or all of the Series A Preferred Shares at \$25.00 per share plus any accumulated and unpaid dividends thereon to, but not including, the redemption date.

The Series A Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless redeemed or repurchased by the Company or converted into common shares of beneficial interest, \$0.01 par value per share, of PMT in connection with a change of control by the holders of the Series A Preferred Shares.

#### Common Share Repurchases

During August 2015, the Company's board of trustees authorized a common share repurchase program under which the Company may repurchase up to \$150 million of its outstanding common shares. During February 2016, the Company's board of trustees approved an increase to its share repurchase program pursuant to which the Company is now authorized to repurchase up to \$200 million of its common shares.

The following table summarizes the Company's share repurchase activity:

|                                   | Quarter<br>ended June<br>30, | Six months<br>ended June 30, |          | Cumulative<br>Total (1) |
|-----------------------------------|------------------------------|------------------------------|----------|-------------------------|
|                                   | 2016                         | 2017                         | 2016     |                         |
|                                   | (in thousands)               |                              |          |                         |
| Common shares repurchased         | — 1,186                      | 139                          | 6,342    | 8,551                   |
| Cost of common shares repurchased | \$—\$18,363                  | \$2,307                      | \$82,834 | \$ 117,015              |

(1) Amounts represent the share repurchase program total from its inception in August 2015 through June 30, 2017. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued common share pool.

Conditional Reimbursement of IPO Underwriting Costs

As more fully described in Note 3—Transactions with Related Parties, on February 1, 2013, the Company entered into a Reimbursement Agreement, by and among the Company, the Operating Partnership and PCM. The Reimbursement Agreement provides that, to the extent the Company is required to pay PCM performance incentive fees under the management agreement, the Company will reimburse PCM for underwriting costs it paid on the IPO offering date at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$1.0 million, and the maximum amount that may be reimbursed under the agreement is \$2.9 million. No payments were made during the quarters ended June 30, 2017 and June 30, 2016.

The Reimbursement Agreement also provides for the payment to the IPO underwriters of the amount that the Company agreed to pay to them at the time of the IPO if the Company satisfied certain performance measures over a specified period of time. As PCM earns performance incentive fees under the management agreement, the IPO underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by PCM. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$2.0 million and the maximum amount that may be paid under the agreement is \$5.9 million. No payments were made during the quarters and six months ended June 30, 2017 and June 30, 2016. The Reimbursement Agreement expires on February 1, 2019.

## Note 21—Net Gain on Mortgage Loans Acquired for Sale

Net gain on mortgage loans acquired for sale is summarized below:

|   | Quarter ended June<br>30, |            | Six months ended<br>June 30, |            |
|---|---------------------------|------------|------------------------------|------------|
|   | 2017                      | 2016       | 2017                         | 2016       |
|   | (in thousands)            |            |                              |            |
| From non-affiliates:  |                           |            |                              |            |
| Cash loss:  |                           |            |                              |            |
| Mortgage loans  | \$(26,688)                | \$(20,592) | \$(82,595)                   | \$(25,173) |
| Hedging activities  | (19,720)                  | (29,118)   | (3,463)                      | (61,694)   |
|   | (46,408)                  | (49,710)   | (86,058)                     | (86,867)   |
| Non cash gain:  |                           |            |                              |            |
| Receipt of MSR in mortgage loan sale transactions   | 65,835                    | 60,109     | 124,523                      | 96,271     |
| Provision for losses relating to representations and<br>warranties provided in mortgage loan sales: |                           |            |                              |            |
| Pursuant to mortgage loans sales  | (607)                     | (650)      | (1,280)                      | (1,221)    |
| Reduction in liability due to change in estimate  | 1,305                     | —          | 5,881                        | 1,724      |
| Change in fair value of financial instruments<br>held at end of period:                             |                           |            |                              |            |
| IRLCs   | (8,327)                   | 7,423      | (3,383)                      | 12,111     |
| Mortgage loans  | (5,657)                   | 5,015      | 2,471                        | 11,752     |
| Hedging derivatives   | 7,947                     | (92)       | (11,902)                     | 1,812      |
|   | (6,037)                   | 12,346     | (12,814)                     | 25,675     |
| Total from non-affiliates   | 14,088                    | 22,095     | 30,252                       | 35,582     |
| From PFSI—cash gain   | 3,204                     | 2,131      | 6,065                        | 3,693      |
|   | \$17,292                  | \$24,226   | \$36,317                     | \$39,275   |

## Note 22—Net Gain (Loss) on Investments

Net gain (loss) on investments is summarized below:

|                                 | Quarter ended June<br>30, |         | Six months ended<br>June 30, |         |
|---------------------------------|---------------------------|---------|------------------------------|---------|
|                                 | 2017                      | 2016    | 2017                         | 2016    |
|                                 | (in thousands)            |         |                              |         |
| Net gain (loss) on investments: |                           |         |                              |         |
| From non-affiliates:            |                           |         |                              |         |
| Mortgage-backed securities      | \$4,027                   | \$4,332 | \$4,167                      | \$9,431 |

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|   |          |            |          |            |
|---|----------|------------|----------|------------|
| Distressed mortgage loans at fair value       | 1,030    | (13,463)   | 4,246    | 932        |
| Mortgage loans held in a VIE at fair value    | 3,855    | (48 )      | 4,171    | 8,347      |
| CRT Agreements                                | 32,853   | 7,764      | 51,440   | 3,621      |
| Asset-backed financing of a VIE at fair value | (3,399 ) | 890        | (3,423 ) | (8,963 )   |
| Hedging derivatives                           | (4,889 ) | 862        | (9,033 ) | 698        |
|   | 33,477   | 337        | 51,568   | 14,066     |
| From PFSI—ESS                                 | (5,885 ) | (15,824)   | (7,255 ) | (33,451)   |
|   | \$27,592 | \$(15,487) | \$44,313 | \$(19,385) |

## Note 23—Net Interest Income

Net interest income is summarized below:

|  | Quarter ended<br>June 30, |           | Six months ended<br>June 30, |           |
|--|---------------------------|-----------|------------------------------|-----------|
|  | 2017                      | 2016      | 2017                         | 2016      |
|  | (in thousands)            |           |                              |           |
| <b>Interest income:</b>                            |                           |           |                              |           |
| From nonaffiliates:                                |                           |           |                              |           |
| Short-term investments                             | \$ 103                    | \$ —      | \$ 385                       | \$ 377    |
| Mortgage-backed securities                         | 7,734                     | 2,756     | 14,506                       | 5,468     |
| Mortgage loans acquired for sale at fair value     | 12,995                    | 13,596    | 24,497                       | 22,860    |
| Mortgage loans at fair value:                      |                           |           |                              |           |
| Distressed   | 19,592                    | 23,042    | 39,244                       | 52,228    |
| Held in a VIE                                      | 3,876                     | 4,951     | 7,605                        | 10,480    |
| Deposits securing CRT Agreements                   | 855                       | 235       | 1,264                        | 375       |
| Placement fees relating to custodial funds         | 2,811                     | 1,341     | 3,882                        | 1,341     |
| Other  | 54                        | 132       | 90                           | 275       |
|  | 48,020                    | 46,053    | 91,473                       | 93,404    |
| From PFSI—ESS                                      | 4,366                     | 5,713     | 9,013                        | 12,728    |
|  | 52,386                    | 51,766    | 100,486                      | 106,132   |
| <b>Interest expense:</b>                           |                           |           |                              |           |
| To nonaffiliates:                                  |                           |           |                              |           |
| Assets sold under agreements to repurchase         | 23,941                    | 22,056    | 46,123                       | 42,468    |
| Mortgage loan participation and sale agreements    | 449                       | 333       | 816                          | 661       |
| FHLB advances                                      | —                         | —         | —                            | 122       |
| Notes payable                                      | 3,095                     | 2,991     | 7,399                        | 6,334     |
| Asset-backed financings of VIEs at fair value      | 3,596                     | 3,606     | 7,005                        | 4,958     |
| Exchangeable Notes                                 | 3,631                     | 3,616     | 7,260                        | 7,228     |
| Interest shortfall on repayments of mortgage loans |                           |           |                              |           |
| serviced for Agency securitizations                | 1,368                     | 1,589     | 2,430                        | 2,561     |
| Interest on mortgage loan impound deposits         | 321                       | 180       | 742                          | 441       |
|  | 36,401                    | 34,371    | 71,775                       | 64,773    |
| To PFSI—Assets sold under agreement to repurchase  | 2,025                     | 2,222     | 3,830                        | 3,824     |
|  | 38,426                    | 36,593    | 75,605                       | 68,597    |
| Net interest income                                | \$ 13,960                 | \$ 15,173 | \$ 24,881                    | \$ 37,535 |

## Note 24—Net Mortgage Loan Servicing Fees

Net mortgage loan servicing fees are summarized below:

|   | Quarter ended June 30, |              | Six months ended June 30, |              |
|---|------------------------|--------------|---------------------------|--------------|
|   | 2017                   | 2016         | 2017                      | 2016         |
|   | (in thousands)         |              |                           |              |
| From non-affiliates:                              |                        |              |                           |              |
| Servicing fees (1)                                | \$41,084               | \$31,578     | \$79,589                  | \$60,450     |
| Effect of MSR's:                                  |                        |              |                           |              |
| Carried at lower of amortized cost or fair value: |                        |              |                           |              |
| Amortization                                      | (19,523 )              | (15,531 )    | (37,381 )                 | (29,818 )    |
| Additions to impairment valuation allowance       | (4,089 )               | (23,170 )    | (2,585 )                  | (40,876 )    |
| Gain on sale                                      | —                      | 11           | —                         | 11           |
| Carried at fair value—change in fair value        | (4,400 )               | (4,941 )     | (6,393 )                  | (16,356 )    |
| Gains (losses) on hedging derivatives             | 2,391                  | 27,433       | (6,307 )                  | 57,393       |
|   | (25,621 )              | (16,198 )    | (52,666 )                 | (29,646 )    |
|   | 15,463                 | 15,380       | 26,923                    | 30,804       |
| From PFSI—MSR recapture income                    | 234                    | 311          | 526                       | 441          |
| Net mortgage loan servicing fees                  | \$15,697               | \$15,691     | \$27,449                  | \$31,245     |
| Average servicing portfolio                       | \$61,414,348           | \$45,647,524 | \$59,710,787              | \$44,531,795 |

(1) Includes contractually specified servicing and ancillary fees, net of Agency guarantee fees.

## Note 25—Share-Based Compensation Plans

As of June 30, 2017 and December 31, 2016, the Company had one share-based compensation plan. The following table summarizes the Company's share-based compensation activity:

|  | Quarter ended June     |          | Six months ended |         |
|--|------------------------|----------|------------------|---------|
|  | 30,                    | June 30, | June 30,         | 2016    |
|  | 2017                   | 2016     | 2017             | 2016    |
|  | (dollars in thousands) |          |                  |         |
| Restricted share units granted                           | —                      | —        | 133,838          | 217,997 |
| Performance share units granted                          | —                      | —        | 125,772          | 112,079 |
| Total share units granted                                | —                      | —        | 259,610          | 330,076 |
| Grant date fair value of restricted share units granted  | \$—                    | \$—      | \$2,281          | \$2,699 |
| Grant date fair value of performance share units granted | —                      | —        | 1,722            | 1,351   |
| Total fair value of share units granted                  | \$—                    | \$—      | \$4,003          | \$4,050 |
| Restricted share units vested                            | 131,441                | 222,533  | 284,142          | 298,582 |
| Performance share units vested                           | —                      | —        | —                | —       |

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|                          |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| Total share units vested | 131,441 | 222,533 | 284,142 | 298,582 |
| Compensation expense     | \$1,600 | \$1,965 | \$3,127 | \$3,013 |

Note 26— Other Expenses

Other expenses are summarized below:

|                                      | Quarter ended<br>June 30,<br>2017 |         | Six months<br>ended June 30,<br>2016 |         |
|--------------------------------------|-----------------------------------|---------|--------------------------------------|---------|
|                                      | 2017                              | 2016    | 2017                                 | 2016    |
|                                      | (in thousands)                    |         |                                      |         |
| Common overhead allocation from PFSI | \$1,592                           | \$2,434 | \$3,026                              | \$4,996 |
| Real estate held for investment      | 1,353                             | 930     | 2,441                                | 1,487   |
| Technology                           | 396                               | 332     | 714                                  | 766     |
| Insurance                            | 330                               | 316     | 668                                  | 634     |
| Other                                | 1,581                             | 946     | 2,995                                | 1,590   |
|                                      | \$5,252                           | \$4,958 | \$9,844                              | \$9,473 |

Note 27—Income Taxes

The Company's effective tax rate was 9.6% and (5.7)% for the quarter and six months ended June 30, 2017 and 35.4% and (219.8)% for the quarter and six months ended June 30, 2016, respectively. The Company's taxable REIT subsidiary recognized a tax expense of \$2.8 million on income of \$7.2 million and a tax benefit of \$3.8 million on a loss of \$7.6 million for the quarter and six months ended June 30, 2017, respectively, while the Company's reported consolidated pretax income was \$31.8 million and \$54.4 million for the quarter and six months ended June 30, 2017, respectively. For the same periods in 2016, the Company's taxable REIT subsidiary recognized tax benefits of \$3.7 million and \$6.1 million on losses of \$9.3 million and \$15.3 million, respectively, while the Company's reported consolidated pretax loss was \$8.2 million and pretax income was \$2.9 million during such periods, respectively. The relative values between the tax benefit or expense at the taxable REIT subsidiary and the Company's consolidated pretax income drive the fluctuation in the effective tax rate. The primary difference between the Company's effective tax rate and the statutory tax rate is due to nontaxable REIT income resulting from the dividends paid deduction.

In general, cash dividends declared by the Company will be considered ordinary income to shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital.

Note 28—Segments and Related Information

During the six months ended June 30, 2017, the Company changed the composition of its operating segments. The reporting used by the Company's chief operating decision maker changed as the Company's investment activities have become more diversified. The Manager has focused this broadened investment base on two classes of investments: credit sensitive and interest rate sensitive mortgage related assets. As this focus has developed, the Manager's reporting on and management of the Company's investments has also developed along these lines. Accordingly, during the six months ended June 30, 2017, management re-evaluated this new information in relation to its definition of its operating segments.

The Company has redefined its segment reporting to separately distinguish its investment activities between credit sensitive and interest rate sensitive investments and certain corporate activities.

Credit sensitive investment strategies include investments in distressed mortgage loans, REO, CRT Agreements, non-Agency subordinated bonds and small balance commercial real estate mortgage loans. Interest rate sensitive strategies include investments in MSRs, ESS, Agency and senior non-Agency MBS and the related interest rate hedging activities. The corporate segment includes certain interest income, management fee and corporate expense amounts.

Segment results for the quarter and six months ended June 30, 2016 have been restated to conform prior year presentation to the new segment composition.



Financial highlights by operating segment are summarized below:

| Quarter ended June 30, 2017                         | Credit        |             | Interest rate |             | Total       |
|---|---------------|-------------|---------------|-------------|-------------|
|   | Correspondent | sensitive   | sensitive     | Corporate   |             |
|   | production    | strategies  | strategies    |             |             |
| (in thousands)                                      |               |             |               |             |             |
| <b>Net investment income:</b>                       |               |             |               |             |             |
| Net gain on mortgage loans acquired for sale        | \$17,143      | \$149       | \$—           | \$—         | \$17,292    |
| Net gain (loss) on investments                      | —             | 34,140      | (6,548 )      | —           | 27,592      |
| Net mortgage loan servicing fees                    | —             | 29          | 15,668        | —           | 15,697      |
| <b>Net interest income:</b>                         |               |             |               |             |             |
| Interest income                                     | 12,820        | 20,739      | 18,672        | 155         | 52,386      |
| Interest expense                                    | (8,962 )      | (13,809 )   | (15,655 )     | —           | (38,426 )   |
|   | 3,858         | 6,930       | 3,017         | 155         | 13,960      |
| Other income (loss)                                 | 10,497        | (1,079 )    | —             | —           | 9,418       |
|   | 31,498        | 40,169      | 12,137        | 155         | 83,959      |
| <b>Expenses:</b>                                    |               |             |               |             |             |
| Mortgage loan fulfillment, servicing and management |               |             |               |             |             |
| fees payable to PFSI                                | 21,108        | 3,522       | 6,576         | —           | 31,206      |
| Management fees                                     | —             | —           | —             | 5,638       | 5,638       |
| Other   | 2,302         | 6,197       | 145           | 6,645       | 15,289      |
|   | 23,410        | 9,719       | 6,721         | 12,283      | 52,133      |
| Pre-tax income (loss)                               | \$8,088       | \$30,450    | \$5,416       | \$(12,128 ) | \$31,826    |
| Total assets at end of period                       | \$1,343,484   | \$2,108,662 | \$2,410,429   | \$147,669   | \$6,010,244 |

| Quarter ended June 30, 2016                  | Credit        |            | Interest rate |           | Total     |
|--|---------------|------------|---------------|-----------|-----------|
|  | Correspondent | sensitive  | sensitive     | Corporate |           |
|  | production    | strategies | strategies    |           |           |
| (in thousands)                               |               |            |               |           |           |
| <b>Net investment income:</b>                |               |            |               |           |           |
| Net gain on mortgage loans acquired for sale | \$24,322      | \$(96 )    | \$—           | \$—       | \$24,226  |
| Net gain (loss) on investments               | —             | (4,561 )   | (10,926 )     | —         | (15,487 ) |
| Net mortgage loan servicing fees             | —             | —          | 15,691        | —         | 15,691    |
| <b>Net interest income:</b>                  |               |            |               |           |           |
| Interest income                              | 13,402        | 23,834     | 14,398        | 132       | 51,766    |
| Interest expense                             | (8,176 )      | (15,280 )  | (13,137 )     | —         | (36,593 ) |
|  | 5,226         | 8,554      | 1,261         | 132       | 15,173    |
| Other income                                 | 8,535         | (520 )     | —             | —         | 8,015     |

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|  |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
|  | 38,083      | 3,377       | 6,026       | 132         | 47,618      |
| Expenses:                                    |             |             |             |             |             |
| Mortgage loan fulfillment and servicing fees |             |             |             |             |             |
| payable to PFSI                              | 19,111      | 11,426      | 5,001       | —           | 35,538      |
| Management fees                              | —           | —           | —           | 5,199       | 5,199       |
| Other  | 1,796       | 5,817       | 292         | 7,135       | 15,040      |
|  | 20,907      | 17,243      | 5,293       | 12,334      | 55,777      |
| Pre-tax income (loss)                        | \$17,176    | \$(13,866 ) | \$733       | \$(12,202 ) | \$(8,159 )  |
| Total assets at end of period                | \$1,531,745 | \$2,426,977 | \$1,695,858 | \$112,982   | \$5,767,562 |

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| Six months ended June 30, 2017                      | Credit         |             | Interest    | Corporate   | Total       |
|---|----------------|-------------|-------------|-------------|-------------|
|   | production     | strategies  | rate        |             |             |
|   |                |             | sensitive   |             |             |
|   | (in thousands) |             |             |             |             |
| <b>Net investment income:</b>                       |                |             |             |             |             |
| Net gain on mortgage loans acquired for sale        | \$36,154       | \$163       | \$—         | \$—         | \$36,317    |
| Net gain (loss) on investments                      | —              | 56,133      | (11,820 )   | —           | 44,313      |
| Net mortgage loan servicing fees                    | —              | 44          | 27,405      | —           | 27,449      |
| <b>Net interest income:</b>                         |                |             |             |             |             |
| Interest income                                     | 24,176         | 41,060      | 34,775      | 475         | 100,486     |
| Interest expense                                    | (16,863 )      | (28,082 )   | (30,660 )   | —           | (75,605 )   |
|   | 7,313          | 12,978      | 4,115       | 475         | 24,881      |
| Other income (loss)                                 | 18,813         | (3,346 )    | —           | 6           | 15,473      |
|   | 62,280         | 65,972      | 19,700      | 481         | 148,433     |
| <b>Expenses:</b>                                    |                |             |             |             |             |
| Mortgage loan fulfillment, servicing and management |                |             |             |             |             |
| fees payable to PFSI                                | 37,682         | 7,870       | 12,710      | —           | 58,262      |
| Management fees                                     | —              | —           | —           | 10,646      | 10,646      |
| Other   | 4,039          | 8,225       | 830         | 11,998      | 25,092      |
|   | 41,721         | 16,095      | 13,540      | 22,644      | 94,000      |
| Pre-tax income (loss)                               | \$20,559       | \$49,877    | \$6,160     | \$(22,163 ) | \$54,433    |
| Total assets at period end                          | \$1,343,484    | \$2,108,662 | \$2,410,429 | \$147,669   | \$6,010,244 |

| Six months ended June 30, 2016               | Credit         |            | Interest  | Corporate | Total     |
|--|----------------|------------|-----------|-----------|-----------|
|  | production     | strategies | rate      |           |           |
|  |                |            | sensitive |           |           |
|  | (in thousands) |            |           |           |           |
| <b>Net investment income:</b>                |                |            |           |           |           |
| Net gain on mortgage loans acquired for sale | \$39,619       | \$(344 )   | \$—       | \$—       | \$39,275  |
| Net gain (loss) on investments               | —              | 5,243      | (24,628 ) | —         | (19,385 ) |
| Net mortgage loan servicing fees             | —              | —          | 31,245    | —         | 31,245    |
| <b>Net interest income:</b>                  |                |            |           |           |           |
| Interest income                              | 22,412         | 53,779     | 29,672    | 269       | 106,132   |
| Interest expense                             | (13,531 )      | (32,095 )  | (22,971 ) | —         | (68,597 ) |

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|   |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
|   | 8,881       | 21,684      | 6,701       | 269         | 37,535      |
| Other income (loss)                                 | 15,462      | (4,298 )    | —           | —           | 11,164      |
|   | 63,962      | 22,285      | 13,318      | 269         | 99,834      |
| Expenses:   |             |             |             |             |             |
| Mortgage loan fulfillment, servicing and management |             |             |             |             |             |
| fees payable to PFSI                                | 32,046      | 18,234      | 9,646       | —           | 59,926      |
| Management fees                                     | —           | —           | —           | 10,551      | 10,551      |
| Other   | 3,081       | 9,667       | 594         | 13,130      | 26,472      |
|   | 35,127      | 27,901      | 10,240      | 23,681      | 96,949      |
| Pre-tax income                                      | \$28,835    | \$(5,616 )  | \$3,078     | \$(23,412 ) | \$2,885     |
| Total assets at period end                          | \$1,531,745 | \$2,426,977 | \$1,695,858 | \$112,982   | \$5,767,562 |

## Note 29—Supplemental Cash Flow Information

|   | Six months ended<br>June 30, 2017 |           |
|---|-----------------------------------|-----------|
|   | 2017                              | 2016      |
|   | (in thousands)                    |           |
| Cash paid for interest  | \$78,021                          | \$76,198  |
| Income taxes paid, net  | \$191                             | \$388     |
| Non-cash investing activities:  |                                   |           |
| Receipt of MSR as proceeds from sales of mortgage loans   | \$124,523                         | \$96,271  |
| Transfer of mortgage loans and advances to real estate<br>acquired in settlement of loans                         | \$54,030                          | \$114,052 |
| Transfer of real estate acquired in settlement of mortgage<br>loans to real estate held for investment            | \$11,745                          | \$12,266  |
| Receipt of ESS pursuant to recapture agreement with PFSI  | \$2,953                           | \$3,601   |
| Capitalization of servicing advances pursuant to mortgage loan<br>modifications                                   | \$13,148                          | \$—       |
| Non-cash financing activities:  |                                   |           |
| Transfer of mortgage loans at fair value financed under agreements to<br>repurchase REO financed under agreements | \$—                               | \$15,191  |
| Dividends payable   | \$31,655                          | \$32,082  |

## Note 30—Regulatory Capital and Liquidity Requirements

PMC is a seller-servicer for Fannie Mae and Freddie Mac. The Company is required to comply with the following minimum capital and liquidity eligibility requirements to remain in good standing with each Agency:

- A minimum net worth of a base of \$2.5 million plus 25 basis points of UPB for total 1-4 unit residential mortgage loans serviced;
- A tangible net worth/total assets ratio greater than or equal to 6%; and
- Liquidity equal to or exceeding 3.5 basis points multiplied by the aggregate UPB of all mortgages secured by 1-4 unit residential properties serviced for Freddie Mac and Fannie Mae (“Agency Mortgage Servicing”) plus 200 basis points multiplied by the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceeds 6% of Agency Mortgage Servicing.

Such Agencies’ capital and liquidity requirements, the calculations of which are defined by each entity, are summarized below:

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June 30, 2017

| Fannie Mae and Freddie Mac | Net Worth (1)  |           | Total Assets Ratio (1) |          | Liquidity (1)  |          |
|----------------------------|----------------|-----------|------------------------|----------|----------------|----------|
|                            | Actual         | Required  | Actual                 | Required | Actual         | Required |
|                            | (in thousands) |           |                        |          | (in thousands) |          |
| June 30, 2017              | \$459,274      | \$160,696 | 12%                    | 6%       | \$48,453       | \$22,147 |
| December 31, 2016          | \$392,056      | \$143,259 | 12%                    | 6%       | \$26,670       | \$19,706 |

(1) Calculated in accordance with the Agencies' capital and liquidity requirements.

Noncompliance with the Agencies' capital and liquidity requirements can result in the Agencies taking various remedial actions up to and including removing the Company's ability to sell loans to and service loans on behalf of the Agencies.

Note 31—Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Subtopic 606) (“ASU 2014-09”), which supersedes the guidance in the Revenue Recognition topic of the ASC. ASU 2014-09 clarifies the principles for recognizing revenue in order to improve comparability of revenue recognition practices across entities and industries with certain scope exceptions including financial instruments, leases, and guarantees. ASU 2014-09 provides guidance intended to assist in the identification of contracts with customers and separate performance obligations within those contracts, the determination and allocation of the transaction price to those identified performance obligations and the recognition of revenue when a performance obligation has been satisfied. ASU 2014-09 also requires disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers.

Upon adoption, ASU 2014-09 provides for transition through either a full retrospective approach requiring the restatement of all presented prior periods or a modified retrospective approach, which allows the new recognition standard to be applied to only those contracts that are not completed at the date of transition. If the modified retrospective approach is adopted, a cumulative-effect adjustment to retained earnings is performed with additional disclosures required including the amount by which each line item is affected by the transition as compared to the guidance in effect before adoption and an explanation of the reasons for significant changes in these amounts.

The FASB has issued several amendments to ASU 2014-09, including:

¶ In August 2015, ASU 2015-14, Revenue From Contracts With Customers (“ASU 2015-14”). This update deferred the initial effective date of ASU 2014-09. As a result of the issuance of ASU 2015-14, ASU 2014-09 is effective for annual reporting periods beginning on or after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

¶ In March 2016, ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments to this update are intended to improve the implementation guidance on principal versus agent considerations in ASU 2014-09 by clarifying how an entity should identify the unit of accounting (i.e. the specified good or service) and how an entity should apply the control principle to certain types of arrangements.

¶ In May 2016, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients. The amendments to this update clarify certain core recognition principles and provide practical expedients available at transition. The improvements address collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition.

¶ In December 2016, ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments to this update:

- o Clarify that guarantee fees within the scope of the Guarantees topic of the ASC (other than product or service warranties) are not within the scope of the Revenue from Contracts with Customers topic of the ASC. Entities should see the Derivatives and Hedging topic of the ASC, for guarantees accounted for as derivatives.
- o Clarify the Other Assets and Deferred Costs—Contracts with Customers subtopic of the ASC that when performing impairment testing an entity should (a) consider expected contract renewals and extensions and (b) include both the amount of consideration it already has received but has not recognized as revenue and the amount it expects to receive in the future.
- o Clarify the interaction of impairment testing with guidance in other ASC topics that impairment testing first should be performed on assets not within the scope of the Other Assets and Deferred Costs, Intangibles-Goodwill and Other and the Property, Plant, and Equipment topics (such as assets within the Inventory topic of the ASC), then assets within the scope of the Other Assets and Deferred Costs topic of the ASC, then asset groups and reporting units within the scope of the Other Assets and Deferred Costs, Intangibles-Goodwill and Other and the Property, Plant, and Equipment topics of the ASC.

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- o Clarify that all contracts within the scope of the Financial Services – Insurance topic of the ASC are excluded from the scope of the Revenue from Contracts with Customers topic.
- o Provide optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue and expands the information that is required to be disclosed when an entity applies one of the optional exemptions.

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- o Clarify that the disclosure of revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods applies to all performance obligations and is not limited to performance obligations with corresponding contract balances.
- In February 2017, ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) (“ASU 2017-05”). The amendments to this update clarify the scope of the Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets subtopic of the ASC, and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 clarifies that:
  - o A financial asset is within the scope of the Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets subtopic of the ASC if it meets the definition of an in substance nonfinancial asset and defines the term in substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets.
  - o It excludes all businesses and nonprofit activities from the scope of the Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets subtopic of the ASC. Derecognition of all businesses and nonprofit activities should be accounted for in accordance with the Consolidation—Overall subtopic of the ASC.
  - o An entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it.
  - o An entity should allocate consideration to each distinct asset by applying the guidance in the Revenue from Contracts with Customers topic of the ASC on allocating the transaction price to performance obligations.
    - o An entity must derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it (1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with the Consolidations topic and (2) transfers control of the asset in accordance with the Revenue from Contracts with Customers topic of the ASC. Once an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it is required to measure any noncontrolling interest it receives (or retains) at fair value.

The Manager has evaluated the effect of adoption of ASU 2014-09 and its amendments and their effect on the Company’s consolidated financial statements, and has concluded that ASU 2014-09 will not have an effect on such financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 affects the accounting for equity investments, financial liabilities under the fair value option, the presentation and disclosure requirements for financial instruments, and the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities.

ASU 2016-01 requires that:

- All equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) with readily determinable fair values will generally be measured at fair value through earnings.
- When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The accumulated gains and losses due to these changes will be reclassified from accumulated other comprehensive income to earnings if the financial liability is settled before maturity.
- For financial instruments measured at amortized cost, public business entities will be required to use the exit price when measuring the fair value of financial instruments for disclosure purposes.
- Financial assets and financial liabilities shall be presented separately in the notes to the financial statements, grouped by measurement category (e.g., fair value, amortized cost, lower of cost or fair value) and form of financial asset (e.g., loans, securities).

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Public business entities will no longer be required to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost.

Entities will have to assess the realizability of a deferred tax asset related to a debt security classified as available for sale in combination with the entity's other deferred tax assets.

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The classification and measurement guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption of the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income is permitted and can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. The Manager does not believe that the adoption of ASU 2016-01 will have a significant effect on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including:

- Modifies the accounting for income taxes relating to share-based payments. All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) will be recognized as income tax expense or benefit in the consolidated statement of income. The tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. An entity will recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Under current GAAP, excess tax benefits are recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the consolidated statement of income in the period they reduce income taxes payable.
- Changes the classification of excess tax benefits on the consolidated statement of cash flows. In the consolidated statement of cash flows, excess tax benefits will be classified along with other income tax cash flows as an operating activity. Under current GAAP, excess tax benefits are separated from other income tax cash flows and classified as a financing activity.
- Changes the requirement to estimate the number of awards that are expected to vest. Under ASC 2016-09, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest as presently required or account for forfeitures when they occur. Under current GAAP, accruals of compensation cost are based on the number of awards that are expected to vest.
- Changes the tax withholding requirements for share-based payment awards to qualify for equity accounting. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. Under current GAAP, for an award to qualify for equity classification is that an entity cannot partially settle the award in cash in excess of the employer’s minimum statutory withholding requirements.
- Establishes GAAP for the classification of employee taxes paid when an employer withholds shares for tax withholding purposes. Cash paid by an employer when directly withholding shares for tax- withholding purposes should be classified as a financing activity. This guidance establishes GAAP related to the classification of withholding taxes in the statement of cash flows as there is no such guidance under current GAAP.

ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The adoption ASU 2016-09 did not have a significant effect on the Company’s consolidated financial statements.

#### Note 32—Subsequent Events

Management has evaluated all events and transactions through the date the Company issued these consolidated financial statements. During this period:

During July 2017, the Company entered into an agreement to sell \$149 million in UPB of performing loans from the distressed portfolio. The sale is scheduled to settle in August 2017. Although definitive documentation has been executed, this transaction is subject to continuing due diligence and customary closing conditions. There can be no assurance regarding the size of the transaction or that the transaction will be completed at all.

On July 5, 2017, the Company closed on an offering of 7,000,000 shares of 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share, \$0.01 par value per share (the “Series B Preferred Shares”). In connection with the closing, PennyMac GP OP, Inc., a wholly-owned subsidiary of the Company and the general partner of the Operating Partnership amended the Operating Partnership’s Amended and Restated Limited Partnership Agreement to designate limited partnership units (the “Series B Preferred Units”) with substantially the same terms as the Series B Preferred Shares to be issued to the Company in exchange for the net proceeds from the Company’s sale of the Series B Preferred Shares.

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The Company received net proceeds from the offering of approximately \$169.3 million, after deducting the underwriting discounts and commissions and the Company's estimated expenses. On July 12, 2017, after the underwriters had exercised their option to purchase 800,000 additional Series B Preferred Shares during the 30-day over-allotment period, the Company received additional net proceeds of approximately \$19.4 million.

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

The following discussion and analysis of financial condition and results of operations should be read with the consolidated financial statements and the related notes of PennyMac Mortgage Investment Trust ("PMT") included within this Quarterly Report on Form 10-Q.

Statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors," as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and our other filings with the United States Securities and Exchange Commission ("SEC"). The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date hereof and we assume no obligation to update or supplement any forward-looking statements.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. Unless the context indicates otherwise, references in this Quarterly Report on Form 10-Q to the words "we," "us," "our" and the "Company" refer to PMT.

### Our Company

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We have pursued this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans ("correspondent production") and retaining the mortgage servicing rights ("MSRs") relating to such mortgage loans. We have also invested in mortgage-backed securities ("MBS") and excess servicing spread ("ESS") on MSRs acquired by PennyMac Loan Services, LLC ("PLS"). In 2015, we began investing in credit risk transfer agreements ("CRT Agreements") on certain of the mortgage loans acquired through our correspondent production activity. Our assets are transitioning away from distressed mortgage loans to investments obtained through our correspondent production such as CRT and MSRs. We have also invested in excess servicing spread ("ESS") on MSRs acquired by PennyMac Loan Services, LLC ("PLS"), and commercial real estate loans that finance multifamily and other commercial real estate.

We are externally managed by PNMAC Capital Management, LLC ("PCM"), an investment adviser that specializes in and focuses on, U.S residential mortgage loans. Most of our mortgage loan portfolio is serviced by PLS.

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. Our targeted investments are in the U.S. mortgage market, including credit sensitive assets such as distressed mortgage loans, CRT Agreements related to our correspondent production, non-Agency subordinate bonds, small-balance commercial real estate (including multifamily) loans and subordinate interests; and interest rate sensitive assets such as MSRs, ESS, MBS, and non-Agency senior MBS.

We have invested in distressed mortgage loans through direct acquisitions of mortgage loan portfolios from institutions such as banks and mortgage companies. A substantial portion of the nonperforming mortgage loans we have purchased has been acquired from or through one or more subsidiaries of JPMorgan Chase & Co. and of Citigroup Inc.

We seek to maximize the value of the distressed mortgage loans that we acquired using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage loan delinquency, our objective is timely acquisition and/or liquidation of the property securing the mortgage loan through the use, in part, of short sales and deed-in-lieu of foreclosure programs. During the quarter and six months ended June 30, 2017 and 2016, we did not acquire distressed mortgage loans. During the quarter and six months ended June 30, 2017, we received proceeds from liquidation, payoffs, paydowns and sales from our portfolio of mortgage loans and real estate acquired in settlement of loans (“REO”) totaling \$85.8 million and \$276.6 million, respectively. During the quarter and six months ended June 30, 2016, we received proceeds from liquidation, payoffs, paydowns and sales from our portfolio of mortgage loans and REO totaling \$481.3 million and \$594.0 million, respectively.

During the quarter and six months ended June 30, 2017, we purchased newly originated prime credit quality loans with fair values totaling \$17.1 billion and \$31.6 billion, respectively, as compared to \$15.3 billion and \$25.5 billion for the same periods in 2016, in furtherance of our correspondent production business. To the extent that we purchase mortgage loans that are insured by the U.S. Department of Housing and Urban Development (“HUD”) through the Federal Housing Administration (the “FHA”), or insured or guaranteed by the Veterans Administration (the “VA”) or U.S. Department of Agriculture (“USDA”), we and PLS have agreed that PLS will fulfill and purchase such mortgage loans, as PLS is a Ginnie Mae-approved issuer and we are not. This arrangement has enabled us to compete with other correspondent lenders that purchase both government and conventional mortgage loans. We receive a sourcing fee from PLS ranging from two to three and one-half basis points, generally based on the average number of calendar days that mortgage loans are held by us prior to purchase by PLS, on the unpaid principal balance (“UPB”) of each mortgage loan. During the quarter and six months ended June 30, 2017, we received sourcing fees totaling \$3.2 million and \$6.1 million relating to \$10.6 billion and \$20.2 billion in UPB of mortgage loans at fair value that we sold to PLS, as compared to \$2.8 million and \$4.8 million relating to \$9.4 billion and \$15.9 billion in UPB loans that we sold to PLS for the same periods in 2016.

During the quarter and six months ended June 30, 2017, we received MSRs with fair values at initial recognition totaling \$65.8 million and \$124.5 million, respectively, compared to \$60.1 million and \$96.3 million for the same periods in 2016.

We believe that CRT Agreements are a long-term investment that can produce attractive risk-adjusted returns through our own mortgage production while aligning with Fannie Mae’s strategic goal to attract private capital investment in GSE credit risk. We believe there is significant potential for investment in front-end credit risk transfer and MSRs that result from our correspondent production activities as we redeploy capital from the liquidation of distressed whole mortgage loans. During the quarter and six months ended June 30, 2017, we made investments in CRT Agreements totaling \$41.4 million and \$57.1 million, respectively, and commitments to fund an additional \$98.7 million and \$146.9 million of such agreements, respectively, and held CRT related investments (composed of restricted cash and derivative financial instruments) totaling \$555.8 million at June 30, 2017, compared to investments of \$465.7 million at December 31, 2016.

We supplement these activities through our participation in other mortgage-related activities, including:

• Acquisition of REIT-eligible mortgage-backed or mortgage-related securities. We purchased MBS with fair values totaling \$251.9 million during the six months ended June 30, 2017, none of which were purchased during the quarter ended June 30, 2017, as compared to \$199.2 million and \$249.9 million, respectively, during the quarter and six months ended June 30, 2016.

• Acquisition of ESS relating to MSRs held by PFSI. We did not purchase any ESS from PFSI during 2016 or 2017. However, during the quarter and six months ended June 30, 2017, we received \$1.4 million and \$3.0 million, respectively, of ESS pursuant to a recapture agreement with PFSI, compared to receipt of \$1.7 million and \$3.6 million, respectively, of ESS pursuant to such recapture agreement for the same periods in 2016.

• Acquisition of small balance (typically under \$10 million) commercial real estate loans. During the quarter and six months ended June 30, 2017, we acquired \$18.7 million and \$39.8 million, respectively, in fair value of small balance commercial real estate loans as compared to \$1.3 million and \$6.1 million, respectively, for the same periods in 2016.

• To the extent that we transfer correspondent production loans into private label securitizations, retention of a portion of the securities created in the securitization transaction. Our private label securitization is accounted for as a financing arrangement. Sales of securities included in the securitization are treated as issuances of debt. During the quarter and six months ended June 30, 2017, we did not issue any of such securities.

Our board of trustees has authorized a repurchase program under which we may repurchase up to \$200 million of our outstanding common shares. We did not purchase any shares during the quarter ended June 30, 2017. We repurchased



approximately 139,000 common shares at a cost of \$2.3 million for the six months ended June 30, 2017 and approximately 6.3 million common shares at a cost of \$82.8 million for the six months ended June 30, 2016. A cumulative total of approximately 8.6 million common shares have been repurchased at a cost of \$117.0 million under the program since its inception. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued share pool.

We believe that we qualify to be taxed as a real estate investment trust (“REIT”). We believe that we will not be subject to federal income tax on that portion of our income that is distributed to shareholders as long as we meet certain asset, income and share ownership tests. If we fail to qualify as a REIT, and do not qualify for certain statutory relief provisions, our profits will be subject to income taxes and we may be precluded from qualifying as a REIT for the four tax years following the year we lose our REIT qualification. A portion of our activities, including our correspondent production business, is conducted in our taxable REIT subsidiary (“TRS”), which is subject to corporate federal and state income taxes. Accordingly, we have made a provision for income taxes with respect to the operations of our TRS. We expect that the effective rate for the provision for income taxes may be volatile in future periods. Our goal is to manage the business to take full advantage of the tax benefits afforded to us as a REIT.

## Results of Operations

The following is a summary of our key performance measures:

|   | Quarter ended June 30,                   |            | Six months ended June 30, |          |
|---|--|------------|---------------------------|----------|
|   | 2017                                     | 2016       | 2017                      | 2016     |
|   | (in thousands, except per share amounts) |            |                           |          |
| Net investment income                     | \$83,959                                 | \$47,618   | \$148,433                 | \$99,834 |
| Expenses                                  | 52,133                                   | 55,777     | 94,000                    | 96,949   |
| Provision for (benefit from) income taxes | 3,046                                    | (2,892 )   | (3,083 )                  | (6,344 ) |
| Net income (loss)                         | \$28,780                                 | \$(5,267 ) | \$57,516                  | \$9,229  |
| Pre-tax income (loss) by segment:         |  |            |                           |          |
| Correspondent production                  | \$8,088                                  | \$17,176   | \$20,559                  | \$28,835 |
| Credit sensitive strategies               | 30,450                                   | (13,866)   | 49,877                    | (5,616 ) |
| Interest rate sensitive strategies        | 5,416                                    | 733        | 6,160                     | 3,078    |
| Corporate                                 | (12,128)                                 | (12,202)   | (22,163 )                 | (23,412) |
|   | \$31,826                                 | \$(8,159 ) | \$54,433                  | \$2,885  |
| Earnings (loss) per share:                |  |            |                           |          |
| Basic                                     | \$0.39                                   | \$(0.08 )  | \$0.81                    | \$0.12   |
| Diluted                                   | \$0.38                                   | \$(0.08 )  | \$0.78                    | \$0.12   |
| Dividends declared and paid per share     | \$0.47                                   | \$0.47     | \$0.94                    | \$0.94   |
| Per share closing prices:                 |  |            |                           |          |
| During the period:                        |  |            |                           |          |
| High                                      | \$18.33                                  | \$16.23    | \$18.33                   | \$16.23  |
| Low                                       | \$17.20                                  | \$13.07    | \$16.37                   | \$11.21  |
| At end of period                          | \$18.29                                  | \$16.23    |                           |          |

|                             | June 30,    | December 31, |
|-----------------------------|-------------|--------------|
|                             | 2017        | 2016         |
| Total assets (in thousands) | \$6,010,244 | \$6,357,502  |
| Book value per common share | \$20.04     | \$20.26      |

During the quarter and six months ended June 30, 2017, we recorded net income of \$28.8 million, or \$0.38 per diluted share, and net income of \$57.5 million, or \$0.78 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2017 reflects net gain on mortgage loans acquired for sale of \$17.3 million and \$36.3 million, respectively, supplemented by net gain on investments of \$27.6 million and \$44.3 million, respectively, net mortgage loan servicing fees of \$15.7 million and \$27.4 million, respectively, and net interest income of \$14.0 million and \$24.9 million, respectively. During the quarter and six months ended June 30, 2017, we issued interest rate lock commitments (“IRLCs”) totaling \$18.2 billion and \$32.7 billion, respectively, and purchased \$17.1 billion and \$31.6 billion, respectively, in fair value of newly originated mortgage loans, respectively. Net gains on such mortgage loans included \$65.8 million and \$124.5 million of MSR retained upon sale of such loans. At June 30, 2017, we held mortgage loans acquired for sale with fair values totaling \$1.3 billion, \$246.3 million of which were pending sale to PLS.

During the quarter and six months ended June 30, 2016, we recorded a net loss of \$5.3 million, or \$(0.08) per diluted share, and net income of \$9.2 million, or \$0.12 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2016 reflects net interest income of \$15.2 million and \$37.5 million, and net mortgage loan servicing fees of \$15.7 million and \$31.2 million, respectively, offset by net losses on our investments totaling \$15.5 million and \$19.4 million, respectively. During the quarter and six months ended June 30, 2016, we issued IRLCs totaling \$16.0 billion and \$26.4 billion, respectively, and purchased \$15.3 billion and \$25.5 billion, respectively, in fair value of newly originated mortgage loans. We recognized net gains on such IRLCs and mortgage loans totaling approximately \$24.2 million and \$39.3 million, respectively, including \$60.1 million and \$96.3 million of MSRs retained upon sale of such loans. At June 30, 2016, we held mortgage loans acquired for sale with fair values totaling \$1.5 billion, \$619.0 million of which were pending sale to PLS.

Our net income increased during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, primarily due to increased gains from our investments in CRT Agreements and reduced loss from our investments in ESS. Net gains on investments were \$27.6 million and \$44.3 million, respectively, for the quarter and six months ended June 30, 2017, representing increases of \$43.1 million and \$63.7 million from the same periods in 2016.

In our correspondent production activities, our pretax income decreased during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, by \$9.1 million and \$8.3 million from \$17.2 million and \$28.8 million to \$8.1 million and \$20.6 million, respectively. We received proceeds of \$5.8 billion and \$10.6 billion from the sale of mortgage loans to nonaffiliates during the quarter and six months ended June 30, 2017, as compared to \$5.2 billion and \$8.5 billion during the same periods in 2016. We issued \$7.0 billion and \$12.2 billion, respectively, of IRLCs relating to Agency mortgage loans in the quarter and six months ended June 30, 2017, respectively, an increase of \$1.1 billion and \$2.4 billion from the same periods in 2016. Our net gain on mortgage loans acquired for sale decreased due to a decrease in production margin that more than offset increased production volume. Our increase in mortgage volume reflects the continued growth in the number of our correspondent sellers which more than offset the effect of the smaller mortgage origination market in 2017. The decrease in our margins reflects the effects of heightened competition resulting from the smaller mortgage origination market.

#### Net Investment Income

Net investment income includes non-cash fair value adjustments and the fair value of assets created and liabilities incurred in mortgage loan sale transactions and the capitalization and amortization of certain assets and liabilities. Because we have elected, or are required by generally accepted accounting principles, to record our financial assets (comprised of MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value, ESS, and derivatives), a portion of our MSRs and our asset-backed financing at fair value and interest-only security payable, a substantial portion of the income or loss we record with respect to such assets and liabilities results from non-cash changes in fair value. Net investment income also includes non-cash interest income arising from capitalization of delinquent interest on mortgage loans upon completion of the modification of such loans and accrual of unearned discounts relating to MBS, mortgage loans held in a VIE, and asset-backed financing.

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The amounts of non-cash income items included in net investment income are as follows:

|  | Quarter ended June<br>30, |          | Six months ended<br>June 30, |           |
|--|---------------------------|----------|------------------------------|-----------|
|  | 2017                      | 2016     | 2017                         | 2016      |
|  | (dollars in thousands)    |          |                              |           |
| Net gain on mortgage loans acquired for sale:  |                           |          |                              |           |
| Receipt of MSRs in mortgage loan sale transactions   | \$65,835                  | \$60,109 | \$124,523                    | \$96,271  |
| Provision for losses relating to representations and<br>warranties provided in mortgage loan sales                 |                           |          |                              |           |
| Pursuant to mortgage loans sales   | (607 )                    | (650 )   | (1,280 )                     | (1,221 )  |
| Reduction in liability due to change in estimate   | 1,305                     | —        | 5,881                        | 1,724     |
| Change in fair value during the period of financial<br>instruments held at period end:                             |                           |          |                              |           |
| IRLCs  | (8,327 )                  | 7,423    | (3,383 )                     | 12,111    |
| Mortgage loans acquired for sale   | (5,657 )                  | 5,015    | 2,471                        | 11,752    |
| Hedging derivatives  | 7,947                     | (92 )    | (11,902 )                    | 1,812     |
|  | 60,496                    | 71,805   | 116,310                      | 122,449   |
| Net gain (loss) on investments:  |                           |          |                              |           |
| Mortgage-backed securities:  |                           |          |                              |           |
| Agency   | 4,027                     | 3,713    | 4,167                        | 7,433     |
| Non Agency   | —                         | 619      | —                            | 1,998     |
| Mortgage loans:  |                           |          |                              |           |
| at fair value  | (284 )                    | (14,275) | 2,517                        | (1,427 )  |
| at fair value held in a variable interest entity   | 3,855                     | (48 )    | 4,171                        | 8,347     |
| ESS  | (5,885 )                  | (15,824) | (7,255 )                     | (33,451 ) |
| CRT Agreements   | 27,087                    | 3,905    | 37,106                       | (2,774 )  |
| Interest-only security payable at fair value   | (5,595 )                  | 466      | (7,316 )                     | 473       |
| Asset-backed financing of a VIE  | (3,399 )                  | 890      | (3,423 )                     | (8,963 )  |
|  | 19,806                    | (20,554) | 29,967                       | (28,364 ) |
| Net mortgage loan servicing fees—MSR valuation adjustments   | (6,392 )                  | (25,678) | (6,913 )                     | (52,336 ) |
| Net interest income:   |                           |          |                              |           |
| Capitalization of interest pursuant to mortgage loan<br>modifications  |                           |          |                              |           |
|  | 10,814                    | 16,421   | 20,717                       | 39,715    |
| Accrual of unearned discounts and amortization of<br>premiums on MBS, mortgage loans and<br>asset-backed financing |                           |          |                              |           |
|  | (1,601 )                  | (4,974 ) | (3,007 )                     | 1,086     |
|  | 9,213                     | 11,447   | 17,710                       | 40,801    |
|  | \$83,123                  | \$37,020 | \$157,074                    | \$82,550  |
| Net investment income  | \$83,959                  | \$47,618 | \$148,433                    | \$99,834  |
| Non-cash items as a percentage of net investment income  | 99 %                      | 78 %     | 106 %                        | 83 %      |

Cash is generated when mortgage loan investments are paid off, paid down or sold, when payments of principal and interest occur on such mortgage loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property securing the mortgage loan has been sold. We receive proceeds on the sale of mortgage loans acquired for sale that include both cash and our estimate of the fair value of MSR's and we recognize a liability for potential losses relating to representations and warranties created in the mortgage loan sales transactions. We receive cash related to MSR's in the form of mortgage loan servicing fees and we pay cash relating to our provision for representations and warranties when we repurchase mortgage loans from investors. Cash flows relating to hedging instruments are generally produced when the instruments mature or when we effectively cancel the transactions through an offsetting trade.

The following table illustrates the proceeds received during the period from dispositions and paydowns of distressed mortgage loan investments and REO, net gain in fair value that we accumulated over the period during which we owned mortgage loan investments and REO liquidated during the period, and additional net gain realized upon liquidation of such assets:

|                                | Quarter ended June 30,<br>2017 |                    |                 | 2016        |           |                 |
|--------------------------------|--------------------------------|--------------------|-----------------|-------------|-----------|-----------------|
|                                | Accumulated                    | Gain on            |                 | Accumulated | Gain on   |                 |
|                                | Proceeds                       | gains (losses) (1) | liquidation (2) | Proceeds    | gains (1) | liquidation (2) |
|                                | (in thousands)                 |                    |                 |             |           |                 |
| Mortgage loans                 | \$32,257                       | \$ 3,832           | \$ 1,385        | \$43,360    | \$ 4,813  | \$ 1,208        |
| REO                            | 38,386                         | (4,229 )           | 2,636           | 70,666      | (348 )    | 4,718           |
|                                | 70,643                         | (397 )             | 4,021           | 114,026     | 4,465     | 5,926           |
| Distressed mortgage loan sales | 492                            | 3                  | (72 )           | 344,302     | 59,812    | (396 )          |
|                                | \$71,135                       | \$ (394 )          | \$ 3,949        | \$458,328   | \$ 64,277 | \$ 5,530        |

|                                    | Six months ended June 30,<br>2017 |                    |                 | 2016        |           |                 |
|------------------------------------|-----------------------------------|--------------------|-----------------|-------------|-----------|-----------------|
|                                    | Accumulated                       | Gain on            |                 | Accumulated | Gain on   |                 |
|                                    | Proceeds                          | gains (losses) (1) | liquidation (2) | Proceeds    | gains (1) | liquidation (2) |
|                                    | (in thousands)                    |                    |                 |             |           |                 |
| Mortgage loans                     | \$57,633                          | \$ 6,812           | \$ 1,772        | \$74,916    | \$ 8,079  | \$ 2,748        |
| REO                                | 101,587                           | (8,404 )           | 7,615           | 135,573     | 1,239     | 9,327           |
|                                    | 159,220                           | (1,592 )           | 9,387           | 210,489     | 9,318     | 12,075          |
| Distressed mortgage loan sales (3) | 74,028                            | 9,576              | (27 )           | 344,302     | 59,812    | (396 )          |
|                                    | \$233,248                         | \$ 7,984           | \$ 9,360        | \$554,791   | \$ 69,130 | \$ 11,679       |

(1) Represents valuation gains and losses recognized during the period we held the respective asset but excludes the gain or loss recorded upon sale or repayment of the respective asset.

(2) Represents the gain or loss recognized upon sale or repayment of the respective asset.

(3) Excludes \$14.8 million in proceeds received during the six months ended June 30, 2017 from the sale of seasoned loans originally acquired in our correspondent production business.

The amounts included in accumulated gains and gains on liquidation do not include the cost of managing the liquidated assets which may be substantial depending on the collection status of the mortgage loan at acquisition and on our success in working with the borrower to resolve the distress in the mortgage loan. Accumulated gains include the amount of accumulated valuation gains and losses recognized throughout the holding period and, in the case of REO, include estimated direct transaction costs to be incurred in the sale of the property. Accordingly, the preceding amounts do not represent periodic earnings on a cash basis and the amount of gain will have accumulated over varying periods depending on the holding periods for individual assets.

The primary expenses incurred at a loan level in managing our portfolio of distressed assets are servicing and activity fees. From the time of acquisition of the distressed assets through their deboarding dates, we incurred servicing and activity fees of \$3.1 million and \$9.4 million for assets liquidated during the quarter and six months ended June 30, 2017, respectively, as compared to \$20.9 million and \$24.7 million during the same periods in 2016.

During the quarter and six months ended June 30, 2017, we recorded net investment income of \$84.0 million and \$148.4 million, respectively, comprised primarily of \$17.3 million and \$36.3 million, respectively, of net gain on mortgage loans acquired for sale, \$27.6 million and \$44.3 million, respectively, of net gain on investments, \$15.7 million and \$27.4 million, respectively, of net loan servicing fees, \$14.0 million and \$24.9 million, respectively, of net interest income, and \$10.5 million and \$18.8 million of mortgage loan origination fees, partially offset by \$3.5 million and \$7.7 million of losses from results of REO.

During the quarter and six months ended June 30, 2016, we recorded net investment income of \$47.6 million and \$99.8 million, respectively, comprised primarily of \$24.2 million and \$39.3 million of net gain on mortgage loans acquired for sale, \$15.7 million and \$31.2 million of net loan servicing fees, \$15.2 million and \$37.5 million of net interest income and \$8.5 million and \$15.4 million of loan origination fees, partially offset by \$2.6 million and \$8.6 million of losses from results of REO and \$15.5 million and \$19.4 million of net loss on investments.



## Net Gain on Mortgage Loans Acquired for Sale

Our net gain on mortgage loans acquired for sale is summarized below:

|  | Quarter ended June 30, |                      | Six months ended June 30, |              |
|--|------------------------|----------------------|---------------------------|--------------|
|  | 2017                   | 2016                 | 2017                      | 2016         |
|  | (in thousands)         |                      |                           |              |
| From non-affiliates:   |                        |                      |                           |              |
| Cash loss:   |                        |                      |                           |              |
| Mortgage loans   | \$(26,688 )            | \$(20,592 )          | \$(82,595 )               | \$(25,173 )  |
| Hedging activities   | (19,720 )              | (29,118 )            | (3,463 )                  | (61,694 )    |
|  | (46,408 )              | (49,710 )            | (86,058 )                 | (86,867 )    |
| Non cash gain:   |                        |                      |                           |              |
| Receipt of MSR in mortgage loan sale transactions  | 65,835                 | 60,109               | 124,523                   | 96,271       |
| Provision for losses relating to representations and<br>warranties provided in mortgage loan sales |                        |                      |                           |              |
| Pursuant to mortgage loan sales  | (607 )                 | (650 )               | (1,280 )                  | (1,221 )     |
| Reduction in liability due to change in estimate   | 1,305                  | —                    | 5,881                     | 1,724        |
| Change in fair value during the period of financial<br>instruments held at period end:             |                        |                      |                           |              |
| IRLCs  | (8,327 )               | 7,423                | (3,383 )                  | 12,111       |
| Mortgage loans   | (5,657 )               | 5,015                | 2,471                     | 11,752       |
| Hedging derivatives  | 7,947                  | (92 )                | (11,902 )                 | 1,812        |
|  | (6,037 )               | 12,346               | (12,814 )                 | 25,675       |
| Total from non-affiliates  | 14,088                 | 22,095               | 30,252                    | 35,582       |
| From PFSI-cash gain  | 3,204                  | 2,131                | 6,065                     | 3,693        |
|  | \$17,292               | \$24,226             | \$36,317                  | \$39,275     |
| Interest rate lock commitments issued:   |                        |                      |                           |              |
| Loans acquired for sale to nonaffiliates:  |                        |                      |                           |              |
| Conventional mortgage loans  | \$7,021,582            | \$5,957,344          | \$12,205,932              | \$9,814,169  |
| Jumbo mortgage loans   | —                      | 7,131                | —                         | 18,525       |
|  | 7,021,582              | 5,964,475            | 12,205,932                | 9,832,694    |
| Mortgage loans sold to PFSI:   |                        |                      |                           |              |
| Government-insured or guaranteed mortgage loans  | 11,209,339             | 10,023,370           | 20,501,258                | 16,534,133   |
|  | \$18,230,921           | \$15,987,845         | \$32,707,190              | \$26,366,827 |
| Purchases of mortgage loans acquired for sale to<br>nonaffiliates:                                 |                        |                      |                           |              |
| At fair value  | \$6,134,723            | \$5,356,013          | \$10,893,377              | \$8,729,745  |
| UPB  | \$5,918,027            | \$5,174,019          | \$10,549,933              | \$8,433,382  |
|  | June 30,<br>2017       | December 31,<br>2016 |                           |              |
|  | (in thousands)         |                      |                           |              |
| Fair value of mortgage loans acquired for sale held :  |                        |                      |                           |              |

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|   |              |              |
|---|--------------|--------------|
| Conventional mortgage loans               | \$ 1,050,956 | \$ 847,810   |
| Jumbo mortgage loans                      | —            | 6,042        |
| Government-insured or guaranteed mortgage |              |              |
| loans acquired for sale to PFSI           | 246,259      | 804,616      |
| Commercial mortgage loans                 | 14,572       | 8,961        |
| Mortgage loans repurchased pursuant to    |              |              |
| representations and warranties            | 6,816        | 5,683        |
|   | \$ 1,318,603 | \$ 1,673,112 |

Our net gain on mortgage loans acquired for sale includes both cash and non-cash elements. We receive proceeds on sale that include both cash and our estimate of the fair value of MSR's. We also recognize a liability for potential losses relating to representations and warranties created in the mortgage loan sales transactions.

The decrease in gain on mortgage loans acquired for sale during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016 was due to the effect of decreased margins which more than offset an increase in mortgage loan volume. Our increase in mortgage volume reflects the continued growth in our correspondent network which more than the offset the effect of the smaller mortgage market in 2017. The decrease in our margins reflects the effects of heightened price competition in the smaller mortgage market.

#### Provision for Losses on Representations and Warranties

We provide for our estimate of the future losses that we may be required to incur as a result of our breach of representations and warranties to the purchasers. Our agreements with the purchasers include representations and warranties related to the mortgage loans we sell. The representations and warranties require adherence to purchaser and issuer origination and underwriting guidelines, including but not limited to the validity of the lien securing the mortgage loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of our representations and warranties, we may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer. In such cases, we bear any subsequent credit loss on the mortgage loans. Our credit loss may be reduced by any recourse we have to correspondent lenders that, in turn, had sold such mortgage loans to us and breached similar or other representations and warranties. In such event, we have the right to seek a recovery of related repurchase losses from that correspondent lender.

The method we use to estimate the liability for representations and warranties is a function of estimated future defaults, mortgage loan repurchase rates, the potential severity of loss in the event of default and the probability of reimbursement by the correspondent mortgage loan seller. We establish a liability at the time mortgage loans are sold and review our liability estimate on a periodic basis.

Following is a summary of the indemnification and repurchase activity and UPB of mortgage loans subject to representations and warranties:

|  | Quarter ended June 30,  |         | Six months<br>ended June 30, |         |
|--|-------------------------|---------|------------------------------|---------|
|  | 2017                    | 2016    | 2017                         | 2016    |
|  | (in thousands)          |         |                              |         |
|  | (UPB of mortgage loans) |         |                              |         |
| <b>Indemnification activity:</b>                         |                         |         |                              |         |
| Mortgage loans indemnified by PMT at beginning           |                         |         |                              |         |
| of period  | \$6,925                 | \$5,239 | \$4,856                      | \$5,566 |
| New indemnifications                                     | —                       | —       | 2,069                        | —       |
| Less:  |                         |         |                              |         |
| Indemnified mortgage loans repurchased                   | —                       | —       | —                            | —       |
| Indemnified mortgage loans repaid or refinanced          | 253                     | —       | 253                          | 327     |
| Mortgage loans indemnified by PMT at end of period       | \$6,672                 | \$5,239 | \$6,672                      | \$5,239 |
| Mortgage loans with deposits received from correspondent | \$391                   | \$645   | \$391                        | \$645   |

lenders collateralizing prospective indemnification losses

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|  |              |              |          |           |
|--|--------------|--------------|----------|-----------|
| at end of period   |              |              |          |           |
| Repurchase activity:                                     |              |              |          |           |
| Total mortgage loans repurchased by PMT                  | \$1,968      | \$2,808      | \$6,079  | \$6,350   |
| Less:  |              |              |          |           |
| Mortgage loans repurchased by correspondent              |              |              |          |           |
| lenders  | 1,759        | 3,561        | 4,245    | 3,269     |
| Mortgage loans repaid by borrowers                       | 1,248        | 19           | 2,426    | 1,678     |
| Mortgage loans repurchased (liquidated) by PMT           |              |              |          |           |
| with losses chargeable to liability for                  |              |              |          |           |
| representations and warranties                           | \$(1,039     | ) \$(772     | ) \$(592 | ) \$1,403 |
| Net losses charged to liability for representations and  |              |              |          |           |
| warranties   | \$52         | \$104        | \$52     | \$410     |
| At end of period:  |              |              |          |           |
| Mortgage loans subject to representations and warranties | \$62,530,609 | \$46,339,653 |          |           |
| Liability for representations and warranties             | \$10,697     | \$19,258     |          |           |

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During the quarter and six months ended June 30, 2017, we repurchased mortgage loans with UPBs totaling \$2.0 million and \$6.1 million and recorded net losses charged to the liability for representations and warranties of \$52,000 for the quarter and six months ended June 30, 2017, as compared to repurchases of \$2.8 million and \$6.4 million and recorded net losses of \$104,000 and \$410,000, respectively, during the same periods in 2016. The losses we have recorded to date have been moderated by our ability to recover most of the losses inherent in the repurchased mortgage loans from the correspondent sellers. As the outstanding balance of mortgage loans we purchase and sell subject to representations and warranties increases and the mortgage loans sold season, we expect the level of repurchase activity and associated losses may increase.

The amount of the liability for representations and warranties is difficult to estimate and requires considerable judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor loss mitigation strategies, our ability to recover any losses inherent in the repurchased mortgage loan from the selling correspondent originator and other external conditions that may change over the lives of the underlying mortgage loans. We may be required to incur losses related to such representations and warranties for several periods after the mortgage loans are sold or liquidated.

As economic fundamentals change, and as investor and Agency evaluations of their loss mitigation strategies (including claims under representations and warranties) change and as economic conditions affect our correspondent sellers' ability or willingness to fulfill their recourse obligations to us, the level of repurchase activity and ensuing losses will change, and we may be required to record adjustments to our recorded liability for losses on representations and warranties which may be material to our financial condition and income. Such adjustments are included as a component of our Net gains on mortgage loans acquired for sale at fair value. We recorded a \$1.3 million and \$5.9 million reduction in liabilities for representations and warranties during the quarter and six months ended June 30, 2017 due to our revised expectation of lower than originally anticipated losses along with effects of certain mortgage loans reaching specified performance histories identified by the Agencies as sufficient to limit repurchase claims relating to such mortgage loans.

#### Loan Origination Fees

Loan origination fees represent fees we charge correspondent sellers relating to our purchase of mortgage loans from those sellers. The increase in fees during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016 is reflective of the increase in the volume of mortgage loans we purchased during the 2017 periods.

#### Net Gain (Loss) on Investments

Net gain (loss) on investments is summarized below:

|                                 | Quarter ended June<br>30, |         | Six months ended<br>June 30, |         |
|---------------------------------|---------------------------|---------|------------------------------|---------|
|                                 | 2017                      | 2016    | 2017                         | 2016    |
|                                 | (in thousands)            |         |                              |         |
| Net gain (loss) on investments: |                           |         |                              |         |
| From non-affiliates:            |                           |         |                              |         |
| Mortgage-backed securities      | \$4,027                   | \$4,332 | \$4,167                      | \$9,431 |
| Mortgage loans at fair value:   |                           |         |                              |         |

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|  |          |            |          |            |
|--|----------|------------|----------|------------|
| Distressed                                     | 1,030    | (13,463)   | 4,246    | 932        |
| Held in a VIE                                  | 3,855    | (48 )      | 4,171    | 8,347      |
| CRT Agreements                                 | 32,853   | 7,764      | 51,440   | 3,621      |
| Asset-backed financings of a VIE at fair value | (3,399 ) | 890        | (3,423 ) | (8,963 )   |
| Hedging derivatives                            | (4,889 ) | 862        | (9,033 ) | 698        |
|  | 33,477   | 337        | 51,568   | 14,066     |
| From PFSI—ESS                                  | (5,885 ) | (15,824)   | (7,255 ) | (33,451)   |
|  | \$27,592 | \$(15,487) | \$44,313 | \$(19,385) |

The increase in net gain (loss) on investments during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, was caused by gains in our CRT Agreements during the periods ended June 30, 2017 as compared to the periods ended June 30, 2016 as a result of both tightening of credit spreads during 2017 as compared to 2016 and growth in our investments in CRT Agreements. This improvement was supplemented by a significantly reduced loss on the Company's investment in ESS during the quarter ended June 30, 2017. This improvement reflects relative stability of the interest rate environment during the quarter and six months ended June 30, 2017, along with a smaller average investment in ESS as compared to 2016.

## Mortgage-Backed Securities

During the quarter and six months ended June 30, 2017, we recognized net valuation gains on MBS of \$4.0 million and \$4.2 million, respectively, as compared to net valuation gains of \$4.3 million and \$9.4 million for the quarter and six months ended June 30, 2016. The decrease in gains we recorded for the quarter ended June 30, 2017 reflects the effects of a more significant decrease in mortgage interest rates during the quarter ended June 30, 2016, as compared to the quarter ended June 30, 2017.

## Mortgage Loans at Fair Value – Distressed Mortgage Loans

Net gains on our investment in distressed mortgage loans at fair value are summarized below:

|  | Quarter ended June 30, |             | Six months ended June 30, |             |
|--|------------------------|-------------|---------------------------|-------------|
|  | 2017                   | 2016        | 2017                      | 2016        |
|  | (in thousands)         |             |                           |             |
| <b>Valuation changes:</b>                                  |                        |             |                           |             |
| Performing loans   | \$15,466               | \$(8,356 )  | \$21,436                  | \$(3,472 )  |
| Nonperforming loans  | (15,750 )              | (5,919 )    | (18,919 )                 | 2,044       |
|  | (284 )                 | (14,275 )   | 2,517                     | (1,428 )    |
| Gain on payoffs  | 1,348                  | 1,208       | 1,763                     | 2,757       |
| Loss on sales  | (34 )                  | (396 )      | (34 )                     | (397 )      |
|  | \$1,030                | \$(13,463 ) | \$4,246                   | \$932       |
| Average portfolio balance                                  | \$1,199,786            | \$1,791,429 | \$1,264,752               | \$1,925,605 |
| Interest and fees capitalized                              | \$10,814               | \$16,421    | \$20,717                  | \$39,715    |
| Number of mortgage loans relating to gain recognized on    |                        |             |                           |             |
| payoffs  | 90                     | 138         | 168                       | 244         |
| UPB of mortgage loans relating to gain recognized on       |                        |             |                           |             |
| payoffs  | \$31,181               | \$43,645    | \$55,927                  | \$69,918    |
| Number of mortgage loans relating to loss recognized on    |                        |             |                           |             |
| sales  | 2                      | 1,552       | 340                       | 1,552       |
| UPB of mortgage loans relating to loss recognized on sales | \$788                  | \$419,435   | \$104,555                 | \$418,935   |

Because we have elected to record our mortgage loans at fair value, a substantial portion of the income we record with respect to such mortgage loans results from changes in fair value. Valuation changes amounted to a loss of \$0.3 million and a gain of \$2.5 million in the quarter and six months ended June 30, 2017, respectively, as compared to losses of \$14.3 million and \$1.4 million for the same periods in 2016. We recognize gain (loss) relating to mortgage loans subject to pending sales contracts in the valuation changes. Gains on sales represent settlement adjustments realized at the date of sale.

The valuation changes on performing mortgage loans reflect the effects of capitalization of delinquent interest on loans we modify. When we capitalize interest in a loan modification, we increase the carrying value of the mortgage loan. However, the fair value of the mortgage loan does not immediately increase significantly. Therefore, the interest

income we recognize is offset by a valuation loss of corresponding magnitude. Changes in other inputs may result in further valuation changes to the mortgage loan, and subsequent performance of a modified mortgage loan will be reflected in its future fair value. During the quarter and six months ended June 30, 2017, we capitalized interest totaling \$10.8 million and \$20.7 million, respectively, as compared to \$16.4 million and \$39.7 million for the quarter and six months ended June 30, 2016.

Implementing long-term, sustainable loan modification is one means by which we endeavor to increase the fair value of the distressed mortgage loans which we have typically purchased at discounts to their UPB.

Valuation gains on performing mortgage loans increased during the quarter and six months ended June 30, 2017, as compared to the prior periods in 2016, due to strong observed market activity in the periods for portfolios with similar performance characteristics. Valuation losses on the nonperforming mortgage loans increased during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, as home price indications were below prior forecasts, in addition to increased uncertainty regarding the realization of cash flows on the remaining population of loans.



Absent sale or securitization of reperforming and modified mortgage loans, and unlike liquidation of a defaulted mortgage loan, we expect that recovery of our investment in a performing modified mortgage loan will take place generally over a period of several years, during which we earn and collect interest income on such mortgage loan. Our current expectation is that we will receive cash on modified mortgage loans through monthly borrower payments, payoffs or acquisition of the property securing the mortgage loans and liquidation of the property in the event the borrower subsequently defaults.

Large-scale refinancing of modified distressed mortgage loans is not expected to occur for an extended period. Borrowers who have recently modified their mortgage loans typically have credit profiles that do not qualify them for refinancing or have mortgage loans on properties whose loan-to-value ratios exceed current underwriting guidelines for new mortgage loans. Further, modified mortgage loans generally require a period of acceptable borrower performance for consideration in most Agency refinance programs.

The following tables present a summary of mortgage loan modifications completed:

| Modification type (1)                   | Quarter ended June 30,<br>2017                                     |          | 2016   |          | Six months ended June 30,<br>2017        |           | 2016                                     |           |
|---|--|----------|--|----------|--|-----------|--|-----------|
|   | Number<br>of<br>of<br>loans<br>loans (2)<br>(dollars in thousands) | Balance  | Number<br>of<br>of<br>loans<br>loans (2)<br>(dollars in thousands) | Balance  | Number<br>of<br>of<br>loans<br>loans (2) | Balance   | Number<br>of<br>of<br>loans<br>loans (2) | Balance   |
| Rate reduction                          | 225  | \$60,433 | 174  | \$46,869 | 400                                      | \$110,364 | 393                                      | \$103,798 |
| Term extension                          | 294  | \$85,342 | 271  | \$73,484 | 538                                      | \$160,011 | 606                                      | \$166,274 |
| Capitalization of interest and fees     | 323  | \$91,838 | 295  | \$80,237 | 588                                      | \$171,708 | 647                                      | \$177,967 |
| Principal forbearance                   | 158  | \$52,654 | 101  | \$28,100 | 273                                      | \$92,110  | 192                                      | \$56,995  |
| Principal reduction                     | 109  | \$29,492 | 177  | \$52,021 | 200                                      | \$57,981  | 386                                      | \$112,830 |
| Total (1)                               | 323  | \$91,838 | 295  | \$80,237 | 588                                      | \$171,708 | 647                                      | \$177,967 |
| Defaults of mortgage loans modified     |  |          |  |          |  |           |  |           |
| in the prior year period                |  | \$3,521  |  | \$2,469  |  | \$17,082  |  | \$7,236   |
| As a percentage of relevant balance     |  |          |  |          |  |           |  |           |
| of loans before modification            | 6  | %        | 6  | %        | 15                                       | %         | 14                                       | %         |
| Defaults during the period of mortgage  |  |          |  |          |  |           |  |           |
| loans modified since acquisitions (3)   |  | \$20,941 |  | \$14,675 |  | \$72,249  |  | \$51,363  |
| As a percentage of relevant balance     |  |          |  |          |  |           |  |           |
| of loans before modification            | 5  | %        | 4  | %        | 17                                       | %         | 15                                       | %         |
| Repayments and sales of mortgage        |  |          |  |          |  |           |  |           |
| loans modified in the prior year period |  | \$5,338  |  | \$417    |  | \$20,774  |  | \$25,643  |
| As a percentage of relevant balance     |  |          |  |          |  |           |  |           |
|   | 7  | %        | 1  | %        | 12                                       | %         | 26                                       | %         |

of loans before modification

(1) Modification type categories are not mutually exclusive and a modification of a single loan may be counted in multiple categories. The total number of modifications noted in the table is therefore lower than the sum of all of the categories.

(2) Before modification.

(3) Represents defaults of mortgage loans during the period that have been modified by us at any point since acquisition.

The following table summarizes the average effect of the modifications noted above to the terms of the loans modified:

| Category                | Quarter ended June 30, |              |              |              | Six months ended June 30, |              |              |              |
|-------------------------|------------------------|--------------|--------------|--------------|---------------------------|--------------|--------------|--------------|
|                         | 2017                   |              | 2016         |              | 2017                      |              | 2016         |              |
|                         | Before                 | After        | Before       | After        | Before                    | After        | Before       | After        |
|                         | modification           | modification | modification | modification | modification              | modification | modification | modification |
|                         | (dollars in thousands) |              |              |              |                           |              |              |              |
| Loan balance            | \$284                  | \$ 316       | \$272        | \$ 290       | \$292                     | \$ 324       | \$275        | \$ 293       |
| Remaining term (months) | 365                    | 462          | 342          | 450          | 360                       | 464          | 334          | 449          |
| Interest rate           | 4.11 %                 | 2.92 %       | 4.62 %       | 3.42 %       | 4.20 %                    | 3.00 %       | 4.80 %       | 3.60 %       |
| Forbeared principal     | \$26                   | \$ 37        | \$17         | \$ 18        | \$25                      | \$ 34        | \$17         | \$ 18        |

## CRT Agreements

The activity in our CRT Agreements is summarized below:

|  | Quarter ended June 30, |               | Six months ended June 30, |             |
|--|------------------------|---------------|---------------------------|-------------|
|  | 2017                   | 2016          | 2017                      | 2016        |
|  | (in thousands)         |               |                           |             |
| UPB of mortgage loans sold under CRT Agreements  | \$3,760,825            | \$ 3,162,746  | \$5,595,121               | \$5,084,744 |
| Deposits of cash securing CRT Agreements   | \$41,355               | \$ 126,031    | \$57,148                  | \$192,737   |
| Increase in commitments to fund Deposits securing credit risk transfer Agreements resulting from sale of mortgage loans under CRT Agreements | \$98,722               | \$ —          | \$146,872                 | \$—         |
| Gains recognized on CRT Agreements included in   |                        |               |                           |             |
| Net gain (loss) on investments   |                        |               |                           |             |
| Realized   | \$11,361               | \$ 3,859      | \$21,650                  | \$6,395     |
| Resulting from valuation changes   | 27,087                 | 3,905         | 37,106                    | (2,774 )    |
|  | 38,448                 | 7,764         | 58,756                    | 3,621       |
| Change in fair value of interest-only security payable at fair value   | (5,595 )               | —             | (7,316 )                  | —           |
|  | \$32,853               | \$ 7,764      | \$51,440                  | \$3,621     |
| Payments made to settle losses   | \$262                  | \$ —          | \$411                     | \$—         |
| Interest earned on Deposits securing CRT Agreements  | \$855                  | \$ 235        | \$1,264                   | \$375       |
|  |                        |               |                           |             |
|  | June 30,               | December 31,  |                           |             |
|  | 2017                   | 2016          |                           |             |
|  | (in thousands)         |               |                           |             |
| UPB of mortgage loans subject to credit guarantee obligations  | \$19,301,982           | \$ 14,379,850 |                           |             |
| Commitments to fund Deposits securing CRT agreements   | \$247,942              | \$ 92,109     |                           |             |
| Carrying value of investments in CRT Agreements (1)  | \$555,824              | \$ 465,669    |                           |             |

(1) Carrying value of investments in CRT Agreements includes Deposits securing CRT Agreements and CRT derivatives.

The increase in gains recognized on CRT Agreements is due to growth in the portfolio of mortgage loans subject to CRT Agreements during 2017 as compared to 2016 and the effect of credit spread decreases (credit spreads represent the yield premium demanded by investors for securities similar to CRT Agreements as compared to a U.S. Treasury security) during 2017 on the fair value of the derivative assets included in the CRT Agreements. During 2016, we

experienced increased credit spreads related to our CRT Agreements resulting in unrealized losses.

#### ESS Purchased from PFSI

We recognized fair value losses relating to our investment in ESS totaling \$5.9 million and \$7.3 million for the quarter and six months ended June 30, 2017, as compared to fair value losses of \$15.8 million and \$33.5 million for the quarter and six months ended June 30, 2016, respectively. The reduction in losses was driven by the relative stability of the interest rate environment in 2017 compared to the same periods in 2016 along with a decrease in our average investment in ESS. Our average investment in ESS decreased from \$318.1 million and \$348.7 million for the quarter and six months ended June 30, 2016 to \$270.6 million and \$278.0 million for the quarter and six months ended June 30, 2017.

#### Net Mortgage Loan Servicing Fees

Our correspondent production activity is the primary source of our mortgage loan servicing portfolio. When we sell mortgage loans, we generally enter into a contract to service the mortgage loans and recognize the fair value of such contracts as MSRs. Under these contracts, we are required to perform mortgage loan servicing functions in exchange for fees and the right to other compensation.

The servicing functions, which are performed on our behalf by PLS, typically include, among other responsibilities, collecting and remitting mortgage loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions.

Net mortgage loan servicing fees are summarized below:

|   | Quarter ended June 30, |              | Six months ended June 30, |              |
|---|------------------------|--------------|---------------------------|--------------|
|   | 2017                   | 2016         | 2017                      | 2016         |
|   | (in thousands)         |              |                           |              |
| From non-affiliates:                              |                        |              |                           |              |
| Servicing fees (1)                                | \$41,084               | \$31,578     | \$79,589                  | \$60,450     |
| Effect of MSR's:                                  |                        |              |                           |              |
| Carried at lower of amortized cost or fair value: |                        |              |                           |              |
| Amortization                                      | (19,523 )              | (15,531 )    | (37,381 )                 | (29,818 )    |
| Additions to impairment valuation allowance       | (4,089 )               | (23,170 )    | (2,585 )                  | (40,876 )    |
| Gain on sale                                      | —                      | 11           | —                         | 11           |
| Carried at fair value—change in fair value        | (4,400 )               | (4,941 )     | (6,393 )                  | (16,356 )    |
| Gains (losses) on hedging derivatives             | 2,391                  | 27,433       | (6,307 )                  | 57,394       |
|   | (25,621 )              | (16,198 )    | (52,666 )                 | (29,645 )    |
| From PFSI—MSR recapture income                    | 234                    | 311          | 526                       | 440          |
| Net mortgage loan servicing fees                  | \$15,697               | \$15,691     | \$27,449                  | \$31,245     |
| Average servicing portfolio                       | \$61,414,348           | \$45,647,524 | \$59,710,787              | \$44,531,795 |

- (1) Includes contractually specified servicing and ancillary fees, net of guarantee fees.

Net mortgage loan servicing fees were unchanged during the quarter ended June 30, 2017 as compared to the quarter ended June 30, 2016, and decreased \$3.8 million, or 12%, during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Net mortgage loan servicing fees remained unchanged during the quarter ended June 30, 2017 as compared to the quarter ended June 30, 2016 due to offsetting effects of increased servicing fees and increased amortization and fair value changes net of hedging results. The increase in servicing fees during the quarter ended June 30, 2017 as compared to the quarter ended June 30, 2016 was primarily attributable to growth in our mortgage loan servicing portfolio. The increase in amortization and fair value changes net of hedging results reflects reduced impairment that was more-than offset by reduced hedging gains and increased amortization of a larger mortgage servicing asset. The decrease in net mortgage loan servicing fees during the six months ended June 30, 2017 is driven by reduced benefit of hedging results relating to our MSR asset, partially offset by increased servicing fees.

We have entered into an MSR recapture agreement that requires PLS to transfer to us the MSR's with respect to new mortgage loans originated in refinancing transactions where PLS refinances a mortgage loan for which we previously held the MSR's. PLS is generally required to transfer MSR's relating to such mortgage loans (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. Where the fair value of the aggregate MSR's to be transferred for the applicable month is less than \$200,000, PLS may, at its option, settle in cash with us in an amount equal to such fair market value in place of transferring such MSR's. We recognized MSR recapture income during the quarter and six months ended June 30, 2017 of \$234,000 and \$526,000, respectively, as compared to \$311,000 and \$440,000, respectively, for the quarter and six months ended June 30, 2016.

We have identified two classes of MSR's: originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5% and MSR's backed by mortgage loans with initial interest rates of more than 4.5%. Our accounting for MSR's is based on the class of MSR's. Originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. Originated MSR's backed by

mortgage loans with initial interest rates of more than 4.5% are accounted for at fair value with changes in fair value recorded in current period income.

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Our MSR's are summarized by the basis on which we account for the assets as presented below:

|  | June 30,<br>2017       | December 31,<br>2016 |     |   |
|--|------------------------|----------------------|-----|---|
|  | (dollars in thousands) |                      |     |   |
| MSR's carried at fair value                            | \$77,624               | \$64,136             |     |   |
| UPB of mortgage loans underlying MSR's                 | \$7,058,662            | \$5,763,957          |     |   |
| MSR carried at lower of amortized cost or fair value:  |                        |                      |     |   |
| Amortized cost   | \$673,433              | \$606,103            |     |   |
| Valuation allowance                                    | (16,257 )              | (13,672 )            |     |   |
| Carrying value   | \$657,176              | \$592,431            |     |   |
| Fair value   | \$682,437              | \$626,334            |     |   |
| UPB of mortgage loans underlying MSR's                 | \$56,219,587           | \$50,539,707         |     |   |
| Total MSR:   |                        |                      |     |   |
| Carrying value   | \$734,800              | \$656,567            |     |   |
| Fair value   | \$760,061              | \$690,470            |     |   |
| UPB of mortgage loans underlying MSR's                 | \$63,278,249           | \$56,303,664         |     |   |
| Average servicing fee rate (in basis points)           |                        |                      |     |   |
| MSR's carried at lower of amortized cost or fair value | 25                     | 25                   |     |   |
| MSR's carried at fair value                            | 25                     | 25                   |     |   |
| Average note interest rate:                            |                        |                      |     |   |
| MSR's carried at lower of amortized cost or fair value | 3.8                    | %                    | 3.8 | % |
| MSR's carried at fair value                            | 4.7                    | %                    | 4.7 | % |

## Net Interest Income

Net interest income is summarized below:

|   | Quarter ended June 30, 2017 |          |          | Average<br>balance | Annualized<br>interest<br>yield/cost<br>% |   |
|---|-----------------------------|----------|----------|--------------------|---|---|
|   | Interest income/expense     |          | Total    |                    |   |   |
|   | Discount/<br>Coupon         | fees (1) |          |                    |   |   |
| (dollars in thousands)                                    |                             |          |          |                    |   |   |
| <b>Assets:</b>  |                             |          |          |                    |   |   |
| Mortgage loans acquired for sale at fair value            | \$12,995                    | \$—      | \$12,995 | \$1,274,817        | 4.03                                      | % |
| Short-term investments                                    | 103                         | —        | 103      | 24,198             | 1.68                                      | % |
| <b>Mortgage-backed securities:</b>                        |                             |          |          |                    |   |   |
| Agency  | 9,212                       | (1,478 ) | 7,734    | 1,087,889          | 2.81                                      | % |
| Non-Agency prime jumbo                                    | —                           | —        | —        | —                  | —   |   |
|   | 9,212                       | (1,478 ) | 7,734    | 1,087,889          | 2.81                                      | % |
| <b>Mortgage loans:</b>                                    |                             |          |          |                    |   |   |
| Distressed  | 9,157                       | 10,435   | 19,592   | 1,199,786          | 6.46                                      | % |
| Held by variable interest entity                          | 3,314                       | 562      | 3,876    | 352,589            | 4.35                                      | % |
|   | 12,471                      | 10,997   | 23,468   | 1,552,375          | 5.98                                      | % |
| Interest earned on deposits securing CRT Agreements       | 855                         | —        | 855      | 492,020            | 0.69                                      | % |
| ESS from PFSI   | 4,366                       | —        | 4,366    | 270,643            | 6.38                                      | % |
| Placement fees relating to custodial funds                | 2,811                       | —        | 2,811    | —                  | —   |   |
| Other   | 54                          | —        | 54       | —                  | —   |   |
|   | 42,867                      | 9,519    | 52,386   | 4,701,942          | 4.41                                      | % |
| <b>Liabilities:</b>                                       |                             |          |          |                    |   |   |
| Assets sold under agreements to repurchase                | 22,060                      | 1,881    | 23,941   | 3,420,836          | 2.77                                      | % |
| Mortgage loan participation and sale agreements           | 418                         | 31       | 449      | 71,724             | 2.48                                      | % |
| Notes payable   | 1,823                       | 1,272    | 3,095    | 119,447            | 10.25                                     | % |
| Asset-backed financings of a VIE at fair value            | 2,911                       | 685      | 3,596    | 337,844            | 4.21                                      | % |
| Exchangeable Notes  | 3,359                       | 272      | 3,631    | 250,000            | 5.75                                      | % |
| Assets sold to PFSI under agreements to repurchase        | 2,025                       | —        | 2,025    | 150,000            | 5.34                                      | % |
|   | 32,596                      | 4,141    | 36,737   | 4,349,851          | 3.34                                      | % |
| <b>Interest shortfall on repayments of mortgage loans</b> |                             |          |          |                    |   |   |
| serviced for Agency securitizations                       | 1,368                       | —        | 1,368    | —                  | —   |   |
| Interest on mortgage loan impound deposits                | 321                         | —        | 321      | —                  | —   |   |
|   | 34,285                      | 4,141    | 38,426   | 4,349,851          | 3.49                                      | % |
| Net interest income                                       | \$8,582                     | \$5,378  | \$13,960 |                    |   |   |
| Net interest margin                                       |                             |          |          |                    | 1.17                                      | % |
| Net interest spread                                       |                             |          |          |                    | 0.91                                      | % |

(1) Amounts in this column represent amortization of premium and accrual of unearned discounts for assets and amortization of debt issuance costs for liabilities.





|   | Quarter ended June 30, 2016 |          |          | Average<br>balance | Annualized<br>interest<br>yield/cost<br>% |   |
|---|-----------------------------|----------|----------|--------------------|---|---|
|   | Interest income/expense     |          | Total    |                    |   |   |
|   | Discount/<br>Coupon         | fees (1) |          |                    |   |   |
| (dollars in thousands)                              |                             |          |          |                    |   |   |
| <b>Assets:</b>                                      |                             |          |          |                    |   |   |
| Mortgage loans acquired for sale at fair value      | \$13,596                    | \$—      | \$13,596 | \$1,422,945        | 3.78                                      | % |
| Short-term investments                              | —                           | —        | —        | 25,903             | 0.00                                      | % |
| Mortgage-backed securities:                         |                             |          |          |                    |   |   |
| Agency  | 2,823                       | (587 )   | 2,236    | 349,951            | 2.53                                      | % |
| Non-Agency prime jumbo                              | 684                         | (164 )   | 520      | 78,102             | 2.63                                      | % |
|   | 3,507                       | (751 )   | 2,756    | 428,053            | 2.55                                      | % |
| Mortgage loans:                                     |                             |          |          |                    |   |   |
| Distressed  | 6,621                       | 16,421   | 23,042   | 1,791,429          | 5.09                                      | % |
| Held by variable interest entity                    | 4,086                       | 865      | 4,951    | 437,542            | 4.48                                      | % |
|   | 10,707                      | 17,286   | 27,993   | 2,228,971          | 4.97                                      | % |
| Interest earned on Deposits securing CRT Agreements | 235                         | —        | 235      | 254,359            | 0.37                                      | % |
| ESS from PFSI                                       | 5,713                       | —        | 5,713    | 318,065            | 7.11                                      | % |
| Placement fees relating to custodial funds          | 1,341                       | —        | 1,341    | —                  | —   |   |
| Other   | 132                         | —        | 132      | —                  | —   |   |
|   | 35,231                      | 16,535   | 51,766   | 4,678,296          | 4.38                                      | % |
| <b>Liabilities:</b>                                 |                             |          |          |                    |   |   |
| Assets sold under agreements to repurchase          | 19,860                      | 2,196    | 22,056   | 3,268,774          | 2.67                                      | % |
| Mortgage loan participation and sale agreements     | 302                         | 31       | 333      | 70,701             | 1.86                                      | % |
| Notes payable                                       | 2,203                       | 788      | 2,991    | 188,330            | 6.28                                      | % |
| Asset-backed financings of VIEs at fair value       | 2,825                       | 781      | 3,606    | 334,233            | 4.27                                      | % |
| Exchangeable Notes                                  | 3,359                       | 257      | 3,616    | 250,000            | 5.72                                      | % |
| Note payable to PFSI                                | 1,894                       | 328      | 2,222    | 150,000            | 5.86                                      | % |
|   | 30,443                      | 4,381    | 34,824   | 4,262,038          | 3.23                                      | % |
| Interest shortfall on repayments of mortgage loans  |                             |          |          |                    |   |   |
| serviced for Agency securitizations                 | 1,589                       | —        | 1,589    | —                  | —   |   |
| Interest on mortgage loan impound deposits          | 180                         | —        | 180      | —                  | —   |   |
|   | 32,212                      | 4,381    | 36,593   | 4,262,038          | 3.40                                      | % |
| Net interest income                                 | \$3,019                     | \$12,154 | \$15,173 |                    |   |   |
| Net interest margin                                 |                             |          |          |                    | 1.37                                      | % |
| Net interest spread                                 |                             |          |          |                    | 0.98                                      | % |

(1) Amounts in this column represent amortization of premium and accrual of unearned discounts for assets and amortization of debt issuance costs for liabilities.

|   | Six months ended June 30, 2017 |                       |          |                    |      | Annualized<br>interest<br>yield/cost<br>% |
|---|--------------------------------|-----------------------|----------|--------------------|------|---|
|   | Interest income/expense        |                       |          | Average<br>balance |      |   |
|   | Coupon                         | Discount/<br>fees (1) | Total    |                    |      |   |
| (dollars in thousands)                                    |                                |                       |          |                    |      |   |
| <b>Assets:</b>  |                                |                       |          |                    |      |   |
| Mortgage loans acquired for sale at fair value            | \$24,497                       | \$—                   | \$24,497 | \$1,174,417        | 4.15 | %   |
| Short-term investments                                    | 385                            | —                     | \$385    | 49,974             | 1.53 | %   |
| <b>Mortgage-backed securities:</b>                        |                                |                       |          |                    |      |   |
| Agency  | 17,302                         | (2,796 )              | 14,506   | 1,021,966          | 2.82 | %   |
| Non-Agency prime jumbo                                    | —                              | —                     | —        | —                  | —    |   |
|   | 17,302                         | (2,796 )              | 14,506   | 1,021,966          | 2.82 | %   |
| <b>Mortgage loans:</b>                                    |                                |                       |          |                    |      |   |
| Distressed  | 18,905                         | 20,339                | 39,244   | 1,264,752          | 6.17 | %   |
| Held by variable interest entity                          | 6,744                          | 861                   | 7,605    | 356,271            | 4.25 | %   |
|   | 25,649                         | 21,200                | 46,849   | 1,621,023          | 5.75 | %   |
| Interest earned on Deposits securing CRT Agreements       | 1,264                          | —                     | 1,264    | 465,301            | 0.54 | %   |
| ESS from PFSI   | 9,013                          | —                     | 9,013    | 278,029            | 6.45 | %   |
| Placement fees relating to custodial funds                | 3,882                          | —                     | 3,882    | —                  | —    |   |
| Other   | 90                             | —                     | 90       | —                  | —    |   |
|   | 82,082                         | 18,404                | 100,486  | 4,610,710          | 4.33 | %   |
| <b>Liabilities:</b>                                       |                                |                       |          |                    |      |   |
| Assets sold under agreements to repurchase                | 41,943                         | 4,180                 | 46,123   | 3,344,772          | 2.74 | %   |
| Mortgage loan participation and sale agreements           | 753                            | 63                    | 816      | 68,131             | 2.38 | %   |
| Notes payable   | 5,164                          | 2,235                 | 7,399    | 189,526            | 7.76 | %   |
| Asset-backed financings of a VIE at fair value            | 5,933                          | 1,072                 | 7,005    | 342,822            | 4.06 | %   |
| Exchangeable Notes  | 6,719                          | 541                   | 7,260    | 250,000            | 5.78 | %   |
| Note payable to PFSI                                      | 3,876                          | (46 )                 | 3,830    | 150,000            | 5.08 | %   |
|   | 64,388                         | 8,045                 | 72,433   | 4,345,251          | 3.32 | %   |
| <b>Interest shortfall on repayments of mortgage loans</b> |                                |                       |          |                    |      |   |
| serviced for Agency securitizations                       | 2,430                          | —                     | 2,430    | —                  | —    |   |
| Interest on mortgage loan impound deposits                | 742                            | —                     | 742      | —                  | —    |   |
|   | 67,560                         | 8,045                 | 75,605   | 4,345,251          | 3.46 | %   |
| Net interest income                                       | \$14,522                       | \$10,359              | \$24,881 | \$265,459          |      |   |
| Net interest margin                                       |                                |                       |          |                    | 1.07 | %   |
| Net interest spread                                       |                                |                       |          |                    | 0.87 | %   |

(2) Amounts in this column represent amortization of premium and accrual of unearned discounts for assets and amortization of debt issuance costs for liabilities.

|   | Six months ended June 30, 2016 |                       |          | Average<br>balance | interest<br>yield/cost<br>% |
|---|--------------------------------|-----------------------|----------|--------------------|-----------------------------|
|   | Coupon                         | Discount/<br>fees (1) | Total    |                    |                             |
|   | (dollars in thousands)         |                       |          |                    |                             |
| <b>Assets:</b>  |                                |                       |          |                    |                             |
| Mortgage loans acquired for sale at fair value            | \$22,860                       | \$—                   | \$22,860 | \$1,170,720        | 3.88 %                      |
| Short-term investments                                    | 377                            | —                     | 377      | 36,546             | 2.05 %                      |
| <b>Mortgage-backed securities:</b>                        |                                |                       |          |                    |                             |
| Agency  | 4,709                          | (581 )                | 4,128    | 289,627            | 2.83 %                      |
| Non-Agency prime jumbo                                    | 1,497                          | (157 )                | 1,340    | 87,030             | 3.06 %                      |
|   | 6,206                          | (738 )                | 5,468    | 376,657            | 2.89 %                      |
| <b>Mortgage loans:</b>                                    |                                |                       |          |                    |                             |
| Distressed  | 12,513                         | 39,715                | 52,228   | 1,925,605          | 5.39 %                      |
| Held by variable interest entity                          | 8,386                          | 2,094                 | 10,480   | 446,013            | 4.67 %                      |
|   | 20,899                         | 41,809                | 62,708   | 2,371,618          | 5.26 %                      |
| Interest earned on Deposits securing CRT Agreements       | 375                            | —                     | 375      | 213,082            | 0.35 %                      |
| ESS from PFSI   | 12,728                         | —                     | 12,728   | 348,669            | 7.26 %                      |
| Placement fees relating to custodial funds                | 1,341                          | —                     | 1,341    | —                  | —                           |
| Other   | 275                            | —                     | 275      | —                  | —                           |
|   | 65,061                         | 41,071                | 106,132  | 4,517,292          | 4.67 %                      |
| <b>Liabilities:</b>                                       |                                |                       |          |                    |                             |
| Assets sold under agreements to repurchase                | 38,185                         | 4,283                 | 42,468   | 3,033,038          | 2.78 %                      |
| Mortgage loan participation and sale agreements           | 593                            | 68                    | 661      | 69,649             | 1.89 %                      |
| Federal Home Loan Bank advances                           | 122                            | —                     | 122      | 49,019             | 0.50 %                      |
| Notes payable   | 4,722                          | 1,612                 | 6,334    | 200,973            | 6.27 %                      |
| Asset-backed financings of VIEs at fair value             | 5,494                          | (536 )                | 4,958    | 325,112            | 3.03 %                      |
| Exchangeable Notes  | 6,719                          | 509                   | 7,228    | 250,000            | 5.75 %                      |
| Note payable to PFSI                                      | 3,160                          | 664                   | 3,824    | 150,000            | 5.07 %                      |
|   | 58,995                         | 6,600                 | 65,595   | 4,077,791          | 3.20 %                      |
| <b>Interest shortfall on repayments of mortgage loans</b> |                                |                       |          |                    |                             |
| serviced for Agency securitizations                       | 2,561                          | —                     | 2,561    | —                  | —                           |
| Interest on mortgage loan impound deposits                | 441                            | —                     | 441      | —                  | —                           |
|   | 61,997                         | 6,600                 | 68,597   | 4,077,791          | 3.35 %                      |
| Net interest income                                       | \$3,064                        | \$34,471              | \$37,535 |                    |                             |
| Net interest margin                                       |                                |                       |          |                    | 1.73 %                      |
| Net interest spread                                       |                                |                       |          |                    | 1.56 %                      |

(3) Amounts in this column represent amortization of premium and accrual of unearned discounts for assets and amortization of debt issuance costs for liabilities.

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The effects of changes in the yields and costs and composition of our investments on our interest income are summarized below:

|   | Quarter ended June 30,<br>2017        |                |                 | Six months ended June 30,<br>2017        |                 |                 |
|---|---------------------------------------|----------------|-----------------|--|-----------------|-----------------|
|   | vs.<br>Quarter ended June 30,<br>2016 |                |                 | vs.<br>Six months ended June 30,<br>2016 |                 |                 |
|   | Increase (decrease)                   |                |                 | Increase (decrease)                      |                 |                 |
|   | due to changes in                     |                |                 | due to changes in                        |                 |                 |
|   | Rate                                  | Volume         | Total<br>change | Rate                                     | Volume          | Total<br>change |
|   | (in thousands)                        |                |                 |  |                 |                 |
| <b>Assets:</b>  |                                       |                |                 |  |                 |                 |
| Mortgage loans acquired for sale at fair value                                    | \$872                                 | \$(1,473)      | \$(601 )        | \$1,570                                  | \$67            | \$1,637         |
| Short-term investments  | 103                                   | —              | 103             | (108 )                                   | 116             | 8               |
| <b>Mortgage -backed securities:</b>   |                                       |                |                 |  |                 |                 |
| Agency  | 279                                   | 5,219          | 5,498           | 6  | 10,372          | 10,378          |
| Non-Agency prime jumbo  | —                                     | (520 )         | (520 )          | —  | (1,340 )        | (1,340 )        |
|   | 279                                   | 4,699          | 4,978           | 6  | 9,032           | 9,038           |
| <b>Mortgage loans at fair value:</b>  |                                       |                |                 |  |                 |                 |
| Distressed  | 5,289                                 | (8,739)        | (3,450)         | 6,905                                    | (19,889)        | (12,984)        |
| Held by variable interest entity  | (138 )                                | (937 )         | (1,075)         | (865 )                                   | (2,010 )        | (2,875 )        |
| <b>Total mortgage loans</b>   | <b>5,151</b>                          | <b>(9,676)</b> | <b>(4,525)</b>  | <b>6,040</b>                             | <b>(21,899)</b> | <b>(15,859)</b> |
| <b>Interest earned on Deposits securing CRT</b>                                   |                                       |                |                 |  |                 |                 |
| Agreements  | 301                                   | 319            | 620             | 283                                      | 606             | 889             |
| ESS from PFSI   | (547 )                                | (800 )         | (1,347)         | (1,284)                                  | (2,431 )        | (3,715 )        |
| Placement fees relating to custodial funds  | —                                     | 1,470          | 1,470           | —  | 2,541           | 2,541           |
| Other   | —                                     | (78 )          | (78 )           | —  | (185 )          | (185 )          |
|   | \$6,159                               | \$(5,539)      | \$620           | \$6,507                                  | \$(12,153)      | \$(5,646 )      |
| <b>Liabilities:</b>   |                                       |                |                 |  |                 |                 |
| Assets sold under agreements to repurchase  | 838                                   | 1,047          | 1,885           | (434 )                                   | 4,089           | 3,655           |
| Mortgage loan participation and sale agreement                                    | 111                                   | 5              | 116             | 170                                      | (15 )           | 155             |
| FHLB advances   | —                                     | —              | —               | —  | (122 )          | (122 )          |
| <b>Asset backed secured financing of VIEs at fair value</b>                       |                                       |                |                 |  |                 |                 |
|   | (49 )                                 | 39             | (10 )           | 1,769                                    | 278             | 2,047           |
| Exchangeable Notes  | 15                                    | —              | 15              | 32                                       | —               | 32              |
| Notes payable   | 1,451                                 | (1,347)        | 104             | 1,447                                    | (382 )          | 1,065           |
| <b>Assets sold to PFSI under agreement to repurchase and note payable to PFSI</b> |                                       |                |                 |  |                 |                 |
|   | (197 )                                | —              | (197 )          | 6  | —               | 6               |
|   | 2,169                                 | (256 )         | 1,913           | 2,990                                    | 3,848           | 6,838           |
| Interest shortfall on repayments of mortgage loans                                | —                                     | (221 )         | (221 )          | —  | (131 )          | (131 )          |

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|  |         |           |           |         |            |            |
|--|---------|-----------|-----------|---------|------------|------------|
| serviced for Agency securitizations        |         |           |           |         |            |            |
| Interest on mortgage loan impound deposits | —       | 141       | 141       | —       | 301        | 301        |
|  | 2,169   | (336 )    | 1,833     | 2,990   | 4,018      | 7,008      |
| Net interest income                        | \$3,990 | \$(5,203) | \$(1,213) | \$3,517 | \$(16,171) | \$(12,654) |

During the quarter and six months ended June 30, 2017, we earned net interest income of \$14.0 million and \$24.9 million, respectively, as compared to \$15.2 million and \$37.5 million for the quarter and six months ended June 30, 2016, respectively. The decrease in net interest income between quarters was due primarily to a decrease in average investment in distressed mortgage loans, which are our highest yielding assets, compounded by the growth in our borrowings to finance non-interest earning MSR and CRT. This reduction was partially offset by growth in our average investment in MBS.

During the quarter and six months ended June 30, 2017, we recognized interest income on distressed mortgage loans and mortgage loans held by VIEs totaling \$23.5 million and \$46.8 million, respectively, including \$10.8 million and \$20.7 million of interest capitalized pursuant to loan modifications, which compares to \$28.0 million and \$62.7 million, including \$16.4 million and \$39.7 million of interest capitalized pursuant to loan modifications in the quarter and six months ended June 30, 2016, respectively. The decrease in interest income was primarily the result of continuing sales and liquidations of our distressed mortgage loans.

At June 30, 2017, approximately 47% of the fair value of our distressed mortgage loan portfolio was nonperforming, as compared to 55% at December 31, 2016. We do not accrue interest on nonperforming mortgage loans and generally do not recognize revenues during the period we hold REO. We calculate the yield on our mortgage loan portfolio based on the portfolio's average fair value, which most closely reflects our investment in the mortgage loans. Accordingly, the yield we realize is substantially higher than would be recorded based on the mortgage loans' UPBs and performance status as we generally have purchased our distressed mortgage loans at substantial discounts to their UPB.

Nonperforming mortgage loans and REO generally take longer than performing mortgage loans to generate cash flow due to the time required to work with borrowers to resolve payment issues through our modification programs, and to acquire and liquidate the property securing the mortgage loans. The value and returns we realize from these assets are determined by our ability to assist borrowers in curing defaults, or when curing of borrower defaults is not a viable solution, by our ability to effectively manage the liquidation process. At June 30, 2017, we held \$558.6 million in fair value of nonperforming mortgage loans and \$207.0 million in carrying value of REO, as compared to \$743.0 million in fair value of nonperforming mortgage loans and \$274.1 million in carrying value of REO at December 31, 2016.

During the quarter and six months ended June 30, 2017, we incurred interest expense totaling \$38.4 million and \$75.6 million, respectively, as compared to \$36.6 million and \$68.6 million during the quarter and six months ended June 30, 2016. Our interest cost on interest bearing liabilities was 3.34% and 3.32% for the quarter and six months ended June 30, 2017 and 3.23% and 3.20% for the quarter and six months ended June 30, 2016, respectively. The change in interest expense reflects the offsetting effects of a smaller average balance sheet and growth in financing of non-interest earning assets.

#### Results of Real Estate Acquired in Settlement of Loans

Results of REO includes the gains or losses we record upon sale of the properties as well as valuation adjustments we record during the period we hold those properties. During the quarter and six months ended June 30, 2017, we recorded net losses of \$3.5 million and \$7.7 million, respectively, as compared to \$2.6 million and \$8.6 million for the same periods in 2016, respectively, in Results of real estate acquired in settlement of loans.

Results of REO are summarized below:

|  | Quarter ended June<br>30, |            | Six months ended<br>June 30, |            |
|--|---------------------------|------------|------------------------------|------------|
|  | 2017                      | 2016       | 2017                         | 2016       |
|  | (dollars in thousands)    |            |                              |            |
| <b>During the period:</b>                                      |                           |            |                              |            |
| Proceeds from sales of REO                                     | \$38,385                  | \$70,665   | \$101,609                    | \$135,573  |
| <b>Results of real estate acquired in settlement of loans:</b> |                           |            |                              |            |
| Valuation adjustments, net                                     | (7,151 )                  | (7,283 )   | (15,326 )                    | (17,928 )  |
| Gain on sale, net  | 3,686                     | 4,718      | 7,615                        | 9,327      |
|  | \$(3,465 )                | \$(2,565 ) | \$(7,711 )                   | \$(8,601 ) |
| Number of properties sold                                      | 226                       | 416        | 520                          | 792        |
| Average carrying value of REO                                  | \$220,115                 | \$309,217  | \$238,230                    | \$323,342  |
| <b>End of period:</b>  |                           |            |                              |            |

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|                      |           |           |
|----------------------|-----------|-----------|
| Carrying value       | \$207,034 | \$299,458 |
| Number of properties | 806       | 1,324     |

Losses from REOs during the quarter ended June 30, 2017 decreased from the same period in 2016. The decrease in losses from REOs during the quarter and six months ended June 30, 2017, as compared to 2016, was due to smaller overall REO portfolio during 2017 as compared to 2016.

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## Expenses

Our expenses are summarized below:

|  | Quarter ended    |          | Six months ended |          |
|--|------------------|----------|------------------|----------|
|  | June 30,<br>2017 | 2016     | June 30,<br>2017 | 2016     |
|  | (in thousands)   |          |                  |          |
| <b>Expenses payable to PFSI:</b>         |                  |          |                  |          |
| Mortgage loan fulfillment fees           | \$21,107         | \$19,111 | \$37,677         | \$32,046 |
| Mortgage loan servicing fees             | 10,099           | 16,427   | 20,585           | 27,880   |
| Management fees                          | 5,638            | 5,199    | 10,646           | 10,551   |
| Professional services                    | 2,747            | 2,011    | 4,200            | 4,304    |
| Mortgage loan origination                | 1,993            | 1,557    | 3,505            | 2,678    |
| Compensation                             | 1,959            | 2,224    | 3,851            | 3,513    |
| Mortgage loan collection and liquidation | 3,338            | 4,290    | 3,692            | 6,504    |
| Other                                    | 5,252            | 4,958    | 9,844            | 9,473    |
|  | \$52,133         | \$55,777 | \$94,000         | \$96,949 |

Expenses decreased \$3.6 million, or 7%, and \$2.9 million, or 3%, during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, primarily due to decreased mortgage loan servicing fees resulting from activities based fees we incurred in 2016 relating to a loan sale that did not recur in 2017 and to continuing liquidation of our distressed mortgage loan portfolio.

## Mortgage Loan Fulfillment Fees

Mortgage loan fulfillment fees represent fees we pay to PLS for the services it performs on our behalf in connection with our acquisition, packaging and sale of mortgage loans. The fee is calculated as a percentage of the UPB of the mortgage loans purchased. Mortgage loan fulfillment fees and related fulfillment volume are summarized below:

|  | Quarter ended June 30, |             | Six months ended June |             |
|--|------------------------|-------------|-----------------------|-------------|
|  | 2017                   | 2016        | 2017                  | 2016        |
|  | (dollars in thousands) |             |                       |             |
| Fulfillment fee expense                        | \$21,107               | \$19,111    | \$37,677              | \$32,046    |
| UPB of mortgage loans fulfilled by PLS         | \$5,918,027            | \$5,174,020 | \$10,549,933          | \$8,433,383 |
| Average fulfillment fee rate (in basis points) | 36                     | 37          | 36                    | 38          |

The increase in loan fulfillment fees of \$2.0 million and \$5.6 million during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016 is primarily due to an increase in the volume of Agency-eligible mortgage loans we purchased in our correspondent production activities, partially offset by a decrease in the average fulfillment fee rate charged by PFSI due to contractual reductions in the fulfillment fee following a change in the mortgage banking services agreement with PFSI in September 2016.

### Mortgage Loan Servicing Fees

Mortgage loan servicing fees decreased by \$6.3 million and \$7.3 million during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. We incur mortgage loan servicing fees primarily in support of our investment in mortgage loans at fair value and our mortgage loan servicing portfolio. The decrease in mortgage loan servicing fees for the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, was primarily due to a reduction in fees largely driven by activity fees assessed in the quarter ended June 30, 2016 for a large sale of reperforming loans, which did not recur in 2017 along with a decrease in from continuing liquidations of our distressed mortgage loan portfolio. Servicing fees relating to distressed mortgage loans are significantly higher than those relating to MSR's due to the increased cost of servicing such loans. Therefore, reductions in the balance of distressed mortgage loans have a much more significant effect on mortgage loan servicing fees than the additions of new MSR's.

Mortgage loan servicing fees payable to PLS are summarized below:

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2017                   | 2016         | 2017                      | 2016         |
|  | (in thousands)         |              |                           |              |
| <b>Mortgage loan servicing fees</b>                    |                        |              |                           |              |
| <b>Mortgage loans acquired for sale at fair value:</b> |                        |              |                           |              |
| Base   | \$82                   | \$79         | \$147                     | \$135        |
| Activity-based   | 176                    | 172          | 319                       | 287          |
|  | 258                    | 251          | 466                       | 422          |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| <b>Distressed mortgage loans:</b>                      |                        |              |                           |              |
| Base   | 1,755                  | 2,908        | 3,713                     | 6,267        |
| Activity-based   | 1,767                  | 8,518        | 4,157                     | 11,967       |
|  | 3,522                  | 11,426       | 7,870                     | 18,234       |
| <b>Mortgage loans held in VIE:</b>                     |                        |              |                           |              |
| Base   | 11                     | 51           | 42                        | 92           |
| Activity-based   | —                      | —            | —                         | —            |
|  | 11                     | 51           | 42                        | 92           |
| <b>MSRs:</b>   |                        |              |                           |              |
| Base   | 6,176                  | 4,583        | 11,982                    | 8,927        |
| Activity-based   | 132                    | 116          | 225                       | 205          |
|  | 6,308                  | 4,699        | 12,207                    | 9,132        |
|  | \$10,099               | \$16,427     | \$20,585                  | \$27,880     |
| <b>Average investment in:</b>                          |                        |              |                           |              |
| Mortgage loans acquired for sale at fair value         | \$1,274,817            | \$1,422,945  | \$1,174,417               | \$1,170,720  |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| Distressed mortgage loans                              | \$1,199,786            | \$1,791,429  | \$1,264,752               | \$1,925,605  |
| Mortgage loans held in a VIE                           | \$352,589              | \$437,542    | \$356,271                 | \$446,013    |
| Average mortgage loan servicing portfolio              | \$61,414,348           | \$45,647,524 | \$59,710,787              | \$44,531,795 |

## Management Fees

The components of our management fee payable to PCM are summarized below:

|                       | Quarter ended  |          | Six months ended |          |
|-----------------------|----------------|----------|------------------|----------|
|                       | June 30,       | June 30, | June 30,         | June 30, |
|                       | 2017           | 2016     | 2017             | 2016     |
|                       | (in thousands) |          |                  |          |
| Base                  | \$5,334        | \$5,199  | \$10,342         | \$10,551 |
| Performance incentive | 304            | —        | 304              | —        |
|                       | \$5,638        | \$5,199  | \$10,646         | \$10,551 |

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Management fees increased by \$439,000 and \$95,000 during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, primarily due to the recognition of performance incentive fees as a result of increased profitability during the period over which incentive fees are calculated.

We expect our management fees to fluctuate in the future based on: (1) changes in our shareholders' equity with respect to our base management fee; and (2) the level of our profitability in excess of the return thresholds specified in our management agreement with respect to the performance incentive fee.

### Professional Services

Professional service expense increased \$736,000 and decreased \$104,000, during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, primarily due to an increase in financing transaction activities during the quarter ended June 30, 2017 compared to the same period in 2016.

## Compensation

Compensation expense decreased \$265,000 and increased \$338,000, during the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, primarily due to fluctuations in share-based compensation expense, reflecting the fluctuation in our common share price, which affects the expense relating to our grants accounted for using variable accounting.

## Mortgage loan collection and liquidation

Mortgage loan collection and liquidation expenses decreased \$1.0 million and increased \$2.8 million, during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016, due to an increase in recoveries of previously incurred costs that we realized during 2017, as compared to 2016.

## Other Expenses

Other expenses are summarized below:

|                                      | Quarter ended<br>June 30, |         | Six months<br>ended June 30, |         |
|--------------------------------------|---------------------------|---------|------------------------------|---------|
|                                      | 2017                      | 2016    | 2017                         | 2016    |
|                                      | (in thousands)            |         |                              |         |
| Common overhead allocation from PFSI | \$1,592                   | \$2,434 | \$3,026                      | \$4,996 |
| Real estate held for investment      | 1,353                     | 930     | 2,441                        | 1,487   |
| Insurance                            | 330                       | 316     | 668                          | 634     |
| Technology                           | 396                       | 332     | 714                          | 766     |
| Other                                | 1,581                     | 946     | 2,995                        | 1,590   |
|                                      | \$5,252                   | \$4,958 | \$9,844                      | \$9,473 |

Other expenses increased during the quarter and six months ended June 30, 2017, as compared to the same periods in 2016 by \$294,000 and \$371,000, respectively, primarily due to higher expenses incurred in the management of our real estate held for investment, partially offset by a reduction in common overhead allocation from PFSI.

## Income Taxes

We have elected to treat PMC as a taxable REIT subsidiary (“TRS”). Income from a TRS is only included as a component of REIT taxable income to the extent that the TRS makes dividend distributions of income to the REIT. No such dividend distributions have been made to date. A TRS is subject to corporate federal and state income tax. Accordingly, a provision for income taxes for PMC is included in the accompanying consolidated statements of operations.

Our effective tax rate was 9.6% and (5.7)% for the quarter and six months ended June 30, 2017 and 35.4% and (219.8)% for the quarter and six months ended June 30, 2016, respectively. Our taxable REIT subsidiary recognized a tax expense of \$2.8 million on income of \$7.2 million and a tax benefit of \$3.8 million on a loss of \$7.6 million while our reported consolidated pretax income was \$31.8 million and \$54.4 million for the quarter and six months ended June 30, 2017. For the same periods in 2016, the taxable REIT subsidiary recognized a tax benefit of \$3.7 million and \$6.1 million on losses of \$9.3 million and \$15.3 million, respectively, while our reported consolidated pretax loss was

\$8.2 million and pretax income was \$2.9 million during such periods, respectively. The relative values between the tax benefit or expense at the taxable REIT subsidiary and our consolidated pretax income drive the fluctuation in the effective tax rate. The primary difference between our effective tax rate and the statutory tax rate is due to nontaxable REIT income resulting from the dividends paid deduction.

In general, cash dividends declared by us will be considered ordinary income to shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or as return of capital.

## Balance Sheet Analysis

Following is a summary of key balance sheet items as of the dates presented:

|  | June 30,<br>2017   | December<br>31,<br>2016 |
|--|--------------------|-------------------------|
|  | (in thousands)     |                         |
| <b>Assets</b>  |                    |                         |
| Cash   | \$69,893           | \$34,476                |
| <b>Investments:</b>                                    |                    |                         |
| Short-term investments                                 | 77,366             | 122,088                 |
| Mortgage-backed securities                             | 1,065,540          | 865,061                 |
| Mortgage loans acquired for sale at fair value         | 1,318,603          | 1,673,112               |
| Mortgage loans at fair value                           | 1,527,812          | 1,721,741               |
| ESS  | 261,796            | 288,669                 |
| Derivative assets                                      | 73,875             | 33,709                  |
| Real estate acquired in settlement of loans            | 207,034            | 274,069                 |
| Real estate held for investment                        | 40,316             | 29,324                  |
| MSRs   | 734,800            | 656,567                 |
| Deposits securing CRT Agreements                       | 503,108            | 450,059                 |
|  | 5,810,250          | 6,114,399               |
| Other  | 130,101            | 208,627                 |
| <b>Total assets</b>                                    | <b>\$6,010,244</b> | <b>\$6,357,502</b>      |
| <b>Liabilities</b>                                     |                    |                         |
| <b>Borrowings:</b>                                     |                    |                         |
| Assets sold under agreements to repurchase and         |                    |                         |
| mortgage loan participation and sale agreements        | \$3,536,344        | \$3,809,918             |
| Notes payable  | 159,980            | 275,106                 |
| Asset-backed financing of a VIE at fair value          | 329,459            | 353,898                 |
| Exchangeable Notes                                     | 246,629            | 246,089                 |
| Assets sold to PennyMac Financial Services, Inc. under |                    |                         |
| agreement to repurchase                                | 150,000            | 150,000                 |
| Interest-only security payable at fair value           | 6,577              | 4,114                   |
|  | 4,428,989          | 4,839,125               |
| Other  | 126,423            | 167,263                 |
| <b>Total liabilities</b>                               | <b>4,555,412</b>   | <b>5,006,388</b>        |
| Shareholders' equity                                   | 1,454,832          | 1,351,114               |
| <b>Total liabilities and shareholders' equity</b>      | <b>\$6,010,244</b> | <b>\$6,357,502</b>      |

Total assets decreased by approximately \$347.3 million, or 5%, during the period from December 31, 2016 through June 30, 2017, primarily due to a \$354.5 million decrease in mortgage loans acquired for sale at fair value, a \$193.9 million decrease in mortgage loans at fair value, a \$67.0 million reduction in REO, a \$9.3 million decrease in cash and short-term investments and a \$26.9 million decrease in ESS. These reductions were offset by a \$200.5 million

increase in MBS and a \$53.0 million increase in deposits securing CRT Agreements.

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## Asset Acquisitions

Our asset acquisitions are summarized below.

## Correspondent Production

Following is a summary of our correspondent production acquisitions at fair value:

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2017                   | 2016         | 2017                      | 2016         |
|  | (in thousands)         |              |                           |              |
| <b>Correspondent mortgage loan purchases:</b>                |                        |              |                           |              |
| Government-insured or guaranteed                             | \$10,963,979           | \$9,956,586  | \$20,679,979              | \$16,732,075 |
| Agency-eligible  | 6,134,723              | 5,353,197    | 10,893,377                | 8,720,051    |
| Jumbo  | —                      | 2,815        | —                         | 9,694        |
| Commercial mortgage loans                                    | 18,692                 | 1,346        | 39,797                    | 6,061        |
|  | \$17,117,394           | \$15,313,944 | \$31,613,153              | \$25,467,881 |
| UPB of correspondent mortgage loan purchases                 | \$16,328,743           | \$14,608,669 | \$30,261,414              | \$24,295,892 |
| Gain on mortgage loans acquired for sale                     | \$17,292               | \$24,226     | \$36,317                  | \$39,275     |
| <b>Fair value of correspondent loans in inventory at end</b> |                        |              |                           |              |
| of period pending sale to:                                   |                        |              |                           |              |
| PFSI   | \$246,259              | \$619,008    |                           |              |
| Non-affiliates   | 1,072,344              | 842,021      |                           |              |
|  | \$1,318,603            | \$1,461,029  |                           |              |

During the quarter and six months ended June 30, 2017, we purchased for sale \$17.1 billion and \$31.6 billion, respectively, in fair value of correspondent production loans as compared to \$15.3 billion and \$25.5 billion, respectively, in fair value of correspondent production loans during the quarter and six months ended June 30, 2016. The increase in correspondent purchases during the quarter and six months ended June 30, 2017, as compared to the same period in 2016, is a result of continued growth in our correspondent production seller network.

Our ability to continue the expansion of our correspondent production business is subject to, among other factors, our ability to source additional mortgage loan volume, our ability to obtain additional inventory financing and our ability to fund the portion of the mortgage loans not financed, either through cash flows from business activities or the raising of additional equity capital. There can be no assurance that we will be successful in increasing our borrowing capacity or in obtaining the additional equity capital necessary or that we will be able to identify additional sources of mortgage loans.

## Investment Activities

Following is a summary of our acquisitions of mortgage-related investments held in our interest rate sensitive strategies and credit-sensitive strategies segments:

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|   | Quarter ended June<br>30, |           | Six months ended<br>June 30, |           |
|---|---------------------------|-----------|------------------------------|-----------|
|   | 2017                      | 2016      | 2017                         | 2016      |
|   | (in thousands)            |           |                              |           |
| MBS   | \$—                       | \$199,223 | 251,872                      | 249,925   |
| MSRs received in mortgage loan sales and purchases of MSRs      | 65,835                    | 60,109    | 124,523                      | 96,271    |
| Deposits of restricted cash relating to CRT Agreements          | 41,355                    | 126,031   | 57,148                       | 192,737   |
| Additional commitments to fund deposits securing CRT Agreements | 98,722                    | —         | 146,872                      | —         |
|   | \$205,912                 | \$385,363 | \$580,415                    | \$538,933 |

Our acquisitions during the quarter and six months ended June 30, 2017 and 2016 were financed through the use of a combination of proceeds from liquidations of existing investments and borrowings. We continue to identify additional means of increasing our investment portfolio through cash flow from our business activities, existing investments, borrowings, and transactions that minimize current cash outlays. However, we expect that, over time, our ability to continue our investment activities portfolio growth will depend on our ability to raise additional equity capital.

Investment Portfolio Composition

Mortgage-Backed Securities

Following is a summary of our Agency and non-Agency prime jumbo MBS holdings:

|                | June 30, 2017                        |             |                            |              | December 31, 2016 |           |                            |              |
|----------------|--------------------------------------|-------------|----------------------------|--------------|-------------------|-----------|----------------------------|--------------|
|                | Fair value<br>(dollars in thousands) | Principal   | Average Life<br>(in years) | Market yield | Fair value        | Principal | Average Life<br>(in years) | Market yield |
| <b>Agency:</b> |                                      |             |                            |              |                   |           |                            |              |
| Fannie Mae     | \$856,872                            | \$833,504   | 7.2                        | 3.5 %        | \$691,803         | \$674,375 | 7.3                        | 3.5 %        |
| Freddie Mac    | 208,668                              | 202,933     | 7.8                        | 3.5 %        | 173,258           | 169,025   | 7.7                        | 3.5 %        |
|                | 1,065,540                            | 1,036,437   |                            |              | 865,061           | 843,400   |                            |              |
|                | \$1,065,540                          | \$1,036,437 |                            |              | \$865,061         | \$843,400 |                            |              |

Mortgage Loans at Fair Value – Distressed

The relationship of the fair value of our distressed mortgage loans at fair value to the underlying real estate collateral is summarized below:

|                     | June 30, 2017          |             | December 31, 2016 |             |
|---------------------|------------------------|-------------|-------------------|-------------|
|                     | Loan<br>(in thousands) | Collateral  | Loan              | Collateral  |
| <b>Fair values:</b> |                        |             |                   |             |
| Performing loans    | \$626,024              | \$926,974   | \$611,584         | \$957,313   |
| Nonperforming loans | 558,596                | 891,381     | 742,988           | 1,123,277   |
|                     | \$1,184,620            | \$1,818,355 | \$1,354,572       | \$2,080,590 |

The collateral values presented above do not represent our assessment of the amount of future cash flows to be realized from the mortgage loans and/or underlying collateral. Future cash flows will be influenced by, among other considerations, our asset disposition strategies with respect to individual loans and the timing of such dispositions, the costs and expenses we incur in the disposition process, changes in borrower performance and the underlying collateral values. Ultimate realization in a disposition of these assets will be net of any servicing advances held on the balance sheet in relation to these investments.

The collateral values summarized above are estimated and may change over time due to various factors including our level of access to the properties securing the loans, changes in the real estate market or the condition of individual properties. The collateral values presented do not include any costs that would typically be incurred in obtaining the property in settlement of the mortgage loan, readying the property for sale, holding the property while it is being marketed or in the sale of a property.

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Following is a summary of the distribution of our portfolio of mortgage loans at fair value (excluding mortgage loans acquired for sale at fair value and mortgage loans at fair value held by a VIE):

| Loan type              | June 30, 2017    |         |                   |                     |         |                   | December 31, 2016 |         |                   |                     |         |                   |
|------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                        | Performing loans |         |                   | Nonperforming loans |         |                   | Performing loans  |         |                   | Nonperforming loans |         |                   |
|                        | Fair value       | % total | Average note rate | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate | Fair value          | % total | Average note rate |
| (dollars in thousands) |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| Fixed                  | \$299,201        | 48 %    | 3.61 %            | \$203,563           | 37 %    | 5.17 %            | \$296,901         | 49 %    | 3.84 %            | \$267,348           | 36 %    | 5.38 %            |
| Interest rate          |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| step-up                | 257,164          | 41 %    | 2.46 %            | 62,864              | 11 %    | 2.46 %            | 232,700           | 38 %    | 2.56 %            | 63,816              | 9 %     | 2.35 %            |
| ARM/Hybrid             | 69,659           | 11 %    | 3.90 %            | 292,169             | 52 %    | 5.10 %            | 81,983            | 13 %    | 3.71 %            | 411,824             | 55 %    | 4.91 %            |
|                        | \$626,024        | 100 %   | 3.16 %            | \$558,596           | 100 %   | 4.79 %            | \$611,584         | 100 %   | 3.33 %            | \$742,988           | 100 %   | 4.82 %            |

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| Lien position          | June 30, 2017    |       |                   |                     |       |                   | December 31, 2016 |       |                   |                     |       |                   |
|------------------------|------------------|-------|-------------------|---------------------|-------|-------------------|-------------------|-------|-------------------|---------------------|-------|-------------------|
|                        | Performing loans |       |                   | Nonperforming loans |       |                   | Performing loans  |       |                   | Nonperforming loans |       |                   |
|                        | Fair             | %     | Average note rate | Fair                | %     | Average note rate | Fair              | %     | Average note rate | Fair                | %     | Average note rate |
| (dollars in thousands) | value            | total | rate              | value               | total | rate              | value             | total | rate              | value               | total | rate              |
| 1st lien               | \$625,062        | 100 % | 3.16 %            | \$558,464           | 100 % | 4.78 %            | \$610,926         | 100 % | 3.32 %            | \$742,785           | 100 % | 4.82 %            |
| 2nd lien               | 962              | 0 %   | 3.97 %            | 132                 | 0 %   | 8.06 %            | 658               | 0 %   | 4.00 %            | 203                 | 0 %   | 8.38 %            |
|                        | \$626,024        | 100 % | 3.16 %            | \$558,596           | 100 % | 4.79 %            | \$611,584         | 100 % | 3.33 %            | \$742,988           | 100 % | 4.82 %            |

| Occupancy              | June 30, 2017    |       |                   |                     |       |                   | December 31, 2016 |       |                   |                     |       |                   |
|------------------------|------------------|-------|-------------------|---------------------|-------|-------------------|-------------------|-------|-------------------|---------------------|-------|-------------------|
|                        | Performing loans |       |                   | Nonperforming loans |       |                   | Performing loans  |       |                   | Nonperforming loans |       |                   |
|                        | Fair             | %     | Average note rate | Fair                | %     | Average note rate | Fair              | %     | Average note rate | Fair                | %     | Average note rate |
| (dollars in thousands) | value            | total | rate              | value               | total | rate              | value             | total | rate              | value               | total | rate              |
| Owner occupied         | \$465,823        | 75 %  | 3.26 %            | \$305,231           | 55 %  | 4.65 %            | \$469,761         | 77 %  | 3.42 %            | \$398,137           | 54 %  | 4.74 %            |
| Investment property    | 158,964          | 25 %  | 2.89 %            | 253,208             | 45 %  | 4.96 %            | 140,672           | 23 %  | 3.05 %            | 344,523             | 46 %  | 4.92 %            |
| Other                  | 1,237            | 0 %   | 3.67 %            | 157                 | 0 %   | 2.00 %            | 1,151             | 0 %   | 3.52 %            | 328                 | 0 %   | 5.26 %            |
|                        | \$626,024        | 100 % | 3.16 %            | \$558,596           | 100 % | 4.79 %            | \$611,584         | 100 % | 3.33 %            | \$742,988           | 100 % | 4.82 %            |

| Loan age               | June 30, 2017    |       |                   |                     |       |                   | December 31, 2016 |       |                   |                     |       |                   |
|------------------------|------------------|-------|-------------------|---------------------|-------|-------------------|-------------------|-------|-------------------|---------------------|-------|-------------------|
|                        | Performing loans |       |                   | Nonperforming loans |       |                   | Performing loans  |       |                   | Nonperforming loans |       |                   |
|                        | Fair             | %     | Average note rate | Fair                | %     | Average note rate | Fair              | %     | Average note rate | Fair                | %     | Average note rate |
| (dollars in thousands) | value            | total | rate              | value               | total | rate              | value             | total | rate              | value               | total | rate              |
| Less than 12 months    | \$2              | 0 %   | 0.50 %            | \$—                 | 0 %   | 0 %               | \$10              | 0 %   | 0.60 %            | \$—                 | 0 %   |                   |
| 12 - 35 months         | 230              | 0 %   | 3.21 %            | —                   | 0 %   | 4.51 %            | 15,519            | 3 %   | 4.29 %            | 33                  | 0 %   | 4.60 %            |
| 36 - 59 months         | 513              | 0 %   | 5.07 %            | 32                  | 0 %   | 0.98 %            | 319               | 0 %   | 4.95 %            | 45                  | 0 %   | 1.56 %            |
| 60 months or           | 625,279          | 100 % | 3.16 %            | 558,564             | 100 % | 4.79 %            | 595,736           | 97 %  | 3.31 %            | 742,910             | 100 % | 4.82 %            |

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\$626,024 100% 3.16% \$558,596 100% 4.79% \$611,584 100% 3.33% \$742,988 100% 4.82%

| Origination<br>FICO score | June 30, 2017    |       |         | Nonperforming loans |       |         | December 31, 2016 |       |         | Nonperforming loans |       |         |
|---------------------------|------------------|-------|---------|---------------------|-------|---------|-------------------|-------|---------|---------------------|-------|---------|
|                           | Performing loans |       | Average | Fair                |       | Average | Performing loans  |       | Average | Fair                |       | Average |
|                           | Fair             | %     | note    | Fair                | %     | note    | Fair              | %     | note    | Fair                | %     | note    |
|                           | value            | total | rate    | value               | total | rate    | value             | total | rate    | value               | total | rate    |
| (dollars in thousands)    |                  |       |         |                     |       |         |                   |       |         |                     |       |         |
| Less than                 |                  |       |         |                     |       |         |                   |       |         |                     |       |         |
| 600                       | \$153,137        | 24 %  | 3.37%   | \$104,696           | 19 %  | 4.55%   | \$147,968         | 24 %  | 3.52%   | \$131,629           | 18 %  | 4.67%   |
| 600-649                   | 136,050          | 22 %  | 3.19%   | 100,200             | 18 %  | 4.30%   | 128,843           | 21 %  | 3.36%   | 141,404             | 19 %  | 4.54%   |
| 650-699                   | 171,925          | 27 %  | 3.03%   | 171,942             | 31 %  | 4.91%   | 159,423           | 26 %  | 3.18%   | 223,325             | 30 %  | 4.89%   |
| 700-749                   | 122,918          | 20 %  | 3.04%   | 137,876             | 25 %  | 5.16%   | 125,092           | 20 %  | 3.19%   | 182,767             | 25 %  | 5.10%   |
| 750 or<br>greater         | 41,994           | 7 %   | 3.17%   | 43,882              | 7 %   | 4.96%   | 50,258            | 9 %   | 3.45%   | 63,863              | 8 %   | 4.81%   |
|                           | \$626,024        | 100%  | 3.16%   | \$558,596           | 100%  | 4.79%   | \$611,584         | 100%  | 3.33%   | \$742,988           | 100%  | 4.82%   |

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| Current<br>loan-to<br>-value<br>(1) | June 30, 2017    |      |         |                     |      |         | December 31, 2016 |      |         |                     |      |         |       |      |
|-------------------------------------|------------------|------|---------|---------------------|------|---------|-------------------|------|---------|---------------------|------|---------|-------|------|
|                                     | Performing loans |      |         | Nonperforming loans |      |         | Performing loans  |      |         | Nonperforming loans |      |         |       |      |
|                                     | Fair             | %    | Average | Fair                | %    | Average | Fair              | %    | Average | Fair                | %    | Average |       |      |
| value                               | total            | note | value   | total               | rate | value   | total             | rate | value   | total               | rate | value   | total | rate |
| (dollars in thousands)              |                  |      |         |                     |      |         |                   |      |         |                     |      |         |       |      |
| Less than 80%                       | \$212,106        | 34 % | 3.84%   | \$190,495           | 34 % | 5.25%   | \$211,195         | 35 % | 4.01%   | \$236,515           | 32 % | 5.14%   |       |      |
| 80% - 99.99%                        | 149,831          | 24 % | 3.43%   | 155,941             | 28 % | 4.70%   | 144,446           | 24 % | 3.52%   | 209,148             | 28 % | 4.82%   |       |      |
| 100% - 119.99%                      | 127,721          | 20 % | 2.98%   | 109,864             | 20 % | 4.56%   | 112,903           | 18 % | 3.17%   | 155,154             | 21 % | 4.68%   |       |      |
| 120% or greater                     | 136,366          | 22 % | 2.45%   | 102,296             | 18 % | 4.58%   | 143,040           | 23 % | 2.66%   | 142,171             | 19 % | 4.66%   |       |      |
|                                     | \$626,024        | 100% | 3.16%   | \$558,596           | 100% | 4.79%   | \$611,584         | 100% | 3.33%   | \$742,988           | 100% | 4.82%   |       |      |

(1) Current loan-to-value is calculated based on the unpaid principal balance of the mortgage loan and our estimate of the value of the mortgaged property.

| Geographic<br>distribution | June 30, 2017    |      |         |                     |      |         | December 31, 2016 |      |         |                     |      |         |       |      |
|----------------------------|------------------|------|---------|---------------------|------|---------|-------------------|------|---------|---------------------|------|---------|-------|------|
|                            | Performing loans |      |         | Nonperforming loans |      |         | Performing loans  |      |         | Nonperforming loans |      |         |       |      |
|                            | Fair             | %    | Average | Fair                | %    | Average | Fair              | %    | Average | Fair                | %    | Average |       |      |
| value                      | total            | note | value   | total               | rate | value   | total             | rate | value   | total               | rate | value   | total | rate |
| (dollars in thousands)     |                  |      |         |                     |      |         |                   |      |         |                     |      |         |       |      |
| California                 | \$151,015        | 24 % | 3.28%   | \$76,607            | 14 % | 3.89%   | \$156,636         | 26 % | 3.36%   | \$104,793           | 14 % | 3.79%   |       |      |
| New York                   | 100,747          | 16 % | 2.61%   | 162,538             | 29 % | 5.36%   | 89,079            | 15 % | 2.86%   | 207,589             | 28 % | 5.44%   |       |      |
| New Jersey                 | 53,057           | 8 %  | 2.58%   | 64,028              | 11 % | 4.69%   | 43,635            | 7 %  | 2.69%   | 100,257             | 13 % | 4.85%   |       |      |
| Florida                    | 42,501           | 7 %  | 2.81%   | 58,164              | 10 % | 5.35%   | 43,132            | 7 %  | 2.96%   | 79,528              | 11 % | 5.29%   |       |      |
| Other                      | 278,704          | 45 % | 3.52%   | 197,259             | 36 % | 4.50%   | 279,102           | 45 % | 3.61%   | 250,821             | 34 % | 4.58%   |       |      |
|                            | \$626,024        | 100% | 3.16%   | \$558,596           | 100% | 4.79%   | \$611,584         | 100% | 3.33%   | \$742,988           | 100% | 4.82%   |       |      |

| Payment<br>status      | June 30, 2017    |      |         |                     |      |         | December 31, 2016 |      |         |                     |      |         |       |      |
|------------------------|------------------|------|---------|---------------------|------|---------|-------------------|------|---------|---------------------|------|---------|-------|------|
|                        | Performing loans |      |         | Nonperforming loans |      |         | Performing loans  |      |         | Nonperforming loans |      |         |       |      |
|                        | Fair             | %    | Average | Fair                | %    | Average | Fair              | %    | Average | Fair                | %    | Average |       |      |
| value                  | total            | note | value   | total               | rate | value   | total             | rate | value   | total               | rate | value   | total | rate |
| (dollars in thousands) |                  |      |         |                     |      |         |                   |      |         |                     |      |         |       |      |
| Current                | \$468,357        | 75 % | 3.11%   | \$—                 | 0 %  | 0 %     | \$444,254         | 73 % | 3.26%   | \$—                 | 0 %  |         |       |      |
| 30 days                | 114,984          | 18 % | 3.36%   | —                   | 0 %  | 0 %     | 115,514           | 19 % | 3.53%   | —                   | 0 %  |         |       |      |

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|                       |                |           |       |       |           |       |       |           |       |         |           |       |       |
|-----------------------|----------------|-----------|-------|-------|-----------|-------|-------|-----------|-------|---------|-----------|-------|-------|
| delinquent<br>60 days | delinquent     | 42,683    | 7 %   | 3.18% | —         | 0 %   | 0 %   | 51,816    | 8 %   | 3.46%   | —         | 0 %   |       |
| 90 days or<br>more    | delinquent     | —         | 0 %   | —     | 259,840   | 47 %  | 4.13% | —         | 0 %   | 305,431 | 41 %      | 4.26% |       |
|                       | In foreclosure | —         | 0 %   | —     | 298,756   | 53 %  | 5.36% | —         | 0 %   | 437,557 | 59 %      | 5.22% |       |
|                       |                | \$626,024 | 100 % | 3.16% | \$558,596 | 100 % | 4.79% | \$611,584 | 100 % | 3.33%   | \$742,988 | 100 % | 4.82% |

We believe that our current fair value estimates are representative of fair value at the reporting date. However, the market for distressed mortgage assets is illiquid with a limited number of participants. Furthermore, our business strategy is to enhance value during the period in which the loans are held. Therefore, any resulting appreciation or depreciation in the fair value of the loans is recorded during such holding period and ultimately realized at the end of the holding period.



Following is a comparison of the key inputs we use in the valuation of our mortgage loans at fair value using “Level 3” fair value inputs:

| Key inputs  | June<br>30,<br>2017 | December 31,<br>2016 |
|---|---------------------|----------------------|
| Discount rate                                     |                     |                      |
| Range   | 2.9% –<br>15.0%     | 2.6% – 15.0%         |
| Weighted average                                  | 7.3%                | 7.1%                 |
| Twelve-month projected housing price index change |                     |                      |
| Range   | 2.8% –<br>4.2%      | 2.5% – 4.8%          |
| Weighted average                                  | 3.9%                | 3.7%                 |
| Prepayment speed (1)                              |                     |                      |
| Range   | 2.9% –<br>6.2%      | 0.1% – 10.9%         |
| Weighted average                                  | 3.8%                | 4.0%                 |
| Total prepayment speed (2)                        |                     |                      |
| Range   | 8.9% –<br>23.3%     | 2.9% – 24.6%         |
| Weighted average                                  | 17.0%               | 17.7%                |

(1) Prepayment speed is measured using Life Voluntary Conditional Prepayment Rates (“CPR”).

(2) Total prepayment speed is measured using Life Total CPR.

We monitor and value our investments in pools of distressed mortgage loans by payment status of the loans. Most of the measures we use to value and monitor the loan portfolio, such as projected prepayment and default speeds and discount rates, are applied or output at the pool level. The characteristics of the individual loans, such as loan size, loan-to-value ratio and current delinquency status, can vary widely within a pool.

The weighted average discount rate used in the valuation of mortgage loans at fair value increased slightly from 7.1% at December 31, 2016 to 7.3% at June 30, 2017 due to shifting characteristics of the portfolio given liquidations and loans sales in the period and increased uncertainty regarding the realization of cashflows on the remaining population of non-performing loans.

The weighted average twelve-month projected housing price index change used in the valuation of our portfolio of mortgage loans at fair value increased from 3.7% at December 31, 2016 to 3.9% at June 30, 2017, due to slightly higher near term forecasts for real estate price appreciation in the geographic areas in which our portfolio of mortgage loans is concentrated.

The weighted average total prepayment speed used in the valuation of our portfolio of mortgage loans at fair value decreased slightly from 17.7% at December 31, 2016 to 17.0% at June 30, 2017 due to our projections of longer liquidation periods for certain of our mortgage loans.

Real Estate Acquired in Settlement of Loans

Following is a summary of our REO by property type:

| Property type              | June 30, 2017  |            |   | December 31, 2016 |            |   |
|----------------------------|----------------|------------|---|-------------------|------------|---|
|                            | Carrying value | % of total |   | Carrying value    | % of total |   |
| (dollars in thousands)     |                |            |   |                   |            |   |
| 1 - 4 dwelling units       | \$160,931      | 78         | % | \$215,576         | 79         | % |
| Planned unit development   | 27,107         | 13         | % | 34,217            | 12         | % |
| Condominium/Townhome/Co-op | 18,792         | 9          | % | 24,074            | 9          | % |
| 5+ dwelling units          | 204            | 0          | % | 202               | 0          | % |
|                            | \$207,034      | 100        | % | \$274,069         | 100        | % |

| Geographic distribution | June 30, 2017          |            |  | December 31, 2016 |            |  |
|-------------------------|------------------------|------------|--|-------------------|------------|--|
|                         | Carrying value         | % of total |  | Carrying value    | % of total |  |
|                         | (dollars in thousands) |            |  |                   |            |  |
| New Jersey              | \$51,450               | 25 %       |  | \$51,472          | 19 %       |  |
| New York                | 38,399                 | 19 %       |  | 44,252            | 16 %       |  |
| Florida                 | 26,173                 | 13 %       |  | 31,715            | 12 %       |  |
| California              | 23,186                 | 11 %       |  | 53,308            | 19 %       |  |
| Illinois                | 11,090                 | 5 %        |  | 13,831            | 5 %        |  |
| Maryland                | 11,025                 | 5 %        |  | 14,488            | 5 %        |  |
| Other                   | 45,711                 | 22 %       |  | 65,003            | 24 %       |  |
|                         | \$207,034              | 100 %      |  | \$274,069         | 100 %      |  |

Following is a summary of the status of our portfolio of acquisitions by quarter acquired for the periods in which we made acquisitions:

|                    | Acquisitions for the quarter ended |               |                   |               |               |               |                |               |
|--------------------|------------------------------------|---------------|-------------------|---------------|---------------|---------------|----------------|---------------|
|                    | March 31, 2015                     |               | December 31, 2014 |               | June 30, 2014 |               | March 31, 2014 |               |
|                    | At purchase                        | June 30, 2017 | At purchase       | June 30, 2017 | At purchase   | June 30, 2017 | At purchase    | June 30, 2017 |
|                    | (dollars in millions)              |               |                   |               |               |               |                |               |
| UPB                | \$310.2                            | \$184.3       | \$330.8           | \$184.6       | \$37.9        | \$19.9        | \$439.0        | \$221.9       |
| Pool factor (1)    | 1.00                               | 0.59          | 1.00              | 0.56          | 1.00          | 0.53          | 1.00           | 0.51          |
| Collection status: |                                    |               |                   |               |               |               |                |               |
| Delinquency        |                                    |               |                   |               |               |               |                |               |
| Current            | 1.8 %                              | 29.6 %        | 1.6 %             | 37.9 %        | 0.7 %         | 46.0 %        | 6.2 %          | 21.0 %        |
| 30 days            | 0.3 %                              | 5.2 %         | 1.6 %             | 8.0 %         | 0.6 %         | 15.8 %        | 0.7 %          | 4.6 %         |
| 60 days            | 0.1 %                              | 3.0 %         | 7.1 %             | 3.3 %         | 1.4 %         | 3.6 %         | 0.7 %          | 3.6 %         |
| over 90 days       | 66.7 %                             | 24.2 %        | 52.7 %            | 16.5 %        | 59.0 %        | 15.9 %        | 37.5 %         | 21.7 %        |
| In foreclosure     | 31.1 %                             | 20.9 %        | 36.9 %            | 21.6 %        | 38.2 %        | 10.1 %        | 53.8 %         | 27.8 %        |
| REO                | —                                  | 17.1 %        | —                 | 12.5 %        | —             | 8.5 %         | 1.1 %          | 21.3 %        |

(1) Ratio of UPB remaining to UPB at acquisition.

|  | Acquisitions for the quarter ended |               |                    |               |               |               |                |               |
|--|------------------------------------|---------------|--------------------|---------------|---------------|---------------|----------------|---------------|
|  | December 31, 2013                  |               | September 30, 2013 |               | June 30, 2013 |               | March 31, 2013 |               |
|  | At purchase                        | June 30, 2017 | At purchase        | June 30, 2017 | At purchase   | June 30, 2017 | At purchase    | June 30, 2017 |
|  | (dollars in millions)              |               |                    |               |               |               |                |               |

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(dollars in millions)

|                    |         |         |         |         |         |         |         |        |
|--------------------|---------|---------|---------|---------|---------|---------|---------|--------|
| UPB                | \$507.3 | \$248.9 | \$929.5 | \$329.8 | \$397.3 | \$140.8 | \$366.2 | \$90.7 |
| Pool factor (1)    | 1.00    | 0.49    | 1.00    | 0.35    | 1.00    | 0.35    | 1.00    | 0.25   |
| Collection status: |         |         |         |         |         |         |         |        |
| Delinquency        |         |         |         |         |         |         |         |        |
| Current            | 1.4 %   | 22.5 %  | 0.8 %   | 27.3 %  | 4.8 %   | 35.3 %  | 1.6 %   | 45.8 % |
| 30 days            | 0.2 %   | 4.9 %   | 0.3 %   | 5.0 %   | 7.4 %   | 10.1 %  | 1.5 %   | 13.2 % |
| 60 days            | —       | 2.6 %   | 0.7 %   | 2.6 %   | 7.6 %   | 5.8 %   | 3.5 %   | 5.9 %  |
| over 90 days       | 38.3 %  | 18.0 %  | 58.6 %  | 19.4 %  | 45.3 %  | 17.5 %  | 82.2 %  | 16.7 % |
| In foreclosure     | 60.0 %  | 27.6 %  | 39.6 %  | 23.5 %  | 34.9 %  | 14.9 %  | 11.2 %  | 8.7 %  |
| REO                | —       | 24.4 %  | —       | 22.3 %  | —       | 16.4 %  | —       | 9.7 %  |

(1) Ratio of UPB remaining to UPB at acquisition.

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|                          | Acquisitions for the quarter ended |               |                    |               |               |               | December 31, |               |
|--------------------------|------------------------------------|---------------|--------------------|---------------|---------------|---------------|--------------|---------------|
|                          | December 31, 2012                  |               | September 30, 2012 |               | June 30, 2012 |               | 2011         |               |
|                          | At purchase                        | June 30, 2017 | At purchase        | June 30, 2017 | At purchase   | June 30, 2017 | At purchase  | June 30, 2017 |
|                          | (dollars in millions)              |               |                    |               |               |               |              |               |
| Unpaid principal balance | \$290.3                            | \$71.8        | \$357.2            | \$80.0        | \$402.5       | \$75.0        | \$49.0       | \$14.8        |
| Pool factor (1)          | 1.00                               | 0.25          | 1.00               | 0.22          | 1.00          | 0.19          | 1.00         | 0.30          |
| Collection status:       |                                    |               |                    |               |               |               |              |               |
| Delinquency              |                                    |               |                    |               |               |               |              |               |
| Current                  | 3.1 %                              | 36.7%         | —                  | 26.5%         | 45.0 %        | 31.6%         | 0.2 %        | 36.7%         |
| 30 days                  | 1.3 %                              | 10.9%         | —                  | 7.9 %         | 4.0 %         | 10.2%         | 0.1 %        | 16.8%         |
| 60 days                  | 5.4 %                              | 4.8 %         | 0.1 %              | 2.6 %         | 4.3 %         | 5.9 %         | 0.2 %        | 1.6 %         |
| over 90 days             | 57.8 %                             | 19.0%         | 49.1 %             | 18.6%         | 31.3 %        | 23.8%         | 70.4%        | 17.6%         |
| In foreclosure           | 32.4 %                             | 15.9%         | 50.8 %             | 21.8%         | 15.3 %        | 22.1%         | 29.0%        | 9.6 %         |
| REO                      | —                                  | 12.8%         | —                  | 22.5%         | 0.1 %         | 6.4 %         | —            | 17.7%         |

(1)Ratio of UPB remaining to UPB at acquisition.

|                          | Acquisitions for the quarter ended |               |               |               |                |               | December 31, |               |
|--------------------------|------------------------------------|---------------|---------------|---------------|----------------|---------------|--------------|---------------|
|                          | September 30, 2011                 |               | June 30, 2011 |               | March 31, 2011 |               | 2010         |               |
|                          | At purchase                        | June 30, 2017 | At purchase   | June 30, 2017 | At purchase    | June 30, 2017 | At purchase  | June 30, 2017 |
|                          | (dollars in millions)              |               |               |               |                |               |              |               |
| Unpaid principal balance | \$542.6                            | \$70.6        | \$259.8       | \$45.0        | \$515.1        | \$76.0        | \$277.8      | \$25.2        |
| Pool factor (1)          | 1.00                               | 0.13          | 1.00          | 0.17          | 1.00           | 0.15          | 1.00         | 0.09          |
| Collection status:       |                                    |               |               |               |                |               |              |               |
| Delinquency              |                                    |               |               |               |                |               |              |               |
| Current                  | 0.6 %                              | 32.6%         | 11.5 %        | 39.2%         | 2.0 %          | 31.5%         | 5.0 %        | 33.8%         |
| 30 days                  | 1.3 %                              | 8.5 %         | 6.5 %         | 12.2%         | 1.9 %          | 5.3 %         | 4.0 %        | 16.9%         |
| 60 days                  | 2.0 %                              | 6.1 %         | 5.2 %         | 4.6 %         | 3.9 %          | 4.0 %         | 5.1 %        | 4.2 %         |
| over 90 days             | 22.6 %                             | 15.9%         | 31.2 %        | 15.0%         | 25.9 %         | 21.2%         | 26.8 %       | 17.9%         |
| In foreclosure           | 73.0 %                             | 23.1%         | 43.9 %        | 20.5%         | 66.3 %         | 24.2%         | 59.1 %       | 12.4%         |
| REO                      | 0.4 %                              | 13.7%         | 1.7 %         | 8.5 %         | —              | 13.9%         | —            | 14.8%         |

(1)Ratio of UPB remaining to UPB at acquisition.

Acquisitions for the quarter ended  
 September 30,  
 2010                      June 30, 2010                      March 31, 2010

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|                          | At                    | June   | At       | June   | At       | June   |
|--------------------------|-----------------------|--------|----------|--------|----------|--------|
|                          | purchase              | 30,    | purchase | 30,    | purchase | 30,    |
|                          | 2017                  | 2017   | 2017     | 2017   | 2017     | 2017   |
|                          | (dollars in millions) |        |          |        |          |        |
| Unpaid principal balance | \$146.2               | \$12.0 | \$195.5  | \$20.3 | \$182.7  | \$19.7 |
| Pool factor (1)          | 1.00                  | 0.08   | 1.00     | 0.10   | 1.00     | 0.11   |
| Collection status:       |                       |        |          |        |          |        |
| Delinquency              |                       |        |          |        |          |        |
| Current                  | 1.2 %                 | 39.2%  | 5.1 %    | 41.5%  | 6.2 %    | 42.5%  |
| 30 days                  | 0.4 %                 | 7.6 %  | 2.0 %    | 10.2%  | 1.6 %    | 10.8%  |
| 60 days                  | 1.3 %                 | —      | 4.1 %    | 0.4 %  | 5.8 %    | 6.1 %  |
| over 90 days             | 38.2 %                | 29.3%  | 42.8 %   | 21.8%  | 37.8 %   | 8.0 %  |
| In foreclosure           | 58.9 %                | 20.7%  | 45.9 %   | 17.5%  | 46.4 %   | 24.0%  |
| REO                      | —                     | 3.2 %  | —        | 8.5 %  | 2.3 %    | 8.6 %  |

(1) Ratio of UPB remaining to UPB at acquisition.

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## Cash Flows

Our cash flows for the six months ended June 30, 2017 and 2016 are summarized below:

|                      | Six months ended June |             |            |
|----------------------|-----------------------|-------------|------------|
|                      | 30, 2017              |             |            |
|                      | 2017                  | 2016        | Change     |
|                      | (in thousands)        |             |            |
| Operating activities | \$287,185             | \$(178,359) | \$465,544  |
| Investing activities | 129,264               | 315,189     | (185,925)  |
| Financing activities | (381,032)             | (99,233 )   | (281,799)  |
| Net cash flows       | \$35,417              | \$37,597    | \$(2,180 ) |

Our cash flows resulted in a net decrease in cash of \$35.4 million during the six months ended June 30, 2017, as discussed below.

## Operating activities

Cash provided by operating activities totaled \$287.2 million during the six months ended June 30, 2017, as compared to cash used by operating activities of \$178.4 million during the six months ended June 30, 2016. The increase in cash flows provided by operating activities is primarily due to the reduction of our inventory of mortgage loans acquired for sale during the six months ended June 30, 2017 as compared to growth in our inventory during the same period in 2016.

## Investing activities

Net cash provided by our investing activities was \$129.3 million for the six months ended June 30, 2017 as compared to \$315.2 million for the six months ended June 30, 2016. The decrease in cash flows from investing activities reflects a sale of performing distressed mortgage loans in 2016 that did not recur in 2017, offset by the benefits of reduced upfront funding requirements relating to deposits securing CRT Agreements and the sale of reperforming mortgage loans.

Our investing activities have included the purchase of long-term assets which are not presently cash flowing or are at risk of interruption of cash flows in the near future. Furthermore, much of the investment income we recognize is in the form of valuation adjustments we record recognizing our estimates of the net appreciation in value of the assets as we work with borrowers to either modify their loans or acquire the property securing their loans in settlement thereof. Accordingly, the cash associated with a substantial portion of our revenues is often realized as part of the proceeds of the liquidation of the assets, either through payoff or sale of the mortgage loan or through acquisition and subsequent sale of the property securing the mortgage loans, many months after we record the revenues.

## Financing activities

Net cash used in financing activities was \$381.0 million for the six months ended June 30, 2017, as compared to \$99.2 million for the six months ended June 30, 2016. We reduced assets sold under agreements to repurchase as a result of our reduced inventory of mortgage loans held for sale and through the use of proceeds of our preferred share issuance to pay down amounts outstanding. We do not raise equity or enter into borrowings for the purpose of financing the

payment of dividends. We believe that our cash flows from the liquidation of our investments, which include accumulated gains recorded during the periods we hold those investments, along with our cash earnings, are adequate to fund our operating expenses and dividend payment requirements. However, we manage our liquidity in the aggregate and are reinvesting our cash flows in new investments as well as using such cash to fund our dividend requirements.

#### Liquidity and Capital Resources

Our liquidity reflects our ability to meet our current obligations (including the purchase of loans from correspondent lenders, our operating expenses and, when applicable, retirement of, and margin calls relating to, our debt and derivatives positions), make investments as our Manager identifies them, pursue our share repurchase program and make distributions to our shareholders. We generally need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our shareholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

We expect our primary sources of liquidity to be proceeds from liquidations from our investment portfolio, including distressed assets, cash earnings on our investments, cash flows from business activities, and proceeds from borrowings and/or additional equity



offerings. When we finance a particular asset, the amount borrowed is less than the asset's value and we must provide the cash in the amount of such difference. Our ability to continue making investments is dependent on our ability to invest the cash representing such difference. Further, certain of our CRT Agreements may allow us, at the time we sell a mortgage loan, to deposit less than the full amount of cash we would otherwise be required to deposit with respect to such loan until the end of the aggregation period relating to the applicable CRT Agreement. At the end of such aggregation period, we will be required to deposit all remaining cash necessary to fully secure the related CRT Agreement, and our ability to fully invest in such CRT Agreement is dependent on our ability to deposit the required cash. We believe that our liquidity is sufficient to meet our current liquidity needs.

We do not expect repayments from contractual cash flows from our investments in mortgage loans to be a primary source of liquidity as a substantial portion of such investments are distressed assets that are nonperforming. Our portfolio of distressed mortgage loans was acquired with the expectation that the majority of the cash flows associated with these investments would result from liquidation of the mortgage loan or the property securing the loan, rather than from scheduled principal and interest payments. Our mortgage loans acquired for sale are generally held for fifteen days or less and, therefore, are not expected to generate significant cash flows from principal repayments.

Our current leverage strategy is to finance our assets where we believe such borrowing is prudent, appropriate and available. We have made collateralized borrowings in the form of sales of assets under agreements to repurchase, mortgage loan participation and sale agreements and notes payable. We also previously made collateralized borrowings in the form of borrowings under forward purchase agreements and advances from the Federal Home Loan Bank of Des Moines. To the extent available to us, we expect in the future to obtain long-term financing for assets with estimated future lives of more than one year; this may include term financing and securitization of performing, nonperforming and/or reperforming mortgage loans.

We will continue to finance most of our assets on a short-term basis until long-term financing becomes more available. Our short-term financings will be primarily in the form of agreements to repurchase and other secured lending and structured finance facilities, pending the ultimate disposition of the assets, whether through sale, securitization or liquidation. Because a significant portion of our current debt facilities consists of short-term borrowings, we expect to renew these facilities in advance of maturity in order to ensure our ongoing liquidity and access to capital or otherwise allow ourselves sufficient time to replace any necessary financing.

As of June 30, 2017 and December 31, 2016, we financed our investments in MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value, mortgage loans at fair value held by a VIE, MSRs, ESS, REO and deposits securing CRT Agreements with sales under agreements to repurchase, notes payable, asset-backed financing and mortgage loan participation and sale agreements. Following is a summary of our borrowings as of the dates presented:

|  | June 30,<br>2017       | December 31,<br>2016 |   |   |
|--|------------------------|----------------------|---|---|
|  | (dollars in thousands) |                      |   |   |
| Assets financed                            | \$5,424,798            | \$ 5,814,378         |   |   |
| Total assets in classes of assets financed | \$5,692,568            | \$ 5,962,987         |   |   |
| Secured borrowings (1)                     | \$4,186,881            | \$ 4,589,606         |   |   |
| Percentage of invested assets pledged      | 95                     | % 98                 | % | % |
| Advance rate against pledged assets        | 77                     | % 79                 | % | % |
| Leverage ratio (2)                         | 3.05x                  | 3.58x                |   |   |

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(1) Excludes the effect of unamortized debt issuance costs.

(2) All borrowings divided by shareholders' equity at end of period.

Our repurchase agreements represent the sales of assets together with agreements for us to buy back the assets at a later date. Following is a summary of the activities in our repurchase agreements financing:

| Assets sold under agreements to repurchase | Quarter ended June 30, |             | Six months ended June 30, |             |
|--|------------------------|-------------|---------------------------|-------------|
|  | 2017                   | 2016        | 2017                      | 2016        |
|  | (in thousands)         |             |                           |             |
| Average balance outstanding                | \$3,420,836            | \$3,268,774 | \$3,344,772               | \$3,033,038 |
| Maximum daily balance outstanding          | \$4,361,565            | \$4,331,706 | \$4,563,762               | \$4,402,724 |
| Ending balance                             | \$3,498,916            | \$3,275,691 |                           |             |

The difference between the maximum and average daily amounts outstanding is primarily due to increasing volume and the timing of loan purchases and sales in our correspondent acquisition business. The total facility size of our assets sold under agreements to repurchase was approximately \$6.2 billion at June 30, 2017.

As discussed above, all of our repurchase agreements, notes payable, and mortgage loan participation and sale agreements have short-term maturities:

• The transactions relating to mortgage loans and REO under agreements to repurchase generally provide for terms of approximately one year.

• The transactions relating to mortgage loans under mortgage loan participation and sale agreements provide for terms of approximately one year.

• The transactions relating to assets under notes payable provide for terms of approximately one year.

As of June 30, 2017, leverage on MSR and ESS continues to be limited in availability due to the requirement of each Agency that its rights and interest in the MSR remain senior to those of any lender extending credit. As we continue to aggregate MSR and ESS, the limited availability of financing could place stress on our capital and liquidity positions or require us to forego attractive investment opportunities.

Our debt financing agreements require us and certain of our subsidiaries to comply with various financial covenants. As of the filing of this Report, these financial covenants include the following:

• profitability at the Company for at least one (1) of the previous two consecutive fiscal quarters, as of the end of each fiscal quarter, and over the prior six month period measured at each calendar quarter end, and at the Company and our Operating Partnership over the prior three (3) calendar quarters;

• a minimum of \$40 million in unrestricted cash and cash equivalents among the Company and/or our subsidiaries; a minimum of \$40 million in unrestricted cash and cash equivalents among our Operating Partnership and its consolidated subsidiaries; a minimum of \$25 million in unrestricted cash and cash equivalents between PMC and PMH; and a minimum of \$10 million in unrestricted cash and cash equivalents at each of PMC and PMH;

• a minimum tangible net worth for the Company of \$860 million; a minimum tangible net worth for our Operating Partnership of \$700 million; a minimum tangible net worth for PMH of \$250 million; and a minimum tangible net worth for PMC of \$150 million;

• a maximum ratio of total liabilities to tangible net worth of less than 10:1 for PMC and PMH and 5:1 for the Company and our Operating Partnership; and

• at least two warehouse or repurchase facilities that finance amounts and assets similar to those being financed under our existing debt financing agreements.

Although these financial covenants limit the amount of indebtedness we may incur and impact our liquidity through minimum cash reserve requirements, we believe that these covenants currently provide us with sufficient flexibility to successfully operate our business and obtain the financing necessary to achieve that purpose.

PLS is also subject to various financial covenants, both as a borrower under its own financing arrangements and as our servicer under certain of our debt financing agreements. The most significant of these financial covenants currently include the following:

• positive net income over each consecutive six month period, measured quarterly;

• a minimum in unrestricted cash and cash equivalents of \$40 million;

• a minimum tangible net worth of \$500 million; and

• a maximum ratio of total liabilities to tangible net worth of 10:1.

In addition to the financial covenants imposed upon us and PLS under our debt financing agreements, we are also subject to liquidity and net worth requirements established by FHFA for Agency seller/servicers and Ginnie Mae for single-family issuers. FHFA and Ginnie Mae have established minimum liquidity and their net worth requirements for approved non-depository single-family sellers/servicers in the case of FHFA, and for approved single-family issuers in the case of Ginnie Mae, as summarized below:

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A minimum net worth of a base of \$2.5 million plus 25 basis points of UPB for total 1-4 unit residential mortgage loans serviced.

• A tangible net worth/total assets ratio greater than or equal to 6%.

• Liquidity equal to or exceeding 3.5 basis points multiplied by the aggregate UPB of all mortgages secured by 1-4 unit residential properties serviced for Freddie Mac, Fannie Mae and Ginnie Mae (“Agency Mortgage Servicing”) plus 200 basis points multiplied by the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceed 6% of Agency Mortgage Servicing.

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In the case of PLS, liquidity equal to the greater of \$1.0 million or 0.10% (10 basis points) of its outstanding Ginnie Mae single-family securities, which must be met with cash and cash equivalents.

In the case of PLS, net worth equal to \$2.5 million plus 0.35% (35 basis points) of its outstanding Ginnie Mae single-family obligations.

Our debt financing agreements also contain margin call provisions that, upon notice from the applicable lender at its option, require us to transfer cash or, in some instances, additional assets in an amount sufficient to eliminate any margin deficit. A margin deficit will generally result from any decline in the market value (as determined by the applicable lender) of the assets subject to the related financing agreement, although in some instances we may agree with the lender upon certain thresholds (in dollar amounts or percentages based on the market value of the assets) that must be exceeded before a margin deficit will arise. Upon notice from the applicable lender, we will generally be required to satisfy the margin call on the day of such notice or within one business day thereafter, depending on the timing of the notice.

Our Manager continues to explore a variety of additional means of financing our growth, including debt financing through bank warehouse lines of credit, repurchase agreements, term financing, securitization transactions and additional equity offerings. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful.

#### Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

##### Off-Balance Sheet Arrangements

As of June 30, 2017, we have not entered into any off-balance sheet arrangements of off-balance sheet obligations.

##### Contractual Obligations

As of June 30, 2017, we had contractual obligations aggregating to \$6.8 billion comprised of borrowings, interest expense on long term debt from our Exchangeable Notes and asset-backed financing of a VIE, and commitments to purchase mortgage loans from correspondent lenders. Payment obligations under these agreements, including expected interest payments on financing agreements, are summarized below:

|   | Payments due by period |                  |             |             | More than 5 years |
|---|------------------------|------------------|-------------|-------------|-------------------|
|   | Total (in thousands)   | Less than 1 year | 1 - 3 years | 3 - 5 years |                   |
| Contractual obligations                           |                        |                  |             |             |                   |
| Commitments to purchase mortgage loans from       |                        |                  |             |             |                   |
| correspondent lenders                             | \$1,931,374            | \$1,931,374      | \$—         | \$—         | \$—               |
| Commitments to fund Deposits securing credit risk |                        |                  |             |             |                   |
| transfer agreements                               | 247,942                | 247,942          | —           | —           | —                 |
| Assets sold under agreements to repurchase        | 3,498,916              | 3,498,916        | —           | —           | —                 |
| Mortgage loan participation and sale agreements   | 38,470                 | 38,470           | —           | —           | —                 |
| Notes payable                                     | 159,980                | 159,980          | —           | —           | —                 |

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Assets sold to PennyMac Financial Services, Inc. under

|  |             |             |          |           |           |
|--|-------------|-------------|----------|-----------|-----------|
| agreement to repurchase                      | 150,000     | 150,000     | —        | —         | —         |
| Asset-backed financing of a VIE              | 329,459     | —           | —        | —         | 329,459   |
| Exchangeable Notes                           | 250,000     | —           | —        | 250,000   | —         |
| Interest-only security payable at fair value | 6,577       | —           | —        | —         | 6,577     |
| Interest expense on long term debt           | 224,602     | 25,539      | 50,206   | 22,093    | 126,764   |
| Total  | \$6,837,320 | \$6,052,221 | \$50,206 | \$272,093 | \$462,800 |

All debt financing arrangements that matured between June 30, 2017 and the date of this Report have been renewed or extended.

The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and accrued interest) relating to our debt financing is summarized by counterparty below as of June 30, 2017:

| Counterparty                                    | Amount at risk<br>(in thousands) |
|---|----------------------------------|
| Credit Suisse First Boston Mortgage Capital LLC | \$ 142,829                       |
| Citibank, N.A.                                  | 174,564                          |
| JPMorgan Chase & Co.                            | 110,318                          |
| Bank of America, N.A.                           | 71,345                           |
| BNP Paribas Corporate & Institutional Banking   | 19,302                           |
| Daiwa Capital Markets America Inc.              | 5,719                            |
| Wells Fargo, N.A.                               | 5,393                            |
| Morgan Stanley Bank, N.A.                       | 9,424                            |
| Royal Bank of Canada                            | 3,507                            |
| Barclays Bank PLC                               | 11,382                           |
|   | \$ 553,783                       |

#### Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, real estate values and other market-based risks. The primary market risks that we are exposed to are real estate risk, credit risk, interest rate risk, prepayment risk, inflation risk and market value risk. Our primary trading asset is our inventory of mortgage loans acquired for sale. We believe that such assets' fair values respond primarily to changes in the market interest rates for comparable recently-originated mortgage loans. Our other market-risk assets are a substantial portion of our investments and are comprised of distressed mortgage nonperforming loans and MSRs. We believe that the fair values of MSRs also respond primarily to changes in the market interest rates for comparable mortgage loans. We believe that the fair values of our investment in distressed mortgage loans respond primarily to changes in the fair value of the real estate securing such loans.

The following sensitivity analyses are limited in that they were performed at a particular point in time; only contemplate the movements in the indicated variables; do not incorporate changes to other variables; are subject to the accuracy of various models and assumptions used; and do not incorporate other factors that would affect our overall financial performance in such scenarios, including operational adjustments made by management to account for changing circumstances. For these reasons, the following estimates should not be viewed as earnings forecasts.

#### Mortgage-backed securities at fair value

The following table summarizes the estimated change in fair value of our mortgage-backed securities as of June 30, 2017, given several hypothetical (instantaneous) changes in interest rates and parallel shifts in the yield curve:

|      |     |     |    |    |     |
|------|-----|-----|----|----|-----|
| -200 | -75 | -50 | 50 | 75 | 200 |
|------|-----|-----|----|----|-----|

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Interest rate shift in basis points

|                       | (dollar in thousands) |             |             |             |             |             |
|-----------------------|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Fair value            | \$1,103,873           | \$1,098,112 | \$1,089,834 | \$1,035,119 | \$1,018,876 | \$933,073   |
| Change in fair value: |                       |             |             |             |             |             |
| \$                    | \$38,333              | \$32,572    | \$24,294    | \$(30,421)  | \$(46,664)  | \$(132,467) |
| %                     | 3.6                   | % 3.1       | % 2.3       | % (2.9)     | )% (4.4)    | )% (12.4)   |

Mortgage Loans at Fair Value

The following table summarizes the estimated change in fair value of our portfolio of distressed mortgage loans (comprised of mortgage loans at fair value, excluding mortgage loans at fair value held by VIE) as of June 30, 2017, given several hypothetical (instantaneous) changes in home values from those used in estimating fair value:

| Property value shift in % | -15%                   | -10%        | -5%         | +5%         | +10%        | +15%        |
|---------------------------|------------------------|-------------|-------------|-------------|-------------|-------------|
|                           | (dollars in thousands) |             |             |             |             |             |
| Fair value                | \$1,088,031            | \$1,122,413 | \$1,153,355 | \$1,205,401 | \$1,227,263 | \$1,246,589 |
| Change in fair value:     |                        |             |             |             |             |             |
| \$                        | \$(92,848)             | \$(58,466)  | \$(27,524)  | \$24,522    | \$46,384    | \$65,711    |
| %                         | (7.9)                  | )% (5.0)    | )% (2.3)    | )% 2.1      | % 3.9       | % 5.6       |

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The following table summarizes the estimated change in fair value of our mortgage loans at fair value held by VIE as of June 30, 2017, net of the effect of changes in fair value of the related asset-backed financing of the VIE at fair value, given several hypothetical (instantaneous) changes in interest rates and parallel shifts in the yield curve:

| Interest rate shift in basis points | -200                  | -75       | -50       | 50        | 75        | 200        |
|-------------------------------------|-----------------------|-----------|-----------|-----------|-----------|------------|
|                                     | (dollar in thousands) |           |           |           |           |            |
| Fair value                          | \$343,559             | \$343,528 | \$343,449 | \$342,850 | \$342,725 | \$341,867  |
| Change in fair value:               |                       |           |           |           |           |            |
| \$                                  | \$367                 | \$337     | \$258     | \$(342 )  | \$(467 )  | \$(1,325 ) |
| %                                   | 0.1                   | % 0.1     | % 0.1     | % (0.1 )% | (0.1 )%   | (0.4 )%    |

### Mortgage Servicing Rights

The following tables summarize the estimated change in fair value of MSR's accounted for using the amortization method as of June 30, 2017, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

| Pricing spread shift in % | -20%                   | -10%      | -5%       | +5%         | +10%        | +20%        |
|---------------------------|------------------------|-----------|-----------|-------------|-------------|-------------|
|                           | (dollars in thousands) |           |           |             |             |             |
| Fair value                | \$728,800              | \$704,900 | \$693,496 | \$671,708   | \$661,295   | \$641,371   |
| Change in fair value:     |                        |           |           |             |             |             |
| \$                        | \$46,363               | \$22,463  | \$11,059  | \$(10,729 ) | \$(21,142 ) | \$(41,066 ) |
| %                         | 6.8                    | % 3.3     | % 1.6     | % (1.6 )%   | (3.1 )%     | (6.0 )%     |

| Prepayment speed shift in % | -20%                   | -10%      | -5%       | +5%         | +10%        | +20%        |
|-----------------------------|------------------------|-----------|-----------|-------------|-------------|-------------|
|                             | (dollars in thousands) |           |           |             |             |             |
| Fair value                  | \$729,278              | \$705,040 | \$693,545 | \$671,696   | \$661,302   | \$641,492   |
| Change in fair value:       |                        |           |           |             |             |             |
| \$                          | \$46,841               | \$22,603  | \$11,108  | \$(10,741 ) | \$(21,135 ) | \$(40,945 ) |
| %                           | 6.9                    | % 3.3     | % 1.6     | % (1.6 )%   | (3.1 )%     | (6.0 )%     |

| Per-loan servicing cost shift in % | -20%                   | -10%      | -5%       | +5%        | +10%        | +20%        |
|------------------------------------|------------------------|-----------|-----------|------------|-------------|-------------|
|                                    | (dollars in thousands) |           |           |            |             |             |
| Fair value                         | \$702,869              | \$692,653 | \$687,545 | \$677,329  | \$672,221   | \$662,005   |
| Change in fair value:              |                        |           |           |            |             |             |
| \$                                 | \$20,432               | \$10,216  | \$5,108   | \$(5,108 ) | \$(10,216 ) | \$(20,432 ) |
| %                                  | 3.0                    | % 1.5     | % 0.8     | % (0.8 )%  | (1.5 )%     | (3.0 )%     |

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The following tables summarize the estimated change in fair value of MSR's accounted for using the fair value option method as of June 30, 2017, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

| Pricing spread shift in % | -20%                   | -10%     | -5%      | +5%       | +10%      | +20%      |
|---------------------------|------------------------|----------|----------|-----------|-----------|-----------|
|                           | (dollars in thousands) |          |          |           |           |           |
| Fair value                | \$82,691               | \$80,081 | \$78,834 | \$76,451  | \$75,311  | \$73,128  |
| Change in fair value:     |                        |          |          |           |           |           |
| \$                        | \$5,067                | \$2,456  | \$1,210  | \$(1,174) | \$(2,314) | \$(4,496) |
| %                         | 6.5 %                  | 3.2 %    | 1.6 %    | (1.5)%    | (3.0)%    | (5.8)%    |

  

| Prepayment speed shift in % | -20%                   | -10%     | -5%      | +5%       | +10%      | +20%      |
|-----------------------------|------------------------|----------|----------|-----------|-----------|-----------|
|                             | (dollars in thousands) |          |          |           |           |           |
| Fair value                  | \$85,148               | \$81,222 | \$79,384 | \$75,937  | \$74,318  | \$71,268  |
| Change in fair value:       |                        |          |          |           |           |           |
| \$                          | \$7,523                | \$3,597  | \$1,760  | \$(1,687) | \$(3,307) | \$(6,356) |
| %                           | 9.7 %                  | 4.6 %    | 2.3 %    | (2.2)%    | (4.3)%    | (8.2)%    |

| Per-loan servicing cost shift in % | -20%                   | -10%     | -5%      | +5%       | +10%       | +20%       |
|------------------------------------|------------------------|----------|----------|-----------|------------|------------|
|                                    | (dollars in thousands) |          |          |           |            |            |
| Fair value                         | \$80,230               | \$78,927 | \$78,276 | \$76,973  | \$76,322   | \$75,019   |
| Change in fair value:              |                        |          |          |           |            |            |
| \$                                 | \$2,606                | \$1,303  | \$651    | \$(651 )  | \$(1,303 ) | \$(2,606 ) |
| %                                  | 3.4                    | % 1.7    | % 0.8    | % (0.8 )% | (1.7 )%    | (3.4 )%    |

Excess servicing spread

The following tables summarize the estimated change in fair value of our ESS as of June 30, 2017, given several shifts in pricing spreads and prepayment speed:

| Pricing spread shift in % | -20%                   | -10%      | -5%       | +5%        | +10%       | +20%       |
|---------------------------|------------------------|-----------|-----------|------------|------------|------------|
|                           | (dollars in thousands) |           |           |            |            |            |
| Fair value                | \$271,706              | \$266,661 | \$264,207 | \$259,427  | \$257,100  | \$252,567  |
| Change in fair value:     |                        |           |           |            |            |            |
| \$                        | \$9,910                | \$4,866   | \$2,411   | \$(2,369 ) | \$(4,696 ) | \$(9,229 ) |
| %                         | 3.8                    | % 1.9     | % 0.9     | % (0.9 )%  | (1.8 )%    | (3.5 )%    |

| Prepayment speed shift in % | -20%                   | -10%      | -5%       | +5%        | +10%        | +20%        |
|-----------------------------|------------------------|-----------|-----------|------------|-------------|-------------|
|                             | (dollars in thousands) |           |           |            |             |             |
| Fair value                  | \$288,188              | \$274,418 | \$267,972 | \$255,873  | \$250,190   | \$239,488   |
| Change in fair value:       |                        |           |           |            |             |             |
| \$                          | \$26,392               | \$12,622  | \$6,176   | \$(5,922 ) | \$(11,606 ) | \$(22,308 ) |
| %                           | 10.1                   | % 4.8     | % 2.4     | % (2.3 )%  | (4.4 )%     | (8.5 )%     |

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

In response to this Item 3, the information set forth on pages 100 through 102 is incorporated herein by reference.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. However, no matter how well a control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Our management has conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this Report, to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter and six months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

From time to time, we may be involved in various legal proceedings, claims and actions arising in the ordinary course of business. As of June 30, 2017, we were not involved in any such legal proceedings, claims or actions that management believes would be reasonably likely to have a material adverse effect on us.

## Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 28, 2017.

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

There were no sales of unregistered equity securities during the six months ended June 30, 2017.

The following table provides information about our common share repurchases during the six months ended June 30, 2017:

| Period                               | Total<br>number of<br>shares<br>purchased | Average<br>price<br>paid<br>per<br>Share | Total number of<br>shares<br>purchased as<br>part of publicly<br>announced<br>plans<br>or programs (a) | Amount   |
|--------------------------------------|---|--|--|--|
|                                      |   |  |  | available<br>for<br>future share<br>repurchases<br>under the<br>plans or<br>programs<br>(a)<br>(in<br>thousands) |
| January 1, 2017 – January 31, 2017   | —   | \$ —                                     | —  | \$ 85,292  |
| February 1, 2017 – February 28, 2017 | —   | \$ —                                     | —  | \$ 85,292  |
| March 1, 2017 – March 31, 2017       | 138,935                                   | \$ 16.60                                 | 138,935  | \$ 82,987  |
| April 1, 2017 – April 30, 2017       | —   | \$ —                                     | —  | \$ 82,987  |
| May 1, 2017 – May 31, 2017           | —   | \$ —                                     | —  | \$ 82,987  |
| June 1, 2017 – June 30, 2017         | —   | \$ —                                     | —  | \$ 82,987  |
|                                      | 138,935                                   | \$ 16.60                                 | 138,935  | \$ 82,987  |

(a)

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In August 2015, our board of trustees approved a share repurchase program pursuant to which we are authorized to repurchase up to \$150 million of our common shares. In February 2016, our board of trustees approved an increase to our share repurchase program pursuant to which we are now authorized to repurchase up to \$200 million of our common shares. Under the program, we have discretion to determine the dollar amount of common shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. The program does not have an expiration date. Amounts presented reflect balances as of the end of the applicable period.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

Item 6. Exhibits

Exhibit

Number Exhibit Description

- 3.1 Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 3.2 Amended and Restated Bylaws of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 13, 2013).
- 3.3 Articles Supplementary classifying and designating the 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form 8-A filed on March 7, 2017).
- 3.4 Articles Supplementary classifying and designating the 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form 8-A filed on June 30, 2017).
- 4.1 Specimen Common Share Certificate of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 4.2 Indenture for Senior Debt Securities, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on April 30, 2013).
- 4.3 First Supplemental Indenture, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on April 30, 2013).
- 4.4 Form of 5.375% Exchangeable Senior Notes due 2020 (included in Exhibit 4.3).
- 4.5 Specimen Certificate for 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A, filed on March 7, 2017).
- 4.6 Specimen Certificate for 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A, filed on June 30, 2017).
- 10.1 Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).

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First Amendment to the Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P., dated as of March 9, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 9, 2017).

- 10.3 Second Amendment to the Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P., dated as of July 5, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 6, 2017).
- 10.4 Registration Rights Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, Stanford L. Kurland, David A. Spector, BlackRock Holdco II, Inc., Highfields Capital Investments LLC and Private National Mortgage Acceptance Company, LLC (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.5 Amended and Restated Underwriting Fee Reimbursement Agreement, dated as of February 1, 2013, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.6 of the Company's Current Report on Form 8-K filed on February 7, 2013).

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Exhibit

Number Exhibit Description

- 10.6 Second Amended and Restated Management Agreement, dated as of September 12, 2016, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K on September 12, 2016).
- 10.7 Third Amended and Restated Flow Servicing Agreement, dated as of September 12, 2016, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K on September 12, 2016).
- 10.8 Amended and Restated Mortgage Banking Services Agreement, dated as of September 12, 2016, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K on September 12, 2016).
- 10.9 Amendment No. 1 to the Amended and Restated Mortgage Banking Services Agreement, dated as of May 25, 2017, by and between PennyMac Loan Services, LLC and PennyMac Corp.
- 10.10 Amended and Restated MSR Recapture Agreement, dated as of September 12, 2016, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K on September 12, 2016).
- 10.11 Master Spread Acquisition and MSR Servicing Agreement, dated as of December 19, 2014, by and between PennyMac Loan Services, LLC, PennyMac Holdings, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 24, 2014).
- 10.12 Amendment No 1. to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 3, 2015, by and between PennyMac Loan Services, LLC, PennyMac Operating Partnership, L.P., and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.122 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
- 10.13† PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.14† Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Company's Registration Statement on Form S-11, filed with the SEC on July 24, 2009).
- 10.15† Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.16† Form of Performance Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).

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- 10.17 Amended and Restated Master Repurchase Agreement, dated as of March 3, 2017, among Citibank, N.A., PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K on March 8, 2017).
- 10.18 Guaranty Agreement, dated as of December 9, 2010, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on December 15, 2010).
- 10.19 Second Amended and Restated Master Repurchase Agreement, dated as of April 28, 2017, by and among Credit Suisse First Boston Mortgage Capital LLC, Credit Suisse AG, Alpine Securitization LTD, PennyMac Holdings, LLC, PennyMac Corp., PennyMac Operating Partnership, L.P., PMC REO Financing Trust and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 3, 2017).

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Exhibit

Number Exhibit Description

- 10.20 Amendment No. 1 to Second Amended and Restated Master Repurchase Agreement, dated as of June 1, 2017, by and among Credit Suisse First Boston Mortgage Capital LLC, Credit Suisse AG, Alpine Securitization LTD, PennyMac Holdings, LLC, PennyMac Corp., PennyMac Operating Partnership, L.P., PMC REO Financing Trust and PennyMac Mortgage Investment Trust.
- 10.21 Second Amended and Restated Guaranty, dated as of April 28, 2017, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P., in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 3, 2017).
- 10.22 Second Amended and Restated Master Repurchase Agreement, dated as of April 28, 2017, by and among Credit Suisse First Boston Mortgage Capital LLC, Credit Suisse AG, Alpine Securitization LTD, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 3, 2017).
- 10.23 Amended and Restated Guaranty, dated as of April 28, 2017, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on May 3, 2017).
- 10.24 Amended and Restated Master Repurchase Agreement, dated as of March 3, 2017, among Citibank, N.A., PennyMac Corp., and PennyMac Loan Services, LLC ( incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K on March 8, 2017).
- 10.25 Guaranty, dated as of May 24, 2012, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on May 30, 2012).
- 10.26 Master Repurchase Agreement, dated as of November 20, 2012, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on November 26, 2012).
- 10.27 Amendment Number One to the Master Repurchase Agreement, dated as of August 20, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
- 10.28 Amendment Number Two to the Master Repurchase Agreement, dated as of August 26, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.97 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
- 10.29 Amendment Number Three to the Master Repurchase Agreement, dated as of November 14, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.95 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013).

- 10.30 Amendment Number Four to the Master Repurchase Agreement, dated as of December 19, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
- 10.31 Amendment Number Five to the Master Repurchase Agreement, dated as of December 18, 2014, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.101 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.32 Amendment Number Six to the Master Repurchase Agreement, dated as of July 27, 2015, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 30, 2015).
- 10.33 Amendment Number Seven to the Master Repurchase Agreement, dated as of December 17, 2015, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.125 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).

Exhibit

Number Exhibit Description

- 10.34 Amendment Number Eight to the Master Repurchase Agreement, dated as of August 26, 2016, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.67 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016).
- 10.35 Amendment Number Nine to the Master Repurchase Agreement, dated as of June 30, 2017, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 7, 2017).
- 10.36 Second Amended and Restated Master Spread Acquisition and MSR Servicing Agreement, dated as of December 19, 2016, between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 21, 2016).
- 10.37 Master Repurchase Agreement, dated as of December 19, 2016, by and among PennyMac Holdings, LLC, as Seller, PennyMac Loan Services, LLC, as Buyer, and PennyMac Mortgage Investment Trust, as Guarantor (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 21, 2016).
- 10.38 Guaranty, dated as of December 19, 2016, by PennyMac Mortgage Investment Trust, in favor of PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on December 21, 2016).
- 10.39 Subordination, Acknowledgment and Pledge Agreement, dated as of December 19, 2016, between PNMAC GMSR ISSUER TRUST, as Buyer, and PennyMac Holdings, LLC, as Pledgor (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on December 21, 2016).
- 10.40 Amended and Restated Guaranty, dated as of November 10, 2015, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.177 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.41 Second Amended and Restated Security and Subordination Agreement, dated as of November 10, 2015, between PennyMac Holdings, LLC and Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.145 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.42 Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 23, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.43 Amendment No. 1 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on February 6, 2014).

- 10.44 Amendment No. 2 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of October 29, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.45 Amendment No. 3 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 5, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.46 Amendment No. 4 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.47 Amendment No. 5 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed on February 6, 2014).

Exhibit

Number Exhibit Description

- 10.48 Amendment No. 6 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 2, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.49 Amendment No. 7 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 31, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.50 Amendment No. 8 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 27, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
- 10.51 Amendment No. 9 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 30, 2015, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.52 Amendment No. 10 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 22, 2015, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.159 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.53 Amendment No. 11 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 29, 2016, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.164 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.54 Amendment No. 12 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 28, 2017, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.
- 10.55 Amendment No. 13 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of May 23, 2017, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.
- 10.56 Guaranty, dated as of December 23, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.10 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.57 Master Repurchase Agreement, dated as of July 9, 2014, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 14, 2014).

- 10.58 Amendment No. 1 to Master Repurchase Agreement, dated as of January 30, 2015, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.133 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.59 Amendment No. 2 to Master Repurchase Agreement, dated as of March 29, 2016, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.168 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.60 Amendment No. 3 to Master Repurchase Agreement, dated as of May 23, 2017, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 30, 2017).
- 10.61 Guaranty, dated as of July 9, 2014, by PennyMac Mortgage Investment Trust in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 14, 2014).

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Exhibit

Number Exhibit Description

- 10.62 Amended and Restated Master Repurchase Agreement, dated as of March 15, 2017, among JPMorgan Chase Bank, National Association, PennyMac Corp., PennyMac Operating Partnership, L.P., PennyMac Holdings, LLC, PMC REO Trust 2015-1 and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 21, 2017).
- 10.63 Amended and Restated Guaranty, dated as of March 15, 2017, of PennyMac Mortgage Investment Trust in favor of JPMorgan Chase Bank, National Association (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on March 21, 2017).
- 10.64 Second Amended and Restated Loan and Security Agreement, dated as of March 24, 2017, by and among PennyMac Corp., PennyMac Holdings, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 30, 2017).
- 10.65 Amended and Restated Guaranty Agreement, dated as of September 15, 2016, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on September 21, 2016).
- 10.66 Master Repurchase Agreement, dated as of October 14, 2016, among PennyMac Corp., PennyMac Operating Partnership, L.P. and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 20, 2016).
- 10.67 First Amendment to Master Repurchase Agreement, dated as of May 23, 2017, among PennyMac Corp., PennyMac Operating Partnership, L.P. and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 30, 2017).
- 10.68 Guaranty, dated as of October 14, 2016, by PennyMac Mortgage Investment Trust in favor of JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on October 20, 2016).
- 10.69 Mortgage Loan Purchase Agreement, dated as of September 25, 2012, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.183 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.70 Flow Sale Agreement, dated as of June 16, 2015, by and between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.155 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.71 Master Repurchase Agreement, dated as of September 14, 2015, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 18, 2015).
- 10.72 Amendment Number One to Master Repurchase Agreement, dated as of August 31, 2016, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.117 of the Company's Quarterly Report on Form 10-Q for the

quarter ended September 30, 2016).

- 10.73 Amendment Number Two to Master Repurchase Agreement, dated as of September 29, 2016, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.118 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016).
- 10.74 Amendment Number Three to Master Repurchase Agreement, dated as of December 2, 2016, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.128 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016).
- 10.75 Amendment Number Four to the Master Repurchase Agreement, dated as of March 24, 2017, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.80 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).

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Exhibit

Number Exhibit Description

- 10.76 Amendment Number Five to the Master Repurchase Agreement, dated as of May 3, 2017, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 5, 2017).
- 10.77 Amendment Number Six to the Master Repurchase Agreement, dated as of June 16, 2017, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 21, 2017).
- 10.78 Mortgage Loan Participation Purchase and Sale Agreement, dated as of September 14, 2015, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 18, 2015).
- 10.79 Amendment Number One to Mortgage Loan Participation Purchase and Sale Agreement, dated as of August 31, 2016, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.120 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016).
- 10.80 Amendment Number Two to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 2, 2016, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.131 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016).
- 10.81 Amendment Number Three to Mortgage Loan Participation Purchase and Sale Agreement, dated as of May 3, 2017, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 5, 2017).
- 10.82 Amendment Number Four to Mortgage Loan Participation Purchase and Sale Agreement, dated as of June 16, 2017, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on June 21, 2017).
- 10.83 Amended and Restated Loan and Security Agreement, dated as of January 22, 2016, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 28, 2016).
- 10.84 Amendment Number One to Amended and Restated Loan and Security Agreement, dated as of August 31, 2016, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.122 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016).
- 10.85 Amendment Number Two to Amended and Restated Loan and Security Agreement, dated as of December 2, 2016, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.134 of the Company's Annual Report on

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Form 10-K for the year ended December 31, 2016).

- 10.86 Amendment Number Three to Amended and Restated Loan and Security Agreement, dated as of January 30, 2017, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.135 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016).
- 10.87 Amendment Number Four to Amended and Restated Loan and Security Agreement, dated as of March 24, 2017 among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.88 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).
- 10.88 Amendment Number Five to Amended and Restated Loan and Security Agreement, dated as of June 16, 2017 among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K file on June 21, 2017).

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Exhibit

Number Exhibit Description

- 10.89 Loan and Security Agreement, dated as of March 24, 2017, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on March 30, 2017).
- 10.90 Amendment Number One to Loan and Security Agreement, dated June 16, 2017, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on June 21, 2017).
- 10.91 Amended and Restated Flow Commercial Mortgage Loan Purchase Agreement, dated as of June 1, 2016, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.127 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016).
- 10.92 Servicing Agreement, dated as of July 13, 2015, between PennyMac Corp., PennyMac Holdings, LLC, any other parties signing this Agreement as an owner of Mortgage Loans as listed in Schedule I and any New Owners, PennyMac Loan Services, LLC, and Midland Loan Services, a division of PNC Bank, National Association (incorporated by reference to Exhibit 10.191 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.93 Amended and Restated Commercial Mortgage Servicing Oversight Agreement, dated as of June 1, 2016, among PennyMac Corp., PennyMac Holdings, LLC, and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.129 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016).
- 31.1 Certification of David A. Spector pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Andrew S. Chang pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of David A. Spector pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Andrew S. Chang pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016, (ii) the Consolidated Statements of Income for the quarters ended June 30, 2017 and 2016, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended June 30, 2017 and 2016, (iv) the Consolidated Statements of Cash Flows for the quarters ended June 30, 2017 and 2016, and (v) the Notes to the Consolidated Financial Statements.

\*The certifications attached hereto as Exhibits 32.1 and 32.2 are furnished to the SEC pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act

of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

†Indicates management contract or compensatory plan or arrangement.

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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.

Pennymac Mortgage Investment Trust

(Registrant)

Dated: August 8, 2017 By: /s/ David A. Spector  
David A. Spector  
President and Chief Executive Officer (Principal Executive Officer)

Dated: August 8, 2017 By: /s/ Andrew S. Chang  
Andrew S. Chang  
Chief Financial Officer (Principal Financial Officer)