

BLACKROCK CORE BOND TRUST
Form N-CSRS
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT
COMPANIES**

Investment Company Act file number 811-10543
Name of Fund: BlackRock Core Bond Trust (BHK)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock Core Bond Trust,
55 East 52nd Street, New York, NY 10055

Registrant telephone number, including area code: (800) 882-0052, Option 4
Date of fiscal year end: 08/31/2018

Date of reporting period: 02/28/2018

Item 1 Report to Stockholders

FEBRUARY 28, 2018

SEMI-ANNUAL REPORT (UNAUDITED)

BlackRock Core Bond Trust (BHK)

BlackRock Corporate High Yield Fund, Inc. (HYT)

BlackRock Income Trust, Inc. (BKT)

**Not FDIC Insured May Lose Value No Bank
Guarantee**

The Markets in Review

Dear Shareholder,

In the 12 months ended February 28, 2018, assets with higher risk and return potential, such as stocks and high-yield bonds, continued to deliver strong performance. Faster global growth drove the equity market, while rising interest rates constrained bond returns.

Emerging market stocks posted the strongest performance, as accelerating growth in China, the second-largest economy in the world, improved the outlook for corporate profits and economic growth across most developing nations. Chinese demand for commodities and other raw materials allayed concerns about the country's banking system, leading to rising equity prices and foreign investment. Higher prices for industrial metals also bolstered the outlook for emerging-market countries.

Rising interest rates worked against high-quality assets with more interest rate sensitivity. Consequently, the 10-year U.S. Treasury—a bellwether of the bond market—posted a negative return, as rising energy prices, higher wages, and steady job growth drove expectations of higher inflation and interest rate increases by the U.S. Federal Reserve (the Fed).

The market's performance reflected reflationary expectations early in the reporting period, as investors began to sense that a global recovery was afoot. Thereafter, many countries experienced sustained and synchronized growth for the first time since the financial crisis. Growth rates and inflation are still relatively low, but they are finally rising together.

The Fed responded to these positive developments by increasing short-term interest rates three times during the year. In October 2017, the Fed also began to reduce its balance sheet, while setting expectations for additional rate hikes in 2018.

By contrast, the European Central Bank (ECB) and the Bank of Japan (BoJ) continued to expand their balance sheets despite nascent signs of sustained economic growth. Rising global growth and inflation, as well as limited bond supply, put steady pressure on other central banks to follow in the Fed's footsteps. In October 2017, the ECB announced plans to cut its bond purchases in half for 2018, while the BoJ reiterated its commitment to economic stimulus, as the country's inflation rate remained below 2.0%.

Rising consumer confidence and improving business sentiment are driving momentum for the U.S. economy. If the Fed maintains a measured pace of stimulus reduction, to the extent that inflation rises, it's likely to be accompanied by rising real growth and higher wages. That could lead to a favorable combination of moderately higher inflation, steadily rising interest rates, and improving growth in 2018. We continue to believe the primary risks to the economic expansion are trade protectionism, rapidly rising interest rates, and geopolitical tension. In particular, we are closely monitoring trade protectionism and the rise of populism in Western nations.

In December 2017, Congress passed a sweeping tax reform bill. The U.S. tax overhaul is likely to accentuate the existing reflationary themes, including faster growth and rising interest rates. Changing the corporate tax rate to a flat 21% will create many winners and losers among high-and-low tax companies, while the windfall from lower taxes could boost business and consumer spending.

In this environment, investors need to think globally, extend their scope across a broad array of asset classes, and be nimble as market conditions change. We encourage you to talk with your financial advisor and visit blackrock.com for further insight about investing in today's markets.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of February 28, 2018

	6-month	12-month
U.S. large cap equities (S&P 500 [®] Index)	10.84%	17.10%
U.S. small cap equities (Russell 2000 [®] Index)	8.30	10.51
International equities (MSCI Europe, Australasia, Far East Index)	7.12	20.13
Emerging market equities (MSCI Emerging Markets Index)	10.58	30.51
3-month Treasury bills (ICE BofAML 3-Month U.S. Treasury Bill Index)	0.58	0.99
U.S. Treasury securities (ICE BofAML 10-Year U.S. Treasury Index)	(5.47)	(2.54)
U.S. investment grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index)	(2.18)	0.51
Tax-exempt municipal bonds (S&P Municipal Bond Index)	(1.15)	2.32
U.S. high yield bonds (Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	1.11	4.18

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

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Trust Summary as of February 28, 2018

BlackRock Core Bond Trust

Trust Overview

BlackRock Core Bond Trust s (BHK) (the Trust) investment objective is to provide current income and capital appreciation. The Trust seeks to achieve its investment objective by investing at least 75% of its managed assets in bonds that are investment grade quality at the time of investment. The Trust s investments will include a broad range of bonds, including corporate bonds, U.S. government and agency securities and mortgage-related securities. The Trust may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody s Investors Service, Inc. (Moody s), Standard & Poors Ratings Group (S&P), Fitch Ratings (Fitch) another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the investment adviser. The Trust may invest up to 10% of its managed assets in bonds issued in foreign currencies. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust s investment objective will be achieved.

Trust Information

Symbol on New York Stock Exchange (NYSE)	BHK
Initial Offering Date	November 27, 2001
Current Distribution Rate on Closing Market Price as of February 28, 2018 (\$13.21) ^(a)	5.90%
Current Monthly Distribution per Common Share ^(b)	\$0.0650
Current Annualized Distribution per Common Share ^(b)	\$0.7800
Economic Leverage as of February 28, 2018 ^(c)	32%

(a) Current distribution rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate may consist of income, net realized gains and/or a tax return of capital. Past performance does not guarantee future results.

(b) The distribution rate is not constant and is subject to change.

(c) Represents reverse repurchase agreements outstanding as a percentage of total managed assets, which is the total assets of the Trust (including any assets attributable to borrowings) minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 13.

Market Price and Net Asset Value Per Share Summary

	02/28/18	08/31/17	Change	High	Low
Market Price	\$ 13.21	\$ 14.10	(6.31)%	\$ 14.26	\$ 12.93
Net Asset Value	14.32	14.96	(4.28)	15.01	14.21

Market Price and Net Asset Value History For the Past Five Years

Trust Summary as of February 28, 2018 (continued)

BlackRock Core Bond Trust

Performance and Portfolio Management Commentary

Returns for the period ended February 28, 2018 were as follows:

	Average Annual Total Returns			
	<i>6 Months</i>	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>
Trust at NAV ^{(a)(b)}	(1.55)%	4.46%	4.19%	5.53%
Trust at Market Price ^{(a)(b)}	(3.64)	4.75	4.80	4.14
Reference Benchmark^(c)	(1.93)	2.15	2.27	3.23
Bloomberg Barclays U.S. Long Government/Credit Index^(d)	(3.40)	2.80	1.76	3.69
Bloomberg Barclays Intermediate Credit Index^(e)	(1.62)	1.02	1.78	2.07
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index^(f)	1.11	4.18	5.20	5.34
Bloomberg Barclays CMBS, Eligible for U.S. Aggregate^(g)	(2.29)	0.75	1.58	2.02
Bloomberg Barclays MBS Index^(h)	(1.89)	0.16	1.03	1.70
Bloomberg Barclays ABS Index⁽ⁱ⁾	(0.80)	0.63	1.26	1.16

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices. Performance results reflect the Trust's use of leverage.

(b) The Trust's discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.

(c) The Reference Benchmark is comprised of the Bloomberg Barclays U.S. Long Government/Credit Index (40%); Bloomberg Barclays Intermediate Credit Index (24%); Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index (16%); Bloomberg Barclays CMBS, Eligible for U.S. Aggregate Index (8%); Bloomberg Barclays MBS Index (8%); and Bloomberg Barclays ABS Index (4%). The Reference Benchmark's index content and weightings may have varied over past periods.

(d) This unmanaged index is the long component of the Bloomberg Barclays U.S. Government/Credit Index. This unmanaged index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt.

(e) This unmanaged index is the intermediate component of the Bloomberg Barclays U.S. Credit Index. The Bloomberg Barclays U.S. Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

(f) An unmanaged index comprised of issuers that meet the following criteria: at least \$150 million par value outstanding; maximum credit rating of Ba1; at least one year to maturity; and no issuer represents more than 2% of the index.

(g) This unmanaged index is the CMBS component of the Bloomberg Barclays U.S. Aggregate Index.

(h) This unmanaged index is a market value-weighted index, which covers the mortgage-backed securities component of the Bloomberg Barclays U.S. Aggregate Bond Index. The unmanaged index is comprised of agency mortgage-backed pass-through securities of the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac) with a minimum \$150 million par amount outstanding and a weighted-average maturity of at least 1 year. The index includes reinvestment of income.

- (i) This unmanaged index is the asset-backed securities component of the Bloomberg Barclays U.S. Aggregate Index.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

BHK is presenting the Reference Benchmark to accompany trust performance. The Reference Benchmark is presented for informational purposes only, as the Trust is actively managed and does not seek to track or replicate the performance of the Reference Benchmark or any other index. The portfolio investments of the Trust may differ substantially from the securities that comprise the indices within the Reference Benchmark, which may cause the Trust's performance to differ materially from that of the Reference Benchmark. The Trust employs leverage as part of its investment strategy, which may change over time at the discretion of BlackRock Advisors, LLC (the Manager) as market and other conditions warrant. In contrast, the Reference Benchmark is not adjusted for leverage. Therefore, leverage generally may result in the Trust outperforming the Reference Benchmark in rising markets and underperforming in declining markets. The Board considers additional factors to evaluate the Trust's performance, such as the performance of the Trust relative to a peer group of funds, a leverage-adjusted benchmark and/or other information provided by the Manager.

More information about the Trust's historical performance can be found in the Closed End Funds section of <http://www.blackrock.com>.

The following discussion relates to the Trust's absolute performance based on NAV:

What factors influenced performance?

The principal detractors from the Trust's performance were its allocations to investment grade corporates, U.S. Treasuries, mortgages, commercial mortgage-backed securities (CMBS), cash, and sovereign, supranational and agency issues (SSAs).

The largest positive contributions to the Trust's performance came from its allocations to high yield bonds, asset-backed securities (ABS), capital securities and derivatives.

Derivatives are used by the investment adviser to manage risk and/or take outright views on interest rates, credit risk and/or foreign exchange positions in the portfolio. As noted, during the period, derivatives contributed positively to the Trust's performance, in particular through the use of financial futures contracts.

Describe recent portfolio activity.

Over the reporting period, the Trust's spread duration (sensitivity to changes in credit spreads) was slightly increased, as the portfolio was shifted toward higher yielding spread sectors. In addition, the Trust's allocation to CMBS was reduced and rotated into collateralized loan obligations within ABS, SSAs, emerging market debt and high yield corporate bonds.

Trust Summary as of February 28, 2018 (continued)

BlackRock Core Bond Trust

Describe portfolio positioning at period end.

At period end, the Trust maintained diversified exposure within non-government spread sectors, including investment grade corporates, high yield corporates, CMBS and ABS, as well as smaller allocations to non-agency mortgage-backed securities (MBS). The Trust also held exposure to government-related sectors such as U.S. Treasury securities, agency debt and agency MBS.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Overview of the Trust's Total Investments**PORTFOLIO COMPOSITION**

	02/28/18	08/31/17
Corporate Bonds	49%	50%
U.S. Treasury Obligations	11	11
U.S. Government Sponsored Agency Securities	10	8
Preferred Securities	9	9
Asset-Backed Securities	9	8
Non-Agency Mortgage-Backed Securities	7	8
Foreign Agency Obligations	3	2
Municipal Bonds	2	2
Floating Rate Loan Interests	1	1
Options Purchased	(a)	1
Short-Term Securities	(a)	1
Options Written	(1) ^(a)	(1)

^(a) Representing less than 1% of the Trust's total investments.

CREDIT QUALITY ALLOCATION ^{(b)(c)}

	02/28/18	08/31/17
AAA/Aaa ^(d)	23%	23%
AA/Aa	6	6
A	16	16
BBB/Baa	30	28
BB/Ba	11	12
B	10	8

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CCC/Caa	2	2
N/R	2	5

- (b) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody's if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.
- (c) Excludes Short-Term Securities, Options Purchased and Options Written.
- (d) The investment adviser evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed U.S. Government Sponsored Agency Securities and U.S. Treasury Obligations as AAA/Aaa.

Trust Summary as of February 28, 2018

BlackRock Corporate High Yield Fund, Inc.

Trust Overview

BlackRock Corporate High Yield Fund, Inc. s (HYT) (the Trust) primary investment objective is to provide shareholders with current income. The Trust s secondary investment objective is to provide shareholders with capital appreciation. The Trust seeks to achieve its investment objectives by investing primarily in a diversified portfolio of fixed income securities which are rated at the time of investment to be below investment grade or, if unrated, are considered by the investment adviser to be of comparable quality. The Trust may invest directly in fixed income securities or synthetically through the use of derivatives.

No assurance can be given that the Trust s investment objectives will be achieved.

Trust Information

Symbol on NYSE	HYT
Initial Offering Date	May 30, 2003
Current Distribution Rate on Closing Market Price as of February 28, 2018 (\$10.56) ^(a)	7.95%
Current Monthly Distribution per Common Share ^(b)	\$0.0700
Current Annualized Distribution per Common Share ^(b)	\$0.8400
Economic Leverage as of February 28, 2018 ^(c)	30%

^(a) Current distribution rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate may consist of income, net realized gains and/or a tax return of capital. Past performance does not guarantee future results.

^(b) The distribution rate is not constant and is subject to change.

^(c) Represents bank borrowings as a percentage of total managed assets, which is the total assets of the Trust (including any assets attributable to borrowings) minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 13.

Market Price and Net Asset Value Per Share Summary

	02/28/18	08/31/17	Change	High	Low
Market Price	\$ 10.56	\$ 11.13	(5.12)%	\$ 11.47	\$ 10.47
Net Asset Value	12.04	12.22	(1.47)	12.37	11.91

Market Price and Net Asset Value History For the Past Five Years

Trust Summary as of February 28, 2018 (continued)

BlackRock Corporate High Yield Fund, Inc.**Performance and Portfolio Management Commentary**

Returns for the period ended February 28, 2018 were as follows:

	Average Annual Total Returns			
	<i>6 Months</i>	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>
Trust at NAV ^{(a)(b)}	2.33%	6.51%	6.61%	7.55%
Trust at Market Price ^{(a)(b)}	(1.45)	2.04	5.76	4.98
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index^(c)	1.11	4.18	5.20	5.34

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices. Performance results reflect the Trust's use of leverage.

(b) The Trust's discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.

(c) An unmanaged index (the Reference Benchmark) comprised of issuers that meet the following criteria: at least \$150 million par value outstanding; maximum credit rating of Ba1; at least one year to maturity; and no issuer represents more than 2% of the index.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

HYT is presenting the Reference Benchmark to accompany trust performance. The Reference Benchmark is presented for informational purposes only, as the Trust is actively managed and does not seek to track or replicate the performance of the Reference Benchmark or any other index. The portfolio investments of the Trust may differ substantially from the securities that comprise the indices within the Reference Benchmark, which may cause the Trust's performance to differ materially from that of the Reference Benchmark. The Trust employs leverage as part of its investment strategy, which may change over time at the discretion of the Manager as market and other conditions warrant. In contrast, the Reference Benchmark is not adjusted for leverage. Therefore, leverage generally may result in the Trust outperforming the Reference Benchmark in rising markets and underperforming in declining markets. The Board considers additional factors to evaluate the Trust's performance, such as the performance of the Trust relative to a peer group of funds, a leverage-adjusted benchmark and/or other information provided by the Manager.

More information about the Trust's historical performance can be found in the "Closed End Funds" section of <http://www.blackrock.com>.

The following discussion relates to the Trust's performance based on NAV:

What factors influenced performance?

The Trust's core exposure to high yield corporate bonds provided positive contributions to return over the six-month period. Smaller positions in bank loans and preferred equities also benefitted performance. Within high yield corporates, the most significant contributions to performance came from within the gaming, independent energy, and technology sectors. B-rated names were the best credit quality performers, followed closely by positions in the CCC and BB rating categories.

The most significant detractors from performance came from within the wireless, cable & satellite, and wirelines sectors. The only other detractors over the period were small allocations to equity positions used to manage risk as the market rallied. There were no absolute detractors from a credit rating perspective during the period.

Describe recent portfolio activity.

As the high yield market rallied early in the period, the Trust maintained a slightly overweight market sensitivity, while remaining focused on quality and consistent cash-flow stories where balance sheets and asset coverage were strong. While lower-quality and stressed/distressed portions of the high yield market outperformed over the six months, the Trust remained underweight to the riskier, higher yielding portion of the market in order to manage risk. In that vein, the Trust maintained an underweight across the consumer cyclical space, most notably the retail and automotive segments. This positioning reflected the view that the outlook for consumer cyclical continues to deteriorate under pressure from declining sales and secular changes. By contrast, the Trust increased its exposure to energy and chemicals.

Describe portfolio positioning at period end.

At period end, the Trust held the majority of its portfolio in corporate bonds, with a modest allocation to floating rate bank loans. Within high yield corporates, the Trust was underweight in lower-coupon, more interest rate-sensitive bonds while being slightly overweight in single B-rated bonds. The Trust was overweight in high conviction CCC-rated issues while remaining underweight in the highest yielding segment of the lower-related universe where downside risks are greater if volatility picks up or credit sentiment weakens. The Trust continued to favor select equity/equity-like assets with more upside as a substitute to higher-beta (more market sensitive) CCC-rated notes. The Trust also maintained exposure to equity futures positions to help reduce portfolio risk. At period-end, top issuer overweight positions included Ligado Networks (wireless), Freeport McMoran Inc. (metals & mining), and the Stars Group (gaming). Broadly, the Trust's positioning within credit remained centered on cash-flow views, identification of a specific catalyst and/or issuer-specific characteristics.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Summary as of February 28, 2018 (continued)

BlackRock Corporate High Yield Fund, Inc.

Overview of the Trust's Total Investments**PORTFOLIO COMPOSITION**

	<i>02/28/18</i>	<i>08/31/17</i>
Corporate Bonds	80%	82%
Floating Rate Loan Interests	9	8
Preferred Securities	5	5
Asset-Backed Securities	3	3
Investment Companies	2	1
Common Stocks	1	1
Other ^(a)		

^(a) Representing less than 1% of the Trust's total investments and Other may include Non-Agency Mortgage-Backed Securities, Warrants, Other Interests, Short-Term Securities, Options Purchased and Options Written.

CREDIT QUALITY ALLOCATION ^{(b)(c)}

	<i>02/28/18</i>	<i>08/31/17</i>
A	1%	1%
BBB/Baa	8	7
BB/Ba	36	37
B	39	41
CCC/Caa	9	9
N/R	7	5

^(b) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody's if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

^(c) Excludes Short-Term Securities, Options Purchased and Options Written.

Trust Summary as of February 28, 2018

BlackRock Income Trust, Inc.**Trust Overview**

BlackRock Income Trust, Inc. s (BKT) (the Trust) investment objective is to manage a portfolio of high-quality securities to achieve both preservation of capital and high monthly income. The Trust seeks to achieve its investment objective by investing at least 65% of its assets in mortgage-backed securities. The Trust invests at least 80% of its assets in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody s. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust s investment objective will be achieved.

Trust Information

Symbol on NYSE	BKT
Initial Offering Date	July 22, 1988
Current Distribution Rate on Closing Market Price as of February 28, 2018 (\$5.91) ^(a)	5.38%
Current Monthly Distribution per Common Share ^(b)	\$0.0265
Current Annualized Distribution per Common Share ^(b)	\$0.3180
Economic Leverage as of February 28, 2018 ^(c)	29%

^(a) Current distribution rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate may consist of income, net realized gains and/or a tax return of capital. Past performance does not guarantee future results.

^(b) The distribution rate is not constant and is subject to change.

^(c) Represents reverse repurchase agreements outstanding as a percentage of total managed assets, which is the total assets of the Trust (including any assets attributable to borrowings) minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Trust, please see the Benefits and Risks of Leveraging on page 13.

Market Price and Net Asset Value Per Share Summary

	02/28/18	08/31/17	Change	High	Low
Market Price	\$ 5.91	\$ 6.31	(6.34)%	\$ 6.40	\$ 5.76
Net Asset Value	6.45	6.74	(4.30)	6.76	6.41

Market Price and Net Asset Value History For the Past Five Years

Trust Summary as of February 28, 2018 (continued)

BlackRock Income Trust, Inc.**Performance and Portfolio Management Commentary**

Returns for the period ended February 28, 2018 were as follows:

	Average Annual Total Returns			
	<i>6 Months</i>	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>
Trust at NAV ^{(a)(b)}	(1.80)%	0.55%	1.75%	2.45%
Trust at Market Price ^{(a)(b)}	(3.89)	(0.66)	2.53	2.07
FTSE Mortgage Index^(c)	(1.96)	0.11	1.01	1.66

- (a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices. Performance results reflect the Trust's use of leverage.
- (b) The Trust's discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.
- (c) This unmanaged index (formerly known as Citigroup Mortgage Index) (the Reference Benchmark) includes all outstanding government sponsored fixed rate mortgage-backed securities, weighted in proportion to their current market capitalization.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

BKT is presenting the Reference Benchmark to accompany trust performance. The Reference Benchmark is presented for informational purposes only, as the Trust is actively managed and does not seek to track or replicate the performance of the Reference Benchmark or any other index. The portfolio investments of the Trust may differ substantially from the securities that comprise the indices within the Reference Benchmark, which may cause the Trust's performance to differ materially from that of the Reference Benchmark. The Trust employs leverage as part of its investment strategy, which may change over time at the discretion of the Manager as market and other conditions warrant. In contrast, the Reference Benchmark is not adjusted for leverage. Therefore, leverage generally may result in the Trust outperforming the Reference Benchmark in rising markets and underperforming in declining markets. The Board considers additional factors to evaluate the Trust's performance, such as the performance of the Trust relative to a peer group of funds, a leverage-adjusted benchmark and/or other information provided by the Manager.

More information about the Trust's historical performance can be found in the Closed End Funds section of <http://www.blackrock.com>.

The following discussion relates to the Trust's absolute performance based on NAV:

What factors influenced performance?

The only material detractor from performance during the period was the Trust's underweight within 30-year agency mortgage-backed securities (MBS).

The largest contributors to performance included the Trust's allocation to agency collateralized mortgage obligations (CMOs), as well as interest rate-based strategies such as duration (sensitivity to interest rate changes) and yield curve positioning. Strategies utilizing U.S. Treasury futures held as short positions against long positions in agency MBS aided performance as interest rates moved higher. Selection within 30-year agency MBS contributed positively driven by the outperformance of specified pool holdings, allocations to agency interest-only tranches, and positioning in legacy (i.e., issued prior to 2008) non-agency residential MBS. Other contributors included allocations to 15-year agency MBS, swap- and swaption-based strategies, and allocations to agency securities as well as to commercial mortgage-backed securities (CMBS).

The Trust held interest rate derivatives including futures, options, swaps and swaptions, mainly for the purpose of managing duration, convexity (the rate at which duration changes in response to interest rate movements) and yield curve positioning. The Trust's use of derivatives had a positive effect on performance during the period.

Describe recent portfolio activity.

The Trust kept overall exposure to agency MBS relatively unchanged during the period, while decreasing exposure to pass-throughs in favor of CMOs within this allocation. The Trust also added exposure to agency mortgage derivatives and CMBS, while paring its holdings in U.S. government securities. The Trust's allocation to asset-backed securities remained minimal.

Describe portfolio positioning at period end.

The Trust was positioned with a marginally constructive stance regarding the mortgage sector, on the view that MBS valuations appeared relatively attractive and that the unwinding of the Fed's balance sheet was not likely to have a material impact on the overall MBS market. The Trust maintained an overweight to high quality and well-structured agency CMOs and specified mortgage pools where the attributes of the underlying borrower help to improve the overall risk profile. With spreads in most risk assets at their tightest levels since mid-2014, the Trust's exposures to non-benchmark positions such as legacy non-agency residential MBS and CMBS were minimal at period end.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Summary as of February 28, 2018 (continued)

BlackRock Income Trust, Inc.

Overview of the Trust's Total Investments**PORTFOLIO COMPOSITION**

	02/28/18	08/31/17
U.S. Government Sponsored Agency Securities	116%	113%
U.S. Treasury Obligations		2
Short-Term Securities	1	2
Non-Agency Mortgage-Backed Securities	1	1
Asset-Backed Securities ^(a)		
Borrowed Bonds ^(a)		
TBA Sale Commitments	(18)	(18)

^(a) Representing less than 1% of the Trust's total investments.

CREDIT QUALITY ALLOCATION ^{(b)(c)}

	02/28/18	08/31/17
AAA/Aaa ^(d)	100%	99%
BBB	(a)	1

^(b) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody's if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

^(c) Excludes Money Market Funds.

^(d) The investment adviser evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed U.S. Government Sponsored Agency Securities and U.S. Treasury Obligations as AAA/Aaa.

The Benefits and Risks of Leveraging

The Trusts may utilize leverage to seek to enhance the distribution rate on, and net asset value (NAV) of, their common shares (Common Shares). However, these objectives cannot be achieved in all interest rate environments.

In general, the concept of leveraging is based on the premise that the financing cost of leverage, which is based on short-term interest rates, is normally lower than the income earned by a Trust on its longer-term portfolio investments purchased with the proceeds from leverage. To the extent that the total assets of the Trusts (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Trusts' shareholders benefit from the incremental net income. The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV.

To illustrate these concepts, assume a Trust's capitalization is \$100 million and it utilizes leverage for an additional \$30 million, creating a total value of \$130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, a Trust's financing costs on the \$30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by a Trust with the proceeds from leverage earn income based on longer-term interest rates. In this case, a Trust's financing cost of leverage is significantly lower than the income earned on a Trust's longer-term investments acquired from such leverage proceeds, and therefore the holders of Common Shares (Common Shareholders) are the beneficiaries of the incremental net income.

However, in order to benefit shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Trusts' return on assets purchased with leverage proceeds, income to shareholders is lower than if the Trusts had not used leverage. Furthermore, the value of the Trusts' portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the value of the Trusts' obligations under their respective leverage arrangements generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Trusts' NAVs positively or negatively. Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Trusts' intended leveraging strategy will be successful.

The use of leverage also generally causes greater changes in each Trust's NAV, market price and dividend rates than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the NAV and market price of a Trust's shares than if the Trust were not leveraged. In addition, each Trust may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Fund to incur losses. The use of leverage may limit a Trust's ability to invest in certain types of securities or use certain types of hedging strategies. Each Trust incurs expenses in connection with the use of leverage, all of which are borne by shareholders and may reduce income to the shareholders. Moreover, to the extent the calculation of the Trusts' investment advisory fees includes assets purchased with the proceeds of leverage, the investment advisory fees payable to the Trusts' investment adviser will be higher than if the Trusts did not use leverage.

Each Trust may utilize leverage through a credit facility or reverse repurchase agreements as described in the Notes to Financial Statements.

Under the Investment Company Act of 1940, as amended (the 1940 Act), each Trust is permitted to issue debt up to 33 1/3% of its total managed assets. A Trust may voluntarily elect to limit its leverage to less than the maximum

amount permitted under the 1940 Act. In addition, a Trust may also be subject to certain asset coverage, leverage or portfolio composition requirements imposed by its credit facility, which may be more stringent than those imposed by the 1940 Act.

If a Trust segregates or designates on its books and records cash or liquid assets having a value not less than the value of a Trust's obligations under the reverse repurchase agreement (including accrued interest) then such transaction is not considered a senior security and is not subject to the foregoing limitations and requirements imposed by the 1940 Act.

Derivative Financial Instruments

The Trusts may invest in various derivative financial instruments. These instruments are used to obtain exposure to a security, commodity, index, market, and/or other assets without owning or taking physical custody of securities, commodities and/or other referenced assets or to manage market, equity, credit, interest rate, foreign currency exchange rate, commodity and/or other risks. Derivative financial instruments may give rise to a form of economic leverage and involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the instrument. The Trusts' successful use of a derivative financial instrument depends on the investment adviser's ability to predict pertinent market movements accurately, which cannot be assured. The use of these instruments may result in losses greater than if they had not been used, may limit the amount of appreciation a Trust can realize on an investment and/or may result in lower distributions paid to shareholders. The Trusts' investments in these instruments, if any, are discussed in detail in the Notes to Financial Statements.

Schedule of Investments (unaudited)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>	<i>Par (000)</i>	<i>Value</i>
Asset-Backed Securities 12.6%		
Asset-Backed Securities 12.5%		
AIMCO CLO, Series 2014-AA, Class DR, (3 mo. LIBOR US + 3.25%), 4.99%, 07/20/26 ^{(a)(b)}	USD 795	\$ 800,519
ALM VI Ltd., Series 2012-6A, Class B2RR, (3 mo. LIBOR US + 2.05%), 3.77%, 07/15/26 ^{(a)(b)}	1,000	1,007,693
ALM XVI Ltd./ALM XVI LLC, Series 2015-16A, Class C2R, (3 mo. LIBOR US + 3.20%), 4.92%, 07/15/27 ^{(a)(b)}	2,080	2,110,925
Anchorage Capital CLO 2013-1 Ltd., Series 2013-1A, Class CR, 4.92%, 10/13/30 ^{(b)(c)}	1,000	1,020,520
Anchorage Capital CLO Ltd. ^{(a)(b)} :		
Series 2016-8A, Class D, (3 mo. LIBOR US + 4.20%), 5.96%, 07/28/28	1,000	1,008,816
Series 2016-9A, Class D, (3 mo. LIBOR US + 4.00%), 5.72%, 01/15/29	650	663,557
Ares XXVIII CLO Ltd., Series 2013-3A, Class DR, (3 mo. LIBOR US + 3.25%), 4.98%, 10/17/24 ^{(a)(b)}	1,000	1,004,590
Ares XXXII CLO Ltd., Series 2014-32A, Class CR, (3 mo. LIBOR US + 3.45%), 5.29%, 11/15/25 ^{(a)(b)}	1,250	1,251,507
Atlas Senior Loan Fund Ltd.(3 mo. LIBOR US + 3.90%), 5.38%, 11/30/28 ^{(a)(b)}	1,250	1,265,162
Ballyrock CLO LLC, Series 2014-1A, Class CR, (3 mo. LIBOR US + 3.65%), 5.39%, 10/20/26 ^{(a)(b)}	1,970	1,970,589
Battalion CLO VII Ltd., Series 2014-7A, Class C, (3 mo. LIBOR US + 3.90%), 5.63%, 10/17/26 ^{(a)(b)}	1,000	1,001,801
Battalion CLO X Ltd., Series 2016-10A, Class C, (3 mo. LIBOR US + 4.25%), 5.99%, 01/24/29 ^{(a)(b)}	1,000	1,022,460
BlueMountain CLO Ltd., Series 2014-3A, Class CR, (3 mo. LIBOR US + 3.20%), 4.92%, 10/15/26 ^{(a)(b)}	1,000	1,005,948
Bowman Park CLO Ltd., Series 2014-1A, Class D2R, (3 mo. LIBOR US + 3.35%), 5.27%, 11/23/25 ^{(a)(b)}	3,000	3,005,155
CenterPoint Energy Transition Bond Co. IV LLC, Series 2012-1, Class A3, 3.03%, 10/15/25	2,210	2,206,513
CIFC Funding Ltd., Series 2014-4A, Class D, (3 mo. LIBOR US + 3.40%), 5.13%, 10/17/26 ^{(a)(b)}	2,000	2,006,855
Countrywide Asset-Backed Certificates, Series 2006-13, Class 3AV2, (1 mo. LIBOR US + 0.15%), 1.77%, 01/25/37 ^(a)	203	202,096
DCP Rights LLC, Series 2014-1A, Class A, 5.46%, 10/25/44 ^(b)	3,819	3,898,041
Dryden 41 Senior Loan Fund, Series 2015-41A, Class AR, 1.00%, 04/15/31 ^{(b)(c)(d)}	2,550	2,550,000
Dryden Senior Loan Fund ^{(a)(b)} :		
Series 2014-31A, Class DR, (3 mo. LIBOR US + 3.35%), 5.08%, 04/18/26	1,250	1,254,190
Series 2014-34A, Class CR, (3 mo. LIBOR US + 2.15%), 3.87%, 10/15/26	1,000	1,000,408
Series 2015-41A, Class A, (3 mo. LIBOR US + 1.50%), 3.22%, 01/15/28	2,550	2,550,896
Dryden XXVIII Senior Loan Fund, Series 2013-28A, Class B1LR, (3 mo. LIBOR US + 3.15%), 4.99%, 08/15/30 ^{(a)(b)}	1,000	1,014,435
	1,000	1,004,476

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Galaxy XIV CLO Ltd., Series 2012-14A, Class DR, (3 mo. LIBOR US + 4.30%), 6.14%, 11/15/26 ^{(a)(b)}			
GoldenTree Loan Opportunities IX Ltd., Series 2014-9A, Class D, 5.26%, 10/29/26 ^(c)	1,000		1,005,735
Highbridge Loan Management 3-2014, Series 3A-2014, Class CR, (3 mo. LIBOR US + 3.60%), 5.33%, 07/18/29 ^{(a)(b)}	1,000		1,023,821
Highbridge Loan Management Ltd., Series 5A-2015 ^{(a)(b)} : Class C1R, (3 mo. LIBOR US + 2.10%), 3.86%, 01/29/26	4,000		4,023,175
Class D1R, (3 mo. LIBOR US + 3.30%), 5.06%, 01/29/26	500		501,169
		<i>Par</i>	
<i>Security</i>		<i>(000)</i>	<i>Value</i>
Asset-Backed Securities (continued)			
Lendmark Funding Trust, Series 2017-2A, Class A, 2.80%, 05/20/26 ^(b)	USD 2,880		\$ 2,864,715
Limerock CLO III LLC, Series 2014-3A, Class C, (3 mo. LIBOR US + 3.60%), 5.34%, 10/20/26 ^{(a)(b)}	3,750		3,764,897
Madison Park Funding XV Ltd., Series 2014-15A, Class B1R, (3 mo. LIBOR US + 2.20%), 3.96%, 01/27/26 ^{(a)(b)}	1,800		1,805,275
Nelnet Student Loan Trust, Series 2006-1, Class A5, (3 mo. LIBOR US + 0.11%), 2.03%, 08/23/27 ^(a)	554		553,294
Neuberger Berman CLO XV, Series 2013-15A, Class DR, 4.77%, 10/15/29 ^{(b)(c)}	1,000		1,006,817
Neuberger Berman CLO XVIII Ltd., Series 2014-18A, Class CR, (3 mo. LIBOR US + 4.25%), 6.08%, 11/14/27 ^{(a)(b)}	2,250		2,284,967
OCP CLO Ltd., Series 2012-2A, Class DR, (3 mo. LIBOR US + 4.47%), 6.37%, 11/22/25 ^{(a)(b)}	1,000		1,016,582
Octagon Investment Partners XXI Ltd., Series 2014-1A, Class C, (3 mo. LIBOR US + 3.65%), 5.48%, 11/14/26 ^{(a)(b)}	2,000		2,001,944
OHA Credit Partners XIII Ltd., Series 2016-13A, Class E, (3 mo. LIBOR US + 7.15%), 8.89%, 01/21/30 ^{(a)(b)}	595		613,457
OHA Loan Funding 2016-1 Ltd., Series 2016-1A, Class D, (3 mo. LIBOR US + 3.75%), 5.49%, 01/20/28 ^{(a)(b)}	2,500		2,548,851
OneMain Financial Issuance Trust, Series 2015-2A, Class C, 4.32%, 07/18/25 ^(b)	5,000		4,996,520
OZLM Funding III Ltd., Series 2013-3A, Class BR, (3 mo. LIBOR US + 3.00%), 4.74%, 01/22/29 ^{(a)(b)}	1,500		1,529,118
OZLM VII Ltd., Series 2014-7A, Class CR, (3 mo. LIBOR US + 3.50%), 5.23%, 07/17/26 ^{(a)(b)}	950		956,055
OZLM VIII Ltd., Series 2014-8A, Class CR, (3 mo. LIBOR US + 3.40%), 5.13%, 10/17/26 ^{(a)(b)}	1,750		1,755,982
OZLM XXI, Series 2017-21A, Class C, 4.42%, 01/20/31 ^{(b)(c)}	1,000		1,005,207
Regatta V Funding Ltd., Series 2014-1A, Class C, (3 mo. LIBOR US + 3.45%), 5.20%, 10/25/26 ^{(a)(b)}	2,000		2,007,823
Rockford Tower CLO Ltd., Series 2017-1A, Class D, (3 mo. LIBOR US + 3.25%), 4.97%, 04/15/29 ^{(a)(b)}	1,750		1,773,955
Shackleton CLO Ltd., Series 2013-3A, Class DR, 4.74%, 07/15/30 ^{(b)(c)}	500		503,358
SLM Private Education Loan Trust ^(b) : Series 2012-A, Class A2, 3.83%, 01/17/45	397		400,217
Series 2014-A, Class B, 3.50%, 11/15/44	500		498,838
SMB Private Education Loan Trust, Series 2015-C, Class C, 4.50%, 09/17/46 ^(b)	5,900		5,932,134
Sound Point CLO IV Ltd., Series 2013-3A, Class DR, (3 mo. LIBOR US + 3.40%), 5.14%, 01/21/26 ^{(a)(b)}	700		701,446
Sound Point CLO VII Ltd., Series 2014-3A, Class D, (3 mo. LIBOR US + 3.60%), 5.34%, 01/23/27 ^{(a)(b)}	1,250		1,255,940
	1,550		1,582,451

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Sound Point CLO XIV Ltd., Series 2016-3A, Class D, (3 mo. LIBOR US + 3.85%), 5.59%, 01/23/29 ^{(a)(b)}		
Structured Asset Securities Corp., Series 2002-AL1, Class A2, 3.45%, 02/25/32	576	570,798
THL Credit Wind River CLO Ltd., Series 2014-3A, Class DR, (3 mo. LIBOR US + 3.35%), 5.09%, 01/22/27 ^{(a)(b)}	1,000	1,002,483
Voya CLO 2017-3 Ltd., Series 2017-3A, Class C, (3 mo. LIBOR US + 3.55%), 5.29%, 07/20/30 ^{(a)(b)}	1,000	1,020,665
Voya CLO Ltd., Series 2016-3A, Class D, (3 mo. LIBOR US + 6.85%), 8.58%, 10/18/27 ^{(a)(b)}	615	630,075
Wellfleet CLO 2015-1 Ltd., Series 2015-1A, Class DR, 4.54%, 10/20/27 ^{(b)(c)}	2,000	2,004,410

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>	<i>Par (000)</i>	<i>Value</i>
Asset-Backed Securities (continued)		
World Financial Network Credit Card Master Trust, Series 2012-C, Class C, 4.55%, 08/15/22	USD 2,360	\$ 2,382,991
York CLO Ltd., Series 2016-1A, Class DR, (3 mo. LIBOR US + 3.60%), 5.34%, 10/20/29 ^{(a)(b)}	1,750	1,789,700
York CLO-4 Ltd., Series 2016-2A, Class D, (3 mo. LIBOR US + 4.10%), 5.84%, 01/20/30 ^{(a)(b)}	1,500	1,545,280
		96,687,297
Interest Only Asset-Backed Securities 0.1%		
Sterling Bank Trust, Series 2004-2, Class Note, 2.08%, 03/30/30 ^{(b)(e)}	2,637	155,331
Sterling Coofs Trust, Series 2004-1, Class A, 2.36%, 04/15/29 ^{(b)(c)(e)}	3,146	165,127
		320,458
Total Asset-Backed Securities 12.6% (Cost \$95,460,142)		97,007,755
 Corporate Bonds 71.4%		
Aerospace & Defense 1.3%		
Arconic, Inc.:		
5.40%, 04/15/21	340	353,600
5.13%, 10/01/24	923	956,459
5.90%, 02/01/27	70	75,250
6.75%, 01/15/28	38	43,320
5.95%, 02/01/37	30	32,028
Bombardier, Inc. ^(b) :		
7.75%, 03/15/20	122	130,235
8.75%, 12/01/21	459	503,179
6.00%, 10/15/22	13	12,968
6.13%, 01/15/23	198	198,495
7.50%, 12/01/24	414	430,042
7.50%, 03/15/25	602	617,802
7.45%, 05/01/34	100	102,000
Eaton Corp., 4.15%, 11/02/42	500	492,383
EnPro Industries, Inc., 5.88%, 09/15/22	74	76,705
KLX, Inc., 5.88%, 12/01/22 ^(b)	800	824,000
Koppers, Inc., 6.00%, 02/15/25 ^(b)	151	156,285
Kratos Defense & Security Solutions, Inc., 6.50%, 11/30/25 ^(b)	114	118,845
Lockheed Martin Corp., 4.09%, 09/15/52	1,410	1,371,345
Moog, Inc., 5.25%, 12/01/22 ^(b)	180	185,400

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Pioneer Holdings LLC/Pioneer Finance Corp., 9.00%, 11/01/22 ^(b)		116	122,090
TransDigm, Inc.:			
6.00%, 07/15/22		758	776,002
6.50%, 07/15/24		191	196,969
6.50%, 05/15/25		132	135,300
6.38%, 06/15/26		70	71,575
United Technologies Corp., 6.13%, 07/15/38		1,450	1,793,464
			9,775,741
Air Freight & Logistics 0.2%			
Air Medical Merger Sub Corp., 6.38%, 05/15/23 ^(b)		60	57,000
FedEx Corp., 4.75%, 11/15/45		1,250	1,299,008
XPO Logistics, Inc., 6.50%, 06/15/22 ^(b)		495	514,181
			1,870,189
Airlines 2.2%			
Air Canada Pass-Through Trust, Series 2015-1, Class B, 3.88%, 09/15/24 ^(b)		1,710	1,705,240
American Airlines Pass-Through Trust:			
Series 2013-2, Class A, 4.95%, 07/15/24 ^(f)		3,288	3,445,360
Series 2015-2, Class A, 4.00%, 03/22/29		1,393	1,405,668
		<i>Par</i>	<i>Value</i>
<i>Security</i>		<i>(000)</i>	
Airlines (continued)			
Series 2015-2, Class AA, 3.60%, 03/22/29	USD	1,393	\$ 1,383,296
Series 2017-1, Class B, 4.95%, 08/15/26		1,797	1,857,324
Avianca Holdings SA/Avianca Leasing LLC/Grupo Taca Holdings Ltd., 8.38%, 05/10/20		302	308,040
Continental Airlines Pass-Through Trust:			
Series 2010-1, Class B, 6.00%, 07/12/20		227	232,007
Series 2012-3, Class C, 6.13%, 04/29/18		150	150,938
Latam Finance Ltd., 6.88%, 04/11/24 ^(b)		257	269,850
Mexico City Airport Trust, 5.50%, 07/31/47 ^(b)		260	242,775
United Airlines Pass-Through Trust:			
Series 2013-1, Class A, 4.30%, 02/15/27		3,310	3,413,047
Series 2014-2, Class B, 4.63%, 03/03/24		2,231	2,275,992
			16,689,537
Auto Components 0.3%			
Adient Global Holdings Ltd., 3.50%, 08/15/24	EUR	100	125,050
Allison Transmission, Inc., 5.00%, 10/01/24 ^(b)	USD	19	19,261
Aptiv PLC, 4.40%, 10/01/46		465	451,300
Gestamp Funding Luxembourg SA, 3.50%, 05/15/23	EUR	100	127,033
HP Pelzer Holding GmbH, 4.13%, 04/01/24		100	124,257
Icahn Enterprises LP/Icahn Enterprises Finance Corp.:			
6.00%, 08/01/20	USD	20	20,390
6.25%, 02/01/22		347	352,205
6.75%, 02/01/24		237	241,740
6.38%, 12/15/25		106	106,397
IHO Verwaltungs GmbH ^(g) :			
(2.75% Cash or 3.50% PIK), 2.75%, 09/15/21	EUR	100	124,269
(3.25% Cash or 4.00% PIK), 3.25%, 09/15/23		100	126,026

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(4.13% Cash or 4.88% PIK), 4.13%, 09/15/21 ^(b)	USD	200	199,500
(4.50% Cash or 5.25% PIK), 4.50%, 09/15/23 ^(b)		205	200,900
Tesla, Inc., 5.30%, 08/15/25 ^{(b)(f)}		360	341,658
			2,559,986
Automobiles 0.9%			
Ford Motor Co., 4.75%, 01/15/43 ^(f)		4,255	3,927,517
General Motors Co., 6.25%, 10/02/43		2,506	2,799,247
			6,726,764
Banks 1.8%			
Allied Irish Banks PLC(5 year EUR Swap + 3.95%), 4.13%, 11/26/25 ^(h)	EUR	100	131,707
Banco Inbursa SA Institucion de Banca Multiple, 4.13%, 06/06/24 ^(b)	USD	255	252,705
Banco Popolare, 2.75%, 07/27/20	EUR	100	127,316
Bank of Ireland Group PLC, 3.13%, 09/19/27 ^(c)	GBP	100	135,988
Bankia SA(5 year EUR Swap + 3.17%), 4.00%, 05/22/24 ^(h)	EUR	100	126,673
Barclays PLC, 3.65%, 03/16/25 ^(f)	USD	4,320	4,154,700
CaixaBank SA(5 year EUR Swap + 3.35%), 3.50%, 02/15/27 ^(h)	EUR	100	130,169
CIT Group, Inc., 5.00%, 08/01/23	USD	375	385,313
Cooperatieve Rabobank UA, 3.95%, 11/09/22		1,500	1,522,380
HSBC Holdings PLC, 6.10%, 01/14/42		610	786,606
Inversiones Atlantida SA, 8.25%, 07/28/22 ^(b)		200	204,750
National Bank of Greece SA, 2.75%, 10/19/20	EUR	100	124,783
Santander Holdings USA, Inc., 4.50%, 07/17/25	USD	2,000	2,028,495
Santander UK Group Holdings PLC, 2.88%, 08/05/21		1,250	1,223,963
Wells Fargo & Co., 3.90%, 05/01/45 ^(f)		2,250	2,163,463
			13,499,011
Beverages 0.7%			
Anheuser-Busch InBev Finance, Inc., 4.90%, 02/01/46		4,600	4,905,614

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Beverages (continued)			
BWAY Holding Co., 7.25%, 04/15/25 ^(b)	USD	78	\$ 80,535
Central American Bottling Corp., 5.75%, 01/31/27 ^(b)		222	228,660
OI European Group BV, 4.00%, 03/15/23 ^(b)		158	152,865
Silgan Holdings, Inc., 3.25%, 03/15/25	EUR	100	124,416
			5,492,090
Biotechnology 0.5%			
Amgen, Inc., 4.40%, 05/01/45 ^(f)	USD	2,250	2,232,291
Baxalta, Inc., 5.25%, 06/23/45		500	538,807
Gilead Sciences, Inc., 4.80%, 04/01/44		1,000	1,060,719
Illumina, Inc., 0.50%, 06/15/21		215	257,677
Senvion Holding GmbH, 3.88%, 10/25/22	EUR	100	112,850
			4,202,344
Building Materials 0.0%			
American Woodmark Corp., Co. GUAR 144A 03/26 4.875, 4.88%, 03/15/26 ^(b)	USD	69	68,483
Jeld-Wen, Inc., 4.63%, 12/15/25 ^(b)		66	64,515
Titan Global Finance PLC, 3.50%, 06/17/21	EUR	100	129,015
			262,013
Building Products 0.2%			
Beacon Escrow Corp., 4.88%, 11/01/25 ^(b)	USD	288	280,886
Building Materials Corp. of America, 6.00%, 10/15/25 ^(b)		200	211,250
CPG Merger Sub LLC, 8.00%, 10/01/21 ^(b)		218	224,540
Masonite International Corp., 5.63%, 03/15/23 ^(b)		354	365,948
Ply Gem Industries, Inc., 6.50%, 02/01/22		147	152,377
Standard Industries, Inc. ^(b) : 5.50%, 02/15/23		100	102,750
5.38%, 11/15/24		29	29,653
USG Corp., 4.88%, 06/01/27 ^(b)		273	268,905
			1,636,309
Building: Roofing, Wallboard & Plumbing 0.0%			
Quintiles IMS, Inc., 4.88%, 05/15/23 ^(b)		74	76,035
Cable Television Services 0.0%			
CB Escrow Corp., 8.00%, 10/15/25 ^(b)		127	124,143
Capital Markets 2.8%			
Blackstone CQP Holdco LP ^(b) : 6.50%, 03/20/21		1,375	1,387,031

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6.00%, 08/18/21	224	225,064
CDP Financial, Inc., 5.60%, 11/25/39 ^{(b)(f)}	5,890	7,480,621
Goldman Sachs Group, Inc., 3.75%, 05/22/25 ^(f)	8,965	8,930,014
Morgan Stanley:		
4.00%, 07/23/25	905	916,639
3.13%, 07/27/26 ^(f)	2,000	1,899,370
NFP Corp., 6.88%, 07/15/25 ^(b)	62	62,155
Raymond James Financial, Inc., 4.95%, 07/15/46	400	433,761
SURA Asset Management SA, 4.38%, 04/11/27 ^(b)	259	255,763
		21,590,418
Chemicals 1.2%		
Air Liquide Finance SA, 3.50%, 09/27/46 ^(b)	360	327,455
Alpha 3 BV/Alpha US Bidco, Inc., 6.25%, 02/01/25 ^(b)	600	603,000
Axalta Coating Systems LLC, 4.88%, 08/15/24 ^(b)	161	161,805
Blue Cube Spinco, Inc.:		
9.75%, 10/15/23	319	370,040
10.00%, 10/15/25	183	218,227
CF Industries, Inc.:		
7.13%, 05/01/20	38	40,518
5.15%, 03/15/34	60	58,800
4.95%, 06/01/43	116	105,560
Chemours Co.:		
6.63%, 05/15/23	182	191,328
	<i>Par</i>	<i>Value</i>
<i>Security</i>	<i>(000)</i>	
Chemicals (continued)		
7.00%, 05/15/25	USD 44	\$ 47,410
5.38%, 05/15/27	390	390,975
Cydsa SAB de C.V., 6.25%, 10/04/27 ^(b)	319	318,601
Hexion, Inc., 10.38%, 02/01/22 ^(b)	122	118,950
Ineos Finance PLC, 4.00%, 05/01/23	EUR 100	125,045
Methanex Corp., 3.25%, 12/15/19	USD 1,650	1,647,357
Mexichem SAB de CV ^(b) :		
4.00%, 10/04/27	200	191,500
5.50%, 01/15/48	200	190,300
Momentive Performance Materials, Inc., 3.88%, 10/24/21	735	764,400
NOVA Chemicals Corp., 4.88%, 06/01/24 ^(b)	183	180,713
Olin Corp., 5.00%, 02/01/30	82	79,130
Platform Specialty Products Corp. ^(b) :		
6.50%, 02/01/22	1,265	1,298,206
5.88%, 12/01/25	446	443,770
PQ Corp. ^(b) :		
6.75%, 11/15/22	251	264,805
5.75%, 12/15/25	289	293,335
PSPC Escrow Corp., 6.00%, 02/01/23	EUR 100	127,185
Tronox Finance PLC, 5.75%, 10/01/25 ^(b)	USD 123	122,078
Venator Finance Sarl/Venator Materials LLC, 5.75%, 07/15/25 ^(b)	100	101,750
Versum Materials, Inc., 5.50%, 09/30/24 ^(b)	81	84,645
WR Grace & Co-Conn ^(b) :		
5.13%, 10/01/21	333	344,655

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5.63%, 10/01/24	80	84,000
		9,295,543
Commercial Services & Supplies 0.8%		
ADT Corp.:		
6.25%, 10/15/21	86	91,321
3.50%, 07/15/22	143	136,565
4.13%, 06/15/23	264	256,740
4.88%, 07/15/32 ^(b)	337	306,670
Advanced Disposal Services, Inc.,		
5.63%, 11/15/24 ^(b)	151	154,020
Aviation Capital Group Corp., 7.13%, 10/15/20 ^(b)	1,800	1,975,735
Booz Allen Hamilton, Inc., 5.13%, 05/01/25 ^(b)	388	385,090
CD&R Waterworks Merger Sub LLC,		
6.13%, 08/15/25 ^(b)	291	288,090
Fortress Transportation & Infrastructure Investors LLC, 6.75%, 03/15/22 ^(b)	28	28,840
Harland Clarke Holdings Corp., 8.38%, 08/15/22 ^(b)	284	293,940
Iron Mountain, Inc., 6.00%, 08/15/23	80	82,800
KAR Auction Services, Inc., 5.13%, 06/01/25 ^(b)	200	201,500
Mobile Mini, Inc., 5.88%, 07/01/24	343	356,720
Paprec Holding SA, 5.25%, 04/01/22	EUR 100	125,077
Park Aerospace Holdings Ltd. ^(b) :		
3.63%, 03/15/21	USD 166	159,775
5.25%, 08/15/22	267	267,334
Ritchie Bros Auctioneers, Inc., 5.38%, 01/15/25 ^(b)	226	228,554
United Rentals North America, Inc.:		
5.75%, 11/15/24	46	47,495
4.63%, 10/15/25	342	333,450
5.88%, 09/15/26	77	80,657
5.50%, 05/15/27	111	113,608
Wrangler Buyer Corp., 6.00%, 10/01/25 ^(b)	79	79,988
		5,993,969
Commercial Services & Supplies 0.0%		
Waste Pro USA, Inc., 5.50%, 02/15/26 ^(b)	134	134,670
Communications Equipment 0.3%		
CommScope Technologies LLC, 5.00%, 03/15/27 ^(b)	114	111,221

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

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(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Communications Equipment (continued)			
CommScope, Inc. ^(b) :			
5.00%, 06/15/21	USD	250	\$ 253,437
5.50%, 06/15/24		154	156,888
Nokia OYJ:			
3.38%, 06/12/22		72	70,013
4.38%, 06/12/27		101	96,960
6.63%, 05/15/39		135	145,800
Zayo Group LLC/Zayo Capital, Inc.:			
6.00%, 04/01/23		776	806,070
6.38%, 05/15/25		108	112,873
5.75%, 01/15/27 ^(b)		421	423,105
			2,176,367
Construction & Engineering 0.8%			
Aeropuertos Argentina 2000 SA, 6.88%, 02/01/27 ^(b)		370	385,858
Aeropuertos Dominicanos Siglo XXI SA, 6.75%, 03/30/29 ^(b)		370	404,225
BlueLine Rental Finance Corp., 9.25%, 03/15/24 ^(b)		798	862,837
Brand Energy & Infrastructure Services, Inc., 8.50%, 07/15/25 ^(b)		244	251,930
Engility Corp., 8.88%, 09/01/24		176	186,560
ITR Concession Co. LLC, 4.20%, 07/15/25 ^(b)		4,000	3,695,387
SPIE SA, 3.13%, 03/22/24	EUR	100	125,975
Tutor Perini Corp., 6.88%, 05/01/25 ^(b)	USD	154	161,700
Weekley Homes LLC/Weekley Finance Corp., 6.63%, 08/15/25 ^(b)		51	50,985
			6,125,457
Construction Materials 0.3%			
American Tire Distributors, Inc., 10.25%, 03/01/22 ^(b)		262	272,839
HD Supply, Inc., 5.75%, 04/15/24 ^(b)		1,364	1,430,495
Navistar International Corp., 6.63%, 11/01/25 ^(b)		192	197,760
New Enterprise Stone & Lime Co., Inc., 10.13%, 04/01/22 ^(b)		108	117,045
PulteGroup, Inc.:			
5.50%, 03/01/26		17	17,276
6.00%, 02/15/35		27	27,675
Rexel SA, 3.50%, 06/15/23	EUR	100	127,850
Williams Scotsman International, Inc., 7.88%, 12/15/22 ^(b)	USD	78	81,705
			2,272,645
Consumer Discretionary 0.1%			
Arch Merger Sub, Inc., 8.50%, 09/15/25 ^(b)		130	124,800
Elis SA, 1.88%, 02/15/23	EUR	100	123,068
Nielsen Co. Luxembourg SARL, 5.00%, 02/01/25 ^(b)	USD	30	29,953
ServiceMaster Co. LLC, 5.13%, 11/15/24 ^(b)		168	165,480

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Viking Cruises Ltd. ^(b) :			
6.25%, 05/15/25		95	96,425
5.88%, 09/15/27		382	372,450
			912,176
Consumer Finance 1.9%			
Ally Financial, Inc., 8.00%, 11/01/31		946	1,173,040
Capital One Financial Corp., 4.75%, 07/15/21 ^(f)		1,935	2,027,651
CDK Global, Inc., 4.88%, 06/01/27 ^(b)		209	207,370
Corivas Campus Living USG LLC, 5.30%, 07/01/50 ^(e)		5,700	5,700,980
Credivalores-Crediservicios SAS, 9.75%, 07/27/22 ^(b)		200	205,000
Ford Motor Credit Co. LLC ^(f) :			
8.13%, 01/15/20		1,530	1,663,605
4.25%, 09/20/22		1,600	1,629,978
IHS Markit Ltd. ^(b) :			
4.75%, 02/15/25		156	159,510
4.00%, 03/01/26		86	83,420
		<i>Par</i>	
<i>Security</i>		<i>(000)</i>	<i>Value</i>
Consumer Finance (continued)			
Navient Corp.:			
5.00%, 10/26/20	USD	180	\$ 181,125
6.63%, 07/26/21		99	103,455
6.50%, 06/15/22		159	165,757
5.50%, 01/25/23		280	277,200
7.25%, 09/25/23		173	183,812
6.13%, 03/25/24		21	21,210
5.88%, 10/25/24		56	55,440
6.75%, 06/25/25		112	114,974
5.63%, 08/01/33		101	89,890
OneMain Financial Holdings LLC, 7.25%, 12/15/21 ^(b)		152	157,909
Springleaf Finance Corp.:			
6.13%, 05/15/22		50	51,250
5.63%, 03/15/23		78	77,220
			14,329,796
Containers & Packaging 0.9%			
Ardagh Packaging Finance PLC/Ardagh Holdings USA, Inc.:			
4.25%, 09/15/22 ^(b)		200	199,250
4.63%, 05/15/23 ^(b)		271	270,661
6.75%, 05/15/24	EUR	100	133,133
7.25%, 05/15/24 ^(b)	USD	1,475	1,580,094
6.00%, 02/15/25 ^(b)		2	2,050
4.75%, 07/15/27	GBP	100	133,870
Ball Corp.:			
5.00%, 03/15/22	USD	141	146,287
4.00%, 11/15/23		256	253,440

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BWAY Holding Co., 5.50%, 04/15/24 ^(b)		529	540,902
Crown Americas LLC/Crown Americas Capital Corp. V, 4.25%, 09/30/26		75	71,062
JH-Holding Finance SA, (8.25% PIK), 8.25%, 12/01/22 ^(g)	EUR	100	128,787
Mercer International, Inc.:			
7.75%, 12/01/22	USD	29	30,668
6.50%, 02/01/24		76	79,610
5.50%, 01/15/26 ^(b)		83	82,585
Reynolds Group Issuer, Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer Lu:			
5.75%, 10/15/20		188	190,827
6.88%, 02/15/21		163	164,908
(3 mo. LIBOR US + 3.50%),			
5.22%, 07/15/21 ^{(a)(b)}		352	355,960
5.13%, 07/15/23 ^(b)		161	164,019
7.00%, 07/15/24 ^(b)		851	896,209
Sappi Papier Holding GmbH, 4.00%, 04/01/23	EUR	100	127,045
Sealed Air Corp., 4.88%, 12/01/22 ^(b)	USD	533	548,990
Signode Industrial Group Lux SA/Signode Industrial Group US, Inc., 6.38%, 05/01/22 ^(b)		389	402,615
Verallia Packaging SASU, 5.13%, 08/01/22	EUR	100	126,280
			6,629,252
Diversified Consumer Services 0.3%			
APX Group, Inc.:			
6.38%, 12/01/19	USD	21	21,315
8.75%, 12/01/20		184	185,380
7.88%, 12/01/22		121	127,504
Ascend Learning LLC, 6.88%, 08/01/25 ^(b)		212	218,360
GW Honos Security Corp., 8.75%, 05/15/25 ^(b)		58	62,422
Laureate Education, Inc., 8.25%, 05/01/25 ^(b)		210	223,650
Matthews International Corp., 5.25%, 12/01/25 ^(b)		44	44,110
Prime Security Services Borrower LLC/Prime Finance, Inc., 9.25%, 05/15/23 ^(b)		1,127	1,227,021

SCHEDULES OF INVESTMENTS

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Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

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(Percentages shown are based on Net Assets)

<i>Security</i>	<i>Par (000)</i>	<i>Value</i>
Diversified Consumer Services (continued)		
RBS Global, Inc./Rexnord LLC, 4.88%, 12/15/25 ^(b)	USD 153	\$ 150,705
		2,260,467
Diversified Financial Services 3.9%		
Aircastle Ltd.:		
6.25%, 12/01/19	353	367,561
5.50%, 02/15/22	48	49,920
Banca IFIS SpA, 4.50%, 10/17/27 ^(c)	EUR 100	123,983
Bank of America Corp.:		
5.63%, 07/01/20	USD 2,200	2,333,766
3.25%, 10/21/27 ^(f)	5,500	5,227,559
Docuformas SAPI de C.V., 9.25%, 10/11/22 ^(b)	200	191,500
DPL, Inc., 7.25%, 10/15/21	21	22,890
FBM Finance, Inc., 8.25%, 08/15/21 ^(b)	185	195,175
FMR LLC, 4.95%, 02/01/33 ^{(b)(f)}	2,300	2,522,118
General Electric Co., 6.15%, 08/07/37 ^(f)	2,150	2,583,594
General Motors Financial Co., Inc., 4.25%, 05/15/23	807	822,796
IntercontinentalExchange Group, Inc., 4.00%, 10/15/23	470	485,983
Intesa Sanpaolo SpA, 5.02%, 06/26/24 ^{(b)(f)}	3,151	3,144,125
Intrum Justitia AB, 2.75%, 07/15/22	EUR 100	119,867
Jefferies Finance LLC/JFIN Co-Issuer Corp., 7.38%, 04/01/20 ^(b)	USD 595	602,146
LHC3 PLC, (4.13% Cash or 4.88% PIK), 4.13%, 08/15/24 ^(g)	EUR 100	123,854
Mercury Bondco PLC, (8.25% Cash or 9.00% PIK), 8.25%, 05/30/21 ^(g)	100	127,710
Moody's Corp., 4.50%, 09/01/22	USD 1,800	1,881,458
Northern Trust Corp., 3.95%, 10/30/25 ^(f)	8,000	8,221,541
SPARC EM SPC Panama Metro Line 2 SP, 0.00%, 12/05/22 ^(b)	280	255,150
Tempo Acquisition LLC/Tempo Acquisition Finance Corp., 6.75%, 06/01/25 ^(b)	345	347,587
UniCredit SpA(5 year EUR Swap + 4.10%), 5.75%, 10/28/25 ^(h)	EUR 107	144,768
Vantiv LLC/Vanity Issuer Corp. ^(b) :		
3.88%, 11/15/25	GBP 100	136,314
4.38%, 11/15/25	USD 200	193,750
WMG Acquisition Corp., 5.50%, 04/15/26 ^(b)	84	84,000
		30,309,115
Diversified Telecommunication Services 3.6%		
AT&T, Inc. ^(f) :		
6.38%, 03/01/41	520	606,846
5.15%, 03/15/42	2,400	2,426,054
4.75%, 05/15/46	2,710	2,567,613
CenturyLink, Inc.:		
Series P, 7.60%, 09/15/39	7	6,108
Series S, 6.45%, 06/15/21	383	391,618

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Series T, 5.80%, 03/15/22		172		169,635
Series U, 7.65%, 03/15/42		138		120,060
Series W, 6.75%, 12/01/23 ^(f)		163		160,555
Cincinnati Bell, Inc., 7.00%, 07/15/24 ^(b)		271		257,450
Frontier Communications Corp.:				
7.13%, 03/15/19		220		223,850
7.13%, 01/15/23		113		75,286
7.63%, 04/15/24		89		56,515
6.88%, 01/15/25		802		489,220
11.00%, 09/15/25		71		55,646
Level 3 Financing, Inc.:				
5.38%, 08/15/22		127		128,270
5.63%, 02/01/23		254		256,540
5.13%, 05/01/23		95		95,000
5.38%, 01/15/24		114		113,430
			<i>Par</i>	
			<i>(000)</i>	<i>Value</i>
<i>Security</i>				
Diversified Telecommunication Services (continued)				
5.38%, 05/01/25	USD	123	\$	122,078
5.25%, 03/15/26		835		803,679
OTE PLC, 3.50%, 07/09/20	EUR	100		129,015
Qwest Corp., 6.75%, 12/01/21	USD	90		96,110
SoftBank Group Corp.:				
(5 year USD ICE Swap + 4.85%), 6.88% ^{(h)(i)}		215		212,173
4.75%, 09/19/24		200		194,053
Telecom Italia Capital SA:				
6.38%, 11/15/33		229		250,755
6.00%, 09/30/34		252		263,970
7.20%, 07/18/36		202		236,340
7.72%, 06/04/38		48		58,800
Telecom Italia SpA:				
1.13%, 03/26/22 ⁽ⁱ⁾	EUR	100		120,170
3.63%, 01/19/24		200		268,504
Verizon Communications, Inc. ^(f) :				
6.40%, 02/15/38	USD	6,879		8,220,510
6.55%, 09/15/43		6,751		8,399,383
				27,575,236
Electric Utilities 6.2%				
Berkshire Hathaway Energy Co., 6.50%, 09/15/37 ^(f)		5,515		7,292,793
Black Hills Corp., 3.15%, 01/15/27		405		383,415
Celeo Redes Operacion Chile SA, 5.20%, 06/22/47 ^(b)		299		299,000
Cleveland Electric Illuminating Co., 5.95%, 12/15/36		434		520,350
CMS Energy Corp., 5.05%, 03/15/22 ^(f)		1,832		1,941,684
Duke Energy Carolinas LLC:				
6.10%, 06/01/37		640		798,231
6.00%, 01/15/38		1,675		2,146,856
4.25%, 12/15/41		750		785,095
Duke Energy Florida LLC, 6.40%, 06/15/38		770		1,020,966
E.ON International Finance BV, 6.65%, 04/30/38 ^(b)		3,100		3,901,288

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Electricite de France SA, 5.60%, 01/27/40 ^{(b)(f)}		2,800	3,253,785
Enel Finance International NV, 3.63%, 05/25/27 ^(b)		1,250	1,200,943
Energuate Trust, 5.88%, 05/03/27 ^(b)		201	204,015
Florida Power Corp., 6.35%, 09/15/37 ^(f)		2,775	3,666,779
Jersey Central Power & Light Co., 7.35%, 02/01/19		490	509,279
NextEra Energy Operating Partners LP, 4.25%, 09/15/24 ^(b)		128	126,240
Ohio Power Co., Series D, 6.60%, 03/01/33 ^(f)		3,000	3,929,029
PacifiCorp, 6.25%, 10/15/37 ^(f)		1,225	1,589,732
Pampa Energia SA, 7.50%, 01/24/27 ^(b)		367	384,432
Public Service Co. of Colorado, Series 17, 6.25%, 09/01/37 ^(f)		2,550	3,304,623
Southern California Edison Co.: 5.63%, 02/01/36 ^(f)		1,300	1,557,568
Series A, 5.95%, 02/01/38		2,175	2,741,108
Southern Co., 4.40%, 07/01/46		1,000	1,003,618
Talen Energy Supply LLC, 6.50%, 06/01/25		125	96,562
Virginia Electric & Power Co., Series A, 6.00%, 05/15/37		3,920	4,901,913
			47,559,304
Electrical Equipment 0.0%			
Anixter, Inc., 5.63%, 05/01/19		35	35,744
Areva SA, 4.88%, 09/23/24	EUR	50	67,530
			103,274
Electronic Equipment, Instruments & Components 0.4%			
CDW LLC/CDW Finance Corp.:			
5.00%, 09/01/23	USD	134	136,010
5.50%, 12/01/24		458	478,610
5.00%, 09/01/25		72	72,540
Corning, Inc., 4.38%, 11/15/57		2,000	1,872,291

Schedule of Investments (unaudited) (continued)

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(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Electronic Equipment, Instruments & Components (continued)			
Itron, Inc., 5.00%, 01/15/26 ^(b)	USD	18	\$ 17,910
SESI LLC, 7.75%, 09/15/24 ^(b)		140	145,600
			2,722,961
Energy Equipment & Services 0.6%			
Ensco PLC, 5.20%, 03/15/25		25	20,750
Enterprise Products Operating LLC, 6.13%, 10/15/39 ^(f)		1,400	1,689,339
Gates Global LLC/Gates Global Co., 6.00%, 07/15/22 ^(b)		238	242,165
Halliburton Co., 5.00%, 11/15/45		500	540,545
Noble Holding International Ltd., 7.70%, 04/01/25		155	138,725
Oceaneering International, Inc., 6.00%, 02/01/28		151	148,825
Pattern Energy Group, Inc., 5.88%, 02/01/24 ^(b)		148	152,410
Pioneer Energy Services Corp., 6.13%, 03/15/22		133	120,199
Precision Drilling Corp.:			
6.50%, 12/15/21		48	48,840
5.25%, 11/15/24		90	85,725
Transocean, Inc.:			
5.80%, 10/15/22		256	248,359
9.00%, 07/15/23 ^(b)		501	541,080
6.80%, 03/15/38		17	13,685
Trinidad Drilling Ltd., 6.63%, 02/15/25 ^(b)		243	234,799
Weatherford International Ltd.:			
7.75%, 06/15/21		185	184,306
8.25%, 06/15/23		55	53,350
9.88%, 02/15/24		307	303,930
			4,767,032
Environmental, Maintenance, & Security Service 0.0%			
Tervita Escrow Corp., 7.63%, 12/01/21 ^(b)		276	277,380
Food & Staples Retailing 0.5%			
Albertsons Cos. LLC/Safeway, Inc./New Albertsons, Inc./Albertsons LLC:			
6.63%, 06/15/24		124	114,235
5.75%, 03/15/25		68	59,500
Casino Guichard Perrachon SA, 4.56%, 01/25/23	EUR	100	135,196
CVS Health Corp., 5.13%, 07/20/45	USD	2,000	2,089,603
Rite Aid Corp., 6.13%, 04/01/23 ^(b)		164	164,820
Walgreens Boots Alliance, Inc., 4.80%, 11/18/44		1,000	999,452
			3,562,806

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Food Products 0.4%

Acosta, Inc., 7.75%, 10/01/22 ^(b)	144	102,960
Aramark Services, Inc., 4.75%, 06/01/26	151	149,113
Arcor SAIC, 6.00%, 07/06/23 ^(b)	228	236,026
B&G Foods, Inc., 5.25%, 04/01/25	96	92,400
Chobani LLC/Chobani Finance Corp., Inc., 7.50%, 04/15/25 ^(b)	267	278,347
JBS USA LLC/JBS USA Finance, Inc. ^(b) : 5.88%, 07/15/24	66	64,363
5.75%, 06/15/25	485	463,175
MARB BondCo PLC, 7.00%, 03/15/24	200	196,702
Marfrig Holdings Europe BV, 8.00%, 06/08/23 ^(b)	222	229,104
Minerva Luxembourg SA, 6.50%, 09/20/26 ^(b)	222	220,335
Pilgrim s Pride Corp ^(b) : 5.75%, 03/15/25	167	166,165
5.88%, 09/30/27	144	140,011
Post Holdings, Inc. ^(b) : 5.50%, 03/01/25	71	71,444
5.00%, 08/15/26	126	119,700
5.75%, 03/01/27	416	410,800
5.63%, 01/15/28	51	49,661

2,990,306

Security

Par
(000) *Value*

Forest Products 0.0%

JBS USA LUX SA/JBS USA Finance, Inc., 6.75%, 02/15/28 ^(b)	USD	205	\$	202,991
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Health Care Equipment & Supplies 0.5%

Avantor, Inc. ^(b) : 6.00%, 10/01/24	1,115	1,115,000
9.00%, 10/01/25	289	289,723
Crimson Merger Sub, Inc., 6.63%, 05/15/22 ^(b)	801	794,992
DJO Finco, Inc./DJO Finance LLC/DJO Finance Corp., 8.13%, 06/15/21 ^(b)	580	562,600
Mallinckrodt International Finance SA/Mallinckrodt CB LLC ^(b) : 5.75%, 08/01/22	12	10,620
5.63%, 10/15/23	142	117,505
5.50%, 04/15/25	308	243,320
Medtronic, Inc., 4.50%, 03/15/42	750	786,207
Teleflex, Inc., 5.25%, 06/15/24	170	174,250

4,094,217

Health Care Providers & Services 1.5%

Acadia Healthcare Co., Inc.: 5.63%, 02/15/23	95	97,465
6.50%, 03/01/24	258	266,385
Aetna, Inc., 4.50%, 05/15/42	575	564,821
Amsurg Corp., 5.63%, 07/15/22	245	248,981
Centene Corp.: 5.63%, 02/15/21	227	232,391

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6.13%, 02/15/24	359	376,950
CHS/Community Health Systems, Inc.:		
8.00%, 11/15/19	118	110,980
5.13%, 08/01/21	39	35,978
6.25%, 03/31/23	123	111,930
DaVita, Inc., 5.13%, 07/15/24	187	185,714
Eagle Holding Co. II LLC, (7.63% Cash or 8.38% PIK), 7.63%, 05/15/22 ^{(b)(g)}	177	177,002
Envision Healthcare Corp. ^(b) :		
5.13%, 07/01/22	163	164,223
6.25%, 12/01/24	68	71,570
HCA, Inc.:		
6.50%, 02/15/20	824	869,320
5.88%, 03/15/22	63	66,780
4.75%, 05/01/23	562	571,835
5.00%, 03/15/24	469	477,794
5.38%, 02/01/25	516	524,550
5.25%, 04/15/25	364	374,010
5.88%, 02/15/26	335	346,725
5.25%, 06/15/26	323	331,075
4.50%, 02/15/27	157	153,271
5.50%, 06/15/47	585	577,687
HealthSouth Corp., 5.75%, 11/01/24	26	26,260
MEDNAX, Inc., 5.25%, 12/01/23 ^(b)	90	92,138
Molina Healthcare, Inc., 4.88%, 06/15/25 ^(b)	71	67,983
MPH Acquisition Holdings LLC, 7.13%, 06/01/24 ^(b)	353	371,533
Northwell Healthcare, Inc., 4.26%, 11/01/47	725	706,944
Polaris Intermediate Corp., (8.50% Cash), 8.50%, 12/01/22 ^{(b)(g)}	510	520,200
RegionalCare Hospital Partners Holdings, Inc., 8.25%, 05/01/23 ^(b)	97	101,850
Sterigenics-Nordion Holdings LLC,		
6.50%, 05/15/23 ^(b)	95	96,425
Surgery Center Holdings, Inc. ^(b) :		
8.88%, 04/15/21	98	101,675
6.75%, 07/01/25 ^(f)	183	172,020
Tenet Healthcare Corp.:		
6.00%, 10/01/20	261	271,437

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>		<i>Value</i>
Health Care Providers & Services (continued)				
7.50%, 01/01/22 ^(b)	USD	118	\$	124,490
8.13%, 04/01/22		947		999,085
6.75%, 06/15/23 ^(f)		302		302,000
4.63%, 07/15/24 ^(b)		126		120,960
THC Escrow Corp. III ^(b) :				
5.13%, 05/01/25		424		411,280
7.00%, 08/01/25		56		55,860
Vizient, Inc., 10.38%, 03/01/24 ^(b)		228		255,360
WellCare Health Plans, Inc., 5.25%, 04/01/25		58		58,703
				11,793,640
Health Care Technology 0.0%				
Change Healthcare Holdings LLC/Change Healthcare Finance, Inc., 5.75%, 03/01/25 ^(b)		147		147,000
Quintiles IMS, Inc., 3.25%, 03/15/25 ^(b)	EUR	100		123,075
				270,075
Hotels, Restaurants & Leisure 2.8%				
Arcos Dorados Holdings, Inc., 5.88%, 04/04/27 ^(b)	USD	257		263,592
Burger King France SAS(3 mo. Euribor + 5.25%), 5.25%, 05/01/23 ^(a)	EUR	100		124,299
Codere Finance 2 Luxembourg SA, 6.75%, 11/01/21		100		127,130
CPUK Finance Ltd., 4.25%, 02/28/47	GBP	100		139,059
CRC Escrow Issuer LLC/CRC Finco, Inc., 5.25%, 10/15/25 ^(b)	USD	249		243,398
Eldorado Resorts, Inc., 6.00%, 04/01/25		77		79,310
ESH Hospitality, Inc., 5.25%, 05/01/25 ^(b)		88		87,780
GLP Capital LP/GLP Financing II, Inc.:				
5.38%, 11/01/23		90		93,825
5.38%, 04/15/26		42		43,365
Golden Nugget, Inc., 6.75%, 10/15/24 ^(b)		282		289,050
International Game Technology PLC, 4.75%, 02/15/23	EUR	100		135,279
Jacobs Entertainment, Inc., 7.88%, 02/01/24 ^(b)	USD	60		64,125
KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, 5.25%, 06/01/26 ^(b)		158		159,975
McDonald's Corp., 3.70%, 01/30/26		510		511,568
Melco Resorts Finance Ltd., 4.88%, 06/06/25 ^(b)		250		244,567
MGM Resorts International:				
5.25%, 03/31/20		97		100,031
6.75%, 10/01/20		122		130,235
6.63%, 12/15/21		835		902,259
7.75%, 03/15/22		76		84,740
New Red Finance, Inc. ^(b) :				
4.25%, 05/15/24		171		163,305

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5.00%, 10/15/25		1,062		1,034,786
Sabre GLBL, Inc. ^(b) :				
5.38%, 04/15/23		62		62,465
5.25%, 11/15/23		133		133,998
Scientific Games International, Inc.:				
7.00%, 01/01/22 ^(b)		363		382,057
10.00%, 12/01/22		819		888,615
5.00%, 10/15/25 ^(b)		320		316,400
Six Flags Entertainment Corp., 4.88%, 07/31/24 ^(b)		615		613,518
Station Casinos LLC, 5.00%, 10/01/25 ^(b)		222		216,450
Unique Pub Finance Co. PLC:				
Series A3, 6.54%, 03/30/21	GBP	1,871		2,725,075
Series A4, 5.66%, 06/30/27		1,027		1,582,912
Series M, 7.40%, 03/28/24		3,000		4,621,914
Series N, 6.46%, 03/30/32		2,390		3,215,421
Vue International Bidco PLC, 7.88%, 07/15/20		100		139,735
Wyndham Worldwide Corp., 4.15%, 04/01/24	USD	1,076		1,078,074
Wynn Macau Ltd., 5.50%, 10/01/27 ^(b)		200		196,940
			<i>Par</i>	
			<i>(000)</i>	<i>Value</i>
<i>Security</i>				
Hotels, Restaurants & Leisure (continued)				
Yum! Brands, Inc., 3.88%, 11/01/23	USD	27	\$	26,190
				21,221,442
Household Durables 0.6%				
Algeco Scotsman Global Finance 2 PLC, 10.00%, 08/15/23 ^(b)		200		199,000
Algeco Scotsman Global Finance PLC, 8.00%, 02/15/23 ^(b)		200		201,450
Brookfield Residential Properties, Inc., 6.38%, 05/15/25 ^(b)		47		48,704
Century Communities, Inc., 6.88%, 05/15/22		460		476,726
K Hovnanian Enterprises, Inc., 10.00%, 07/15/22 ^(b)		143		156,049
Lennar Corp.:				
8.38%, 01/15/21 ^(b)		53		59,121
6.25%, 12/15/21 ^(b)		276		294,575
4.13%, 01/15/22		77		76,230
5.38%, 10/01/22 ^(b)		2		2,085
4.75%, 11/15/22		136		136,680
4.88%, 12/15/23		85		86,169
4.75%, 05/30/25		180		179,100
5.25%, 06/01/26 ^(b)		18		18,360
4.75%, 11/29/27 ^(b)		255		246,712
Mattamy Group Corp. ^(b) :				
6.88%, 12/15/23		94		98,582
6.50%, 10/01/25		129		134,805
MDC Holdings, Inc., 6.00%, 01/15/43		130		123,500
Meritage Homes Corp., 5.13%, 06/06/27		52		51,350
Newell Brands, Inc., 4.20%, 04/01/26		1,000		989,606
PulteGroup, Inc., 6.38%, 05/15/33		256		273,280
Tempur Sealy International, Inc.:				
5.63%, 10/15/23		2		2,020
5.50%, 06/15/26		132		129,690
TRI Pointe Group, Inc.:				

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4.88%, 07/01/21	73	73,365
5.25%, 06/01/27	34	33,617
TRI Pointe Group, Inc./TRI Pointe Homes, Inc.:		
4.38%, 06/15/19	10	10,025
5.88%, 06/15/24	177	182,310
William Lyon Homes, Inc., 5.88%, 01/31/25	66	65,835
		4,348,946
Household Products 0.0%		
ACCO Brands Corp., 5.25%, 12/15/24 ^(b)	59	59,295
Prestige Brands, Inc., 6.38%, 03/01/24 ^(b)	42	43,050
Spectrum Brands, Inc., 6.63%, 11/15/22	170	175,738
		278,083
Independent Power and Renewable Electricity Producers 0.5%		
AES Corp.:		
4.88%, 05/15/23	202	203,768
5.50%, 03/15/24	8	8,170
5.50%, 04/15/25	64	65,600
6.00%, 05/15/26	217	227,850
5.13%, 09/01/27	244	247,050
Calpine Corp. ^(b) :		
5.88%, 01/15/24	258	263,482
5.25%, 06/01/26	512	496,640
Colbun SA, 3.95%, 10/11/27 ^(b)	200	194,000
Dynegy, Inc.:		
7.38%, 11/01/22	155	163,331
5.88%, 06/01/23	26	26,650
8.00%, 01/15/25 ^(b)	198	215,077
8.13%, 01/30/26 ^(b)	115	125,925
Genneia SA, 8.75%, 01/20/22 ^(b)	370	399,382

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Independent Power and Renewable Electricity Producers (continued)			
NRG Energy, Inc.:			
6.63%, 01/15/27	USD	728	\$ 751,660
5.75%, 01/15/28 ^(b)		42	41,467
NRG Yield Operating LLC, 5.38%, 08/15/24		155	156,646
QEP Resources, Inc., 5.38%, 10/01/22		51	51,765
TerraForm Power Operating LLC ^(b) :			
4.25%, 01/31/23		128	125,440
6.63%, 06/15/25 ^(k)		15	16,238
5.00%, 01/31/28		128	123,878
			3,904,019
Industrial Conglomerates 0.5%			
General Electric Co.:			
6.75%, 03/15/32 ^(f)		2,500	3,107,773
6.88%, 01/10/39		135	175,562
Smiths Group PLC, 3.63%, 10/12/22 ^(b)		360	355,534
Vertiv Group Corp., 9.25%, 10/15/24 ^(b)		381	401,955
			4,040,824
Insurance 3.1%			
Acrisure LLC/Acrisure Finance, Inc.,			
7.00%, 11/15/25 ^(b)		126	123,165
Allied World Assurance Co. Holdings Ltd., 4.35%, 10/29/25		1,495	1,465,514
American International Group, Inc.,			
3.75%, 07/10/25 ^(f)		3,380	3,363,672
Aon PLC:			
3.88%, 12/15/25		1,445	1,459,506
4.60%, 06/14/44		500	516,818
Ardonagh Midco 3 PLC:			
8.38%, 07/15/23	GBP	100	140,833
8.63%, 07/15/23 ^(b)	USD	200	206,500
Assicurazioni Generali SpA (3 mo. Euribor + 7.11%), 7.75%, 12/12/42 ^(h)	EUR	100	155,042
AssuredPartners, Inc., 7.00%, 08/15/25 ^(b)	USD	33	33,743
AXA SA(3 mo. Euribor + 3.05%), 5.25%, 04/16/40 ^(h)	EUR	500	671,916
Fidelity National Financial, Inc., 4.25%, 08/15/18	USD	73	224,570
Five Corners Funding Trust, 4.42%, 11/15/23 ^{(b)(f)}		2,050	2,150,613
Groupama SA, 6.00%, 01/23/27	EUR	100	150,164
Hartford Financial Services Group, Inc., 5.13%, 04/15/22	USD	1,860	1,986,842
HUB International Ltd., 7.88%, 10/01/21 ^(b)		802	827,062
Liberty Mutual Group, Inc., 6.50%, 05/01/42 ^{(b)(f)}		2,000	2,522,662
MetLife, Inc., 6.40%, 12/15/66		2,554	2,879,635
Muenchener Rueckversicherungs AG(3 mo. Euribor + 3.50%), 6.00%, 05/26/41 ^(h)	EUR	400	570,376

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Nationwide Building Society, 4.13%, 10/18/32 ^{(b)(c)}	USD	720		693,666
Prudential Financial, Inc.:				
5.90%, 03/17/36		500		601,003
5.70%, 12/14/36 ^(f)		1,625		1,955,543
Radian Group, Inc.:				
5.25%, 06/15/20		28		28,980
4.50%, 10/01/24		177		176,611
Teachers Insurance & Annuity Association of America, 4.27%, 05/15/47 ^(b)		700		696,369
USIS Merger Sub, Inc., 6.88%, 05/01/25 ^(b)		41		41,513
Wayne Merger Sub LLC, 8.25%, 08/01/23 ^(b)		625		650,000
				24,292,318
Internet Software & Services 0.2%				
Equinix, Inc.:				
2.88%, 03/15/24 ^(d)	EUR	100		122,000
2.88%, 10/01/25		100		120,856
5.88%, 01/15/26	USD	435		455,662
		<i>Par</i>		
<i>Security</i>		<i>(000)</i>		<i>Value</i>
Internet Software & Services (continued)				
Netflix, Inc.:				
4.38%, 11/15/26	USD	115	\$	110,400
3.63%, 05/15/27	EUR	100		122,569
Symantec Corp., 5.00%, 04/15/25 ^(b)	USD	124		125,807
United Group BV, 4.38%, 07/01/22	EUR	126		155,995
ZPG PLC, 3.75%, 07/15/23	GBP	100		136,228
				1,349,517
IT Services 0.5%				
Ceridian HCM Holding, Inc., 11.00%, 03/15/21 ^(b)	USD	270		278,999
Fidelity National Information Services, Inc., 4.50%, 08/15/46		1,000		982,495
First Data Corp. ^(b) :				
7.00%, 12/01/23		756		794,745
5.00%, 01/15/24		220		221,375
5.75%, 01/15/24		1,261		1,283,068
Gartner, Inc., 5.13%, 04/01/25 ^(b)		141		144,525
WEX, Inc., 4.75%, 02/01/23 ^(b)		382		384,626
				4,089,833
Leisure Products 0.0%				
Mattel, Inc.:				
6.75%, 12/31/25 ^(b)		218		221,815
6.20%, 10/01/40		48		44,640
5.45%, 11/01/41		28		24,640
				291,095
Life Sciences Tools & Services 0.1%				
Thermo Fisher Scientific, Inc., 5.30%, 02/01/44		1,000		1,128,250
Machinery 0.2%				
Cleaver-Brooks, Inc., 7.88%, 03/01/23 ^(b)		64		67,520

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Platin 1426 GmbH, 5.38%, 06/15/23	EUR	100	121,238
SPX FLOW, Inc. ^(b) :			
5.63%, 08/15/24	USD	115	117,013
5.88%, 08/15/26		213	218,857
Terex Corp., 5.63%, 02/01/25 ^(b)		455	459,550
Wabash National Corp., 5.50%, 10/01/25 ^(b)		176	174,240
			1,158,418
Marine 0.3%			
Nakilat, Inc., Series A, 6.07%, 12/31/33 ^(b)		2,150	2,397,680
Media 5.1%			
21st Century Fox America, Inc., 7.63%, 11/30/28		385	495,056
Altice Financing SA ^(b) :			
6.63%, 02/15/23		200	199,750
7.50%, 05/15/26		607	611,552
Altice Luxembourg SA:			
7.75%, 05/15/22 ^(b)		642	598,665
6.25%, 02/15/25	EUR	100	113,802
Altice US Finance I Corp., 5.38%, 07/15/23 ^(b)	USD	970	985,762
AMC Networks, Inc.:			
5.00%, 04/01/24		114	114,285
4.75%, 08/01/25		206	199,563
Cablevision SA, 6.50%, 06/15/21 ^(b)		222	232,117
Cablevision Systems Corp., 8.00%, 04/15/20		325	345,377
CBS Radio, Inc., 7.25%, 11/01/24 ^(b)		53	54,579
CCO Holdings LLC/CCO Holdings Capital Corp. ^(b) :			
4.00%, 03/01/23		252	245,385
5.13%, 05/01/23		73	74,369
5.13%, 05/01/27		1,628	1,567,634
5.00%, 02/01/28		221	208,635
Cequel Communications Holdings I LLC/Cequel Capital Corp. ^(b) :			
5.13%, 12/15/21		562	558,966
7.75%, 07/15/25		960	1,022,400

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Media (continued)			
Charter Communications Operating LLC/Charter Communications Operating Capital, 4.91%, 07/23/25 ^(f)	USD	4,700	\$ 4,831,602
Clear Channel International BV, 8.75%, 12/15/20 ^(b)		317	331,265
Clear Channel Worldwide Holdings, Inc.:			
6.50%, 11/15/22		1,921	1,969,676
Series B, 7.63%, 03/15/20		443	442,446
Comcast Cable Communications Holdings, Inc., 9.46%, 11/15/22 ^(f)		2,600	3,303,006
Comcast Corp.:			
6.45%, 03/15/37		790	1,011,471
4.60%, 08/15/45		2,000	2,085,777
CSC Holdings LLC:			
10.13%, 01/15/23 ^(b)		1,190	1,329,825
5.25%, 06/01/24		398	383,075
10.88%, 10/15/25 ^(b)		764	901,520
Discovery Communications LLC:			
3.25%, 04/01/23		1,850	1,798,282
3.45%, 03/15/25		210	200,880
DISH DBS Corp.:			
6.75%, 06/01/21		350	359,625
5.88%, 07/15/22		470	458,250
5.00%, 03/15/23		264	242,550
5.88%, 11/15/24		36	33,750
7.75%, 07/01/26		534	525,990
DISH Network Corp., 3.38%, 08/15/26 ^(j)		155	155,940
eircom Finance DAC, 4.50%, 05/31/22	EUR	100	124,989
GTT Communications, Inc., 7.88%, 12/31/24 ^(b)	USD	159	165,261
Hughes Satellite Systems Corp.:			
7.63%, 06/15/21		64	68,880
5.25%, 08/01/26		324	315,900
Intelsat Jackson Holdings SA:			
7.25%, 10/15/20		185	172,281
5.50%, 08/01/23		325	268,531
9.75%, 07/15/25 ^(b)		377	357,679
Interpublic Group of Cos., Inc., 3.75%, 02/15/23		2,000	2,009,947
LG Finance Co. Corp., 5.88%, 11/01/24 ^(b)		57	59,542
LGE HoldCo VI BV, 7.13%, 05/15/24	EUR	100	131,760
McGraw-Hill Global Education Holdings LLC/McGraw-Hill Global Education Finance, 7.88%, 05/15/24 ^(b)	USD	61	59,018
MDC Partners, Inc., 6.50%, 05/01/24 ^(b)		228	227,430
Meredith Corp., 6.88%, 02/01/26 ^(b)		110	113,438
Midcontinent Communications/Midcontinent Finance Corp., 6.88%, 08/15/23 ^(b)		148	156,325
Numericable Group SA, 5.38%, 05/15/22	EUR	106	132,027

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Qualitytech LP/QTS Finance Corp., 4.75%, 11/15/25 ^(b)	USD	104		101,140
Radiate Holdco LLC/Radiate Finance, Inc., 6.88%, 02/15/23 ^(b)		43		42,893
SFR Group SA ^(b) : 6.00%, 05/15/22		345		335,081
7.38%, 05/01/26		1,101		1,062,795
Sirius XM Radio, Inc., 5.00%, 08/01/27 ^(b)		41		39,873
TCI Communications, Inc., 7.88%, 02/15/26 ^(f)		610		782,810
TEGNA, Inc., 5.50%, 09/15/24 ^(b)		45		46,238
Telenet Finance Luxembourg Notes Sarl, 5.50%, 03/01/28 ^(b)		200		193,000
Telesat Canada/Telesat LLC, 8.88%, 11/15/24 ^(b)		167		183,283
Time Warner, Inc., 6.10%, 07/15/40		830		960,445
Tribune Media Co., 5.88%, 07/15/22		16		16,320
Univision Communications, Inc. ^(b) : 5.13%, 05/15/23		272		257,720
5.13%, 02/15/25		28		25,865
			<i>Par</i>	
			<i>(000)</i>	<i>Value</i>
<i>Security</i>				
Media (continued)				
UPCB Finance IV Ltd., 4.00%, 01/15/27	EUR	100	\$	126,841
Viacom, Inc., 5.85%, 09/01/43	USD	645		704,432
Videotron Ltd., 5.13%, 04/15/27 ^(b)		222		223,971
Virgin Media Finance PLC, 5.75%, 01/15/25 ^(b)		515		505,987
Virgin Media Receivables Financing Notes I DAC, 5.50%, 09/15/24	GBP	100		139,771
Virgin Media Secured Finance PLC: 5.25%, 01/15/26 ^(b)	USD	303		296,940
4.88%, 01/15/27	GBP	100		137,326
6.25%, 03/28/29		100		146,607
Ziggo Bond Finance BV, 5.88%, 01/15/25 ^(b)	USD	260		250,250
Ziggo Secured Finance BV, 5.50%, 01/15/27 ^(b)		150		143,813
				39,079,236
Metals & Mining 1.5%				
Big River Steel LLC/BRS Finance Corp., 7.25%, 09/01/25 ^(b)		121		127,958
Cleveland-Cliffs, Inc., 4.88%, 01/15/24 ^(b)		131		127,889
CONSOL Mining Corp., 11.00%, 11/15/25 ^(b)		266		284,620
Constellium NV ^(b) : 5.75%, 05/15/24		582		586,365
5.88%, 02/15/26		269		271,690
First Quantum Minerals Ltd., 7.00%, 02/15/21 ^(b)		435		448,594
Freeport-McMoRan, Inc.: 3.10%, 03/15/20		759		751,410
4.00%, 11/14/21		121		120,395
3.55%, 03/01/22		530		515,584
3.88%, 03/15/23		774		750,780
5.40%, 11/14/34		278		271,050
5.45%, 03/15/43		647		624,355
Grinding Media, Inc./Moly-Cop AltaSteel Ltd., 7.38%, 12/15/23 ^(b)		399		421,942
Joseph T Ryerson & Son, Inc., 11.00%, 05/15/22 ^(b)		115		128,035
Kaiser Aluminum Corp., 5.88%, 05/15/24		74		77,537
Kinross Gold Corp.:				

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4.50%, 07/15/27 ^(b)		82	79,540
6.88%, 09/01/41		53	61,083
Novelis Corp. ^(b) :			
6.25%, 08/15/24		823	841,517
5.88%, 09/30/26		602	606,515
Nyrstar Netherlands Holdings BV, 6.88%, 03/15/24	EUR	100	125,033
Ovako AB, 5.00%, 10/05/22		100	124,206
Rio Tinto Finance USA PLC, 4.75%, 03/22/42	USD	400	443,521
Steel Dynamics, Inc.:			
5.25%, 04/15/23		345	352,331
5.50%, 10/01/24		48	49,680
4.13%, 09/15/25		142	137,385
SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., 7.50%, 06/15/25 ^(b)		193	201,202
Teck Resources Ltd.:			
4.50%, 01/15/21		96	97,248
3.75%, 02/01/23		502	490,705
8.50%, 06/01/24 ^(b)		1,096	1,219,300
5.20%, 03/01/42		312	301,860
5.40%, 02/01/43		188	186,120
thyssenKrupp AG, 1.38%, 03/03/22	EUR	75	92,324
United States Steel Corp.:			
8.38%, 07/01/21 ^(b)	USD	171	183,398
6.88%, 08/15/25		185	194,250
Vale Overseas Ltd., 6.25%, 08/10/26		237	267,265
VM Holdings SA, 5.38%, 05/04/27 ^(b)		299	308,568
			11,871,255

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>	<i>Par (000)</i>	<i>Value</i>
Multi-Utilities 0.1%		
NGL Energy Partners LP/NGL Energy Finance Corp.:		
5.13%, 07/15/19	USD 28	\$ 28,070
6.88%, 10/15/21	459	462,442
		490,512
Multiline Retail 0.0%		
Neiman Marcus Group Ltd., 8.00%, 10/15/21 ^(b)	145	87,725
Offshore Drilling & Other Services 0.0%		
Entegris, Inc., 4.63%, 02/10/26 ^(b)	135	132,638
Oil, Gas & Consumable Fuels 7.5%		
Alta Mesa Holdings LP/Alta Mesa Finance Services Corp., 7.88%, 12/15/24	79	84,135
Anadarko Petroleum Corp., 5.55%, 03/15/26	1,500	1,635,203
Andeavor Logistics LP, Series A, 6.88% ^{(c)(i)}	232	236,495
Andeavor Logistics LP/Tesoro Logistics Finance Corp., 4.25%, 12/01/27	250	244,363
Antero Midstream Partners LP/Antero Midstream Finance Corp., 5.38%, 09/15/24	35	35,788
Antero Resources Corp.:		
5.13%, 12/01/22	52	52,455
5.63%, 06/01/23	51	52,275
Ascent Resources Utica Holdings LLC/ARU Finance Corp., 10.00%, 04/01/22 ^(b)	139	148,035
Berry Petroleum Co. LLC, 7.00%, 02/15/26 ^(b)	195	198,412
California Resources Corp., 8.00%, 12/15/22 ^(b)	195	154,537
Callon Petroleum Co., 6.13%, 10/01/24	261	266,220
Calumet Specialty Products Partners LP/Calumet Finance Corp.:		
6.50%, 04/15/21	18	17,550
7.63%, 01/15/22	92	91,540
Canadian Natural Resources Ltd., 3.90%, 02/01/25	500	497,341
Carrizo Oil & Gas, Inc.:		
6.25%, 04/15/23	138	138,345
8.25%, 07/15/25	65	69,388
Cenovus Energy, Inc., 4.25%, 04/15/27 ^(f)	400	390,873
Cheniere Corpus Christi Holdings LLC:		
7.00%, 06/30/24	178	199,182
5.88%, 03/31/25	384	406,080
5.13%, 06/30/27	473	478,321
Cheniere Energy Partners LP, 5.25%, 10/01/25 ^(b)	124	125,240
Chesapeake Energy Corp. ^(b) :		
8.00%, 01/15/25	68	67,150
8.00%, 06/15/27 ^(f)	523	501,426
Cia Latinoamericana de Infraestructura & Servicios SA, 9.50%, 07/20/23 ^(b)	370	382,950
Citgo Holding, Inc., 10.75%, 02/15/20 ^(b)	95	101,888

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ConocoPhillips Canada Funding Co., 5.95%, 10/15/36	685	847,477
ConocoPhillips Co., 6.50%, 02/01/39	600	784,677
CONSOL Energy, Inc.:		
5.88%, 04/15/22	1,321	1,328,431
8.00%, 04/01/23	48	50,820
Continental Resources, Inc.:		
3.80%, 06/01/24	207	201,049
4.38%, 01/15/28 ^(b)	250	243,750
Covey Park Energy LLC/Covey Park Finance Corp., 7.50%, 05/15/25 ^(b)	295	299,425
Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., 6.25%, 04/01/23	20	20,600
CrownRock LP/CrownRock Finance, Inc., 5.63%, 10/15/25 ^(b)	625	612,500
DCP Midstream LLC ^(b) :		
4.75%, 09/30/21	55	55,963
	<i>Par</i>	
<i>Security</i>	<i>(000)</i>	<i>Value</i>
Oil, Gas & Consumable Fuels (continued)		
6.45%, 11/03/36	USD 128	\$ 140,800
6.75%, 09/15/37	159	177,285
Denbury Resources, Inc., 9.25%, 03/31/22 ^(b)	332	340,300
Devon Energy Corp., 5.85%, 12/15/25	1,000	1,135,727
Diamond Offshore Drilling, Inc., 7.88%, 08/15/25	62	62,930
Diamondback Energy, Inc., 5.38%, 05/31/25	177	177,000
Eclipse Resources Corp., 8.88%, 07/15/23	45	45,225
Enbridge, Inc., 6.25%, 03/01/78 ^{(c)(d)}	1,935	1,950,934
Endeavor Energy Resources LP/EER Finance, Inc. ^(b) :		
5.50%, 01/30/26	87	86,348
5.75%, 01/30/28	160	160,000
Energy Transfer Equity LP:		
4.25%, 03/15/23	128	125,560
5.88%, 01/15/24	264	279,840
5.50%, 06/01/27	165	170,775
Energy Transfer LP:		
4.75%, 01/15/26	1,250	1,269,523
5.30%, 04/15/47	540	519,687
Energy Transfer Partners LP, 4.05%, 03/15/25	500	491,332
Ensco Jersey Finance Ltd., 3.00%, 01/31/24	165	135,713
Ensco PLC, 7.75%, 02/01/26	223	210,735
Enterprise Products Operating LLC, 3.70%, 02/15/26	500	499,073
EOG Resources, Inc.:		
4.15%, 01/15/26	1,000	1,033,573
5.10%, 01/15/36	200	219,896
EP Energy LLC/Everest Acquisition Finance, Inc.:		
9.38%, 05/01/20	6	5,580
9.38%, 05/01/24 ^(b)	288	212,400
8.00%, 11/29/24 ^{(b)(f)}	275	283,250
Extraction Oil & Gas, Inc. ^(b) :		
7.38%, 05/15/24	281	296,455
5.63%, 02/01/26	272	266,560
Genesis Energy LP/Genesis Energy Finance Corp.:		
6.50%, 10/01/25	97	96,758

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6.25%, 05/15/26	112	108,360
GNL Quintero SA, 4.63%, 07/31/29 ^(b)	200	203,000
Great Western Petroleum LLC/Great Western Finance, Inc., 9.00%, 09/30/21 ^(b)	350	364,875
Gulfport Energy Corp.:		
6.63%, 05/01/23	115	118,163
6.00%, 10/15/24	68	66,810
6.38%, 05/15/25	63	62,134
6.38%, 01/15/26 ^(b)	76	74,909
Halcon Resources Corp.:		
6.75%, 02/15/25 ^(b)	108	108,810
Series WI, 6.75%, 02/15/25	334	337,340
Hess Corp., 4.30%, 04/01/27	1,100	1,076,775
Hess Infrastructure Partners LP/Hess Infrastructure Partners Finance Corp., 5.63%, 02/15/26 ^(b)	243	243,000
Indigo Natural Resources LLC, 6.88%, 02/15/26 ^(b)	131	128,081
Jones Energy Holdings LLC/Jones Energy Finance Corp., 9.25%, 03/15/23 ^(b)	70	68,775
KeySpan Gas East Corp., 5.82%, 04/01/41 ^{(b)(f)}	1,010	1,254,969
Kinder Morgan, Inc.:		
4.30%, 06/01/25	1,750	1,765,917
5.05%, 02/15/46	1,750	1,715,869
Marathon Petroleum Corp., 6.50%, 03/01/41 ^(f)	2,049	2,465,673
Matador Resources Co., 6.88%, 04/15/23	570	595,650
MEG Energy Corp. ^(b) :		
6.38%, 01/30/23	1	858
7.00%, 03/31/24	320	272,800
6.50%, 01/15/25	364	357,175

SCHEDULES OF INVESTMENTS

23

Schedule of Investments (unaudited) (continued)

BlackRock Core Bond Trust (BHK)

February 28, 2018

(Percentages shown are based on Net Assets)

<i>Security</i>		<i>Par (000)</i>	<i>Value</i>
Oil, Gas & Consumable Fuels (continued)			
MidAmerican Energy Co., 5.80%, 10/15/36 ^(f)	USD	1,500	\$ 1,852,357
MidAmerican Energy Holdings Co., 5.95%, 05/15/37		1,750	2,183,675
Murphy Oil Corp.:			
6.88%, 08/15/24		177	186,094
5.75%, 08/15/25		14	13,951
5.88%, 12/01/42		31	28,985
Nabors Industries, Inc. ^(b) :			
0.75%, 01/15/24		262	199,245
5.75%, 02/01/25		110	104,981
Newfield Exploration Co., 5.63%, 07/01/24		75	78,938
NGPL PipeCo LLC ^(b) :			
4.38%, 08/15/22		127	126,683
7.77%, 12/15/37		354	433,650
Noble Holding International Ltd.:			
7.75%, 01/15/24 ^(f)		187	170,871
7.88%, 02/01/26 ^(b)		539	541,695
Oasis Petroleum, Inc.:			
6.50%, 11/01/21		35	35,700
6.88%, 03/15/22		72	73,755
6.88%, 01/15/23		53	54,060
2.63%, 09/15/23		495	510,021
Paramount Resources Ltd., 6.88%, 06/30/23 ^(b)		325	338,000
Parker Drilling Co., 7.50%, 08/01/20		43	39,668
Parsley Energy LLC/Parsley Finance Corp. ^(b) :			
6.25%, 06/01/24		48	49,680
5.38%, 01/15/25		209	206,910
5.25%, 08/15/25		52	51,220
5.63%, 10/15/27		61	60,504
PBF Holding Co. LLC/ PBF Finance Corp., 7.25%, 06/15/25		143	148,005
PDC Energy, Inc.:			
6.13%, 09/15/24		24	24,540
5.75%, 05/15/26 ^(b)		125	123,400
Petrobras Global Finance BV:			
8.75%, 05/23/26		222	260,572
6.00%, 01/27/28 ^(b)		239	235,415
Petroleos Mexicanos ^(b) :			
5.38%, 03/13/22		27	28,215
6.50%, 03/13/27		148	158,193
5.35%, 02/12/28		123	120,909
Plains All American Pipeline LP/PAA Finance Corp., 3.65%, 06/01/22		1,000	987,088
Precision Drilling Corp.:			
7.75%, 12/15/23		50	52,750

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7.13%, 01/15/26 ^(b)	159	160,391
Range Resources Corp.:		
5.88%, 07/01/22	244	247,660
5.00%, 08/15/22	53	52,205
5.00%, 03/15/23	88	86,020
4.88%, 05/15/25	24	22,980
Resolute Energy Corp., 8.50%, 05/01/20	279	278,651
Rockies Express Pipeline LLC ^(b) :		
5.63%, 04/15/20	565	586,894
6.88%, 04/15/40	229	268,502
Rowan Cos., Inc.:		
4.88%, 06/01/22	50	47,000
4.75%, 01/15/24	64	55,680
7.38%, 06/15/25	326	321,925
RSP Permian, Inc.:		
6.63%, 10/01/22	179	186,607
5.25%, 01/15/25	102	102,765
Sabine Pass Liquefaction LLC, 5.88%, 06/30/26	1,750	1,910,837
Sanchez Energy Corp.:		
7.75%, 06/15/21	548	523,340
	<i>Par</i>	
<i>Security</i>	<i>(000)</i>	<i>Value</i>
Oil, Gas & Consumable Fuels (continued)		
6.13%, 01/15/23	USD 128	\$ 96,000
7.25%, 02/15/23 ^(b)	110	111,375
SESI LLC, 7.13%, 12/15/21	60	61,200
Seven Generations Energy Ltd., 5.38%, 09/30/25 ^(b)	197	192,567
SM Energy Co.:		
6.50%, 11/15/21	50	50,750
6.50%, 01/01/23 ^(f)	194	194,000
5.00%, 01/15/24	30	28,200
5.63%, 06/01/25	191	182,524
6.75%, 09/15/26	92	92,460

10.19

Master
Servicing
Rights
Purchase
Agreement,
dated
February
10, 2012,
between
Ocwen
Loan
Servicing,
LLC and
HLSS
Holdings,
LLC (5)

10.20 Sale
Supplement,

dated
February 10,
2012,
between
Ocwen Loan
Servicing,
LLC and
HLSS
Holdings,
LLC (5)
Master
Subservicing
Agreement,
dated
February 10,
2012,
10.21 between
Ocwen Loan
Servicing,
LLC and
HLSS
Holdings,
LLC (5)
Subservicing
Supplement,
dated
February 10,
2012,
10.22 between
Ocwen Loan
Servicing,
LLC and
HLSS
Holdings,
LLC (5)
10.23 Professional
Services
Agreement,
dated
February 10,
2012,
between
Ocwen
Financial
Corporation,
together with
its
subsidiaries
and affiliates,
and HLSS
Management,

LLC (5)
Support
Services
Agreement,
dated as of
August 10,
2012, by and
between
10.24 Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (5)
Services
Agreement,
dated as of
October 1,
2012, by and
between
10.25 Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (21)
Technology
Products
Services
Agreement,
dated as of
October 1,
2012, by and
10.26 between
Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (22)
10.27 Data Center
and Disaster
Recovery
Agreement,
dated as of
October 1,
2012, by and
between

Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (22)
Intellectual
Property
Agreement,
dated as of
October 1,
2012, by and
between
10.28 Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (22)
First
Amendment
to Support
Services
Agreement,
dated as of
October 1,
2012, by and
10.29 between
Ocwen
Mortgage
Servicing,
Inc. and
Altisource
Solutions S.à
r.l. (22)
10.30 First
Amendment
to Services
Agreement,
dated as of
October 1,
2012, by and
between
Ocwen
Financial
Corporation
and
Altisource
Solutions S.à

r.l. (22)
First
Amendment
to Technology
Products and
Services
Agreement,
dated as of
October 1,
10.31 2012, by and
between
Ocwen
Financial
Corporation
and
Altisource
Solutions S.à
r.l. (22)
First
Amendment
to Data
Center and
Disaster
Recovery
Agreement,
dated as of
October 1,
10.32 2012, by and
between
Ocwen
Financial
Corporation
and
Altisource
Solutions S.à
r.l. (22)
10.33 First
Amendment
to Intellectual
Property
Agreement,
dated as of
October 1,
2012, by and
between
Ocwen
Financial
Corporation
and
Altisource
Solutions S.à

r.l. (22)
Registration
Rights
Agreement,
made and
entered into
as of
December 27,
10.342012, by and
among Ocwen
Financial
Corporation
and the
Holders (as
defined
therein) (23)
Computation
11.1 of earnings
per share (24)
Ratio of
earnings to
12.1 fixed charges
(filed
herewith)
Subsidiaries
21.0 (filed
herewith)
Consent of
Independent
Registered
23.1 Public
Accounting
Firm (filed
herewith)

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 101.INS XBRL Instance Document (furnished herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (furnished herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (furnished herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith)

† The schedules referenced in the Purchase Agreements, the Merger Agreement and the Asset Purchase Agreement have been omitted in accordance with Item 601 (b)(2) of Regulation S-K. A copy of any referenced schedules will be furnished supplementally to the SEC upon request.

- (1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the SEC on July 26, 1999.
- (2) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on August 12, 2009.
- (3) Incorporated by reference to the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on June 6, 2011.
- (4) Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed with the SEC on October 29, 2011.
- (5) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2012.
- (6) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the period ended October 5, 2012.
- (7) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the period ended November 8, 2012.
- (8) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the SEC on September 25, 1996.
- (9) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
- (10) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed with the SEC on January 6, 2011.
- (11) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the SEC on August 1, 2011.
- (12) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the SEC on January 28, 1998.
- (13) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 2003 Annual Meeting of Shareholders as filed with the SEC on March 28, 2003.
- (14) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
- (15) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.

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- (16) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
- (17) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 2007 Annual Meeting of Shareholders as filed with the SEC on March 30, 2007.
- (18) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the SEC on August 16, 2011.
- (19) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.
- (20) Incorporated by reference to the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on September 8, 2011.

- (21) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on August 16, 2012.
- (22) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on October 5, 2012.
- (23) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on December 28, 2012.
- (24) Incorporated by reference from "Note 24 Basic and Diluted Earnings per Share" on page F-48 of our Consolidated Financial Statements.

Signatures

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

Ocwen Financial Corporation

By: /s/ Ronald M. Faris
Ronald M. Faris
President and Chief Executive Officer
(duly authorized representative)

Date: March 1, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ William C. Erbey Date: March 1, 2013
William C. Erbey,
Executive Chairman of
the Board of Directors

/s/ Ronald M. Faris Date: March 1, 2013
Ronald M. Faris,
President, Chief
Executive Officer and
Director
(principal executive
officer)

/s/ Ronald J. Korn Date: March 1, 2013
Ronald J. Korn,
Director

/s/ William H. Lacy Date: March 1, 2013
William H. Lacy,
Director

/s/ Barry N. Wish Date: March 1, 2013
Barry N. Wish,
Director

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/s/ Robert A. Salcetti Date: March 1, 2013
Robert A. Salcetti,
Director

/s/ John V. Britti Date: March 1, 2013
John V. Britti,
Executive Vice
President and Chief
Financial Officer
(principal financial
officer)

/s/ Kenneth D. Najour Date: March 1, 2013
Kenneth D. Najour,
Vice President and
Chief Accounting
Officer
(principal accounting
officer)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

December 31, 2012

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

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December 31, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Ocwen Financial Corporation:

We have audited the accompanying consolidated balance sheets of Ocwen Financial Corporation and subsidiaries (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ocwen Financial Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
March 1, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Ocwen Financial Corporation:

We have audited the internal control over financial reporting of Ocwen Financial Corporation and subsidiaries (the “Company”) as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Report of Management on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Homeward Residential Holdings Inc., which was acquired on December 27, 2012 and whose financial statements constitute approximately 63% of total assets of the consolidated financial statement amounts as of December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at Homeward Residential Holding Inc. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated March 1, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
March 1, 2013

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	December 31, 2012	December 31, 2011
Assets		
Cash	\$220,130	\$144,234
Loans held for sale, at fair value	426,480	—
Advances	184,463	103,591
Match funded advances	3,049,244	3,629,911
Mortgage servicing rights, at amortized cost	676,712	293,152
Mortgage servicing rights, at fair value	85,213	—
Receivables, net	167,459	82,261
Deferred tax assets, net	92,136	107,968
Goodwill	371,083	70,240
Premises and equipment, net	37,536	7,350
Debt service accounts	88,748	115,867
Other assets	272,678	173,450
Total assets	\$5,671,882	\$4,728,024
Liabilities, Mezzanine Equity and Stockholders' Equity		
Liabilities		
Match funded liabilities	\$2,532,745	\$2,558,951
Lines of credit and other borrowings	1,096,679	540,369
Debt securities	—	82,554
Other liabilities	277,664	202,839
Total liabilities	3,907,088	3,384,713
Commitments and Contingencies (Note 29)		
Mezzanine Equity		
Series A Perpetual Convertible Preferred stock, \$.01 par value; 200,000 shares authorized; 162,000 shares issued and outstanding at December 31, 2012; redemption value \$162,000 plus accrued and unpaid dividends	153,372	—
Stockholders' Equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 135,637,932 and 129,899,288 shares issued and outstanding at December 31, 2012 and 2011, respectively	1,356	1,299
Additional paid-in capital	911,942	826,121
Retained earnings	704,565	523,787
Accumulated other comprehensive loss, net of income taxes	(6,441)	(7,896)
Total stockholders' equity	1,611,422	1,343,311
Total liabilities, mezzanine equity and stockholders' equity	\$5,671,882	\$4,728,024

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2012	2011	2010
Revenue			
Servicing and subservicing fees	\$804,425	\$458,875	\$321,699
Process management fees	37,067	34,233	33,704
Other revenues	3,514	2,822	4,978
Total revenue	845,006	495,930	360,381
Operating expenses			
Compensation and benefits	122,341	99,844	87,644
Amortization of servicing rights	72,897	42,996	31,455
Servicing and origination	25,537	8,254	6,851
Technology and communications	45,362	33,617	25,644
Professional services	29,236	19,961	42,837
Occupancy and equipment	47,044	23,759	32,924
Other operating expenses	21,508	11,153	9,119
Total operating expenses	363,925	239,584	236,474
Income from operations	481,081	256,346	123,907
Other income (expense)			
Interest income	8,329	8,876	10,859
Interest expense	(223,455)	(132,770)	(85,923)
Gain (loss) on trading securities	—	—	(7,968)
Loss on loans held for sale, net	(3,364)	(4,529)	(5,865)
Equity in earnings (losses) of unconsolidated entities	114	(746)	1,371
Other, net	(5,197)	(4,182)	2,773
Other expense, net	(223,573)	(133,351)	(84,753)
Income from continuing operations before income taxes	257,508	122,995	39,154
Income tax expense	76,585	44,672	5,545
Income from continuing operations	180,923	78,323	33,609
Income from discontinued operations, net of income taxes	—	—	4,383
Net income	180,923	78,323	37,992
Net loss (income) attributable to non-controlling interests	—	8	(8)
Net income attributable to Ocwen stockholders	180,923	78,331	37,984
Preferred stock dividends	(145)	—	—
Net income attributable to Ocwen common stockholders	\$180,778	\$78,331	\$37,984
Basic earnings per share			
Income from continuing operations	\$1.35	\$0.75	\$0.34
Income from discontinued operations	—	—	0.04
Net income attributable to Ocwen common stockholders	\$1.35	\$0.75	\$0.38

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Diluted earnings per share			
Income from continuing operations	\$1.31	\$0.71	\$0.32
Income from discontinued operations	—	—	0.04
Net income attributable to Ocwen common stockholders	\$1.31	\$0.71	\$0.36
Weighted average common shares outstanding			
Basic	133,912,643	104,507,055	100,273,121
Diluted	138,521,279	111,855,961	107,483,015

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
Net income	\$ 180,923	\$ 78,323	\$ 37,992
Other comprehensive income (loss), net of income taxes:			
Unrealized foreign currency translation gain (loss) arising during the year (1)	1	21	(58)
Change in deferred gain (loss) on cash flow hedges arising during the year (2)	(5,303)	589	(9,335)
Reclassification adjustment for losses on cash flow hedges included in net income (3)	6,753	890	96
Net change in deferred loss on cash flow hedges	1,450	1,479	(9,239)
Other (4)	4	5	20
Total other comprehensive income (loss), net of income taxes	1,455	1,505	(9,277)
Comprehensive income	182,378	79,828	28,715
Comprehensive (income) loss attributable to non-controlling interests	—	(1)	6
Comprehensive income attributable to Ocwen stockholders	\$ 182,378	\$ 79,827	\$ 28,721

(1) Net of tax benefit (expense) of \$(7) and \$26 for 2011 and 2010, respectively.

(2) Net of tax benefit (expense) of \$3,012, \$(340) and \$5,251 for 2012, 2011 and 2010, respectively.

(3) Net of tax expense of \$3,798, \$503 and \$54 for 2012, 2011 and 2010, respectively.

(4) Net of tax benefit of \$3, \$3 and \$12 for 2012, 2011 and 2010, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(Dollars in thousands)

	Ocwen Stockholders				Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
	Common Stock		Additional Paid-in	Retained			
	Shares	Amount	Capital	Earnings			
Balance at December 31, 2009	99,956,833	\$1,000	\$459,542	\$405,198	\$(129)	\$252	\$865,863
Cumulative effect of adoption of ASC 810 (FASB Statement No. 167), net of tax	—	—	—	2,274	—	—	2,274
Net income	—	—	—	37,984	—	8	37,992
Issuance of common stock awards to employees	9,865	—	—	—	—	—	—
Exercise of common stock options	752,595	7	3,604	—	—	—	3,611
Equity-based compensation	7,654	—	4,354	—	—	—	4,354
Other comprehensive loss, net of income taxes	—	—	—	—	(9,263)	(14)	(9,277)
Balance at December 31, 2010	100,726,947	1,007	467,500	445,456	(9,392)	246	904,817
Net income (loss)	—	—	—	78,331	—	(8)	78,323
Issuance of common stock	28,750,000	288	354,157	—	—	—	354,445
Exercise of common stock	410,977	4	1,269	—	—	—	1,273

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options							
Equity-based compensation	11,364	—	3,195	—	—	—	3,195
Distribution to non-controlling interest holder	—	—	—	—	—	(247)	(247)
Other comprehensive income, net of income taxes	—	—	—	—	1,496	9	1,505
Balance at December 31, 2011	129,899,288	\$1,299	\$826,121	\$523,787	\$(7,896)) \$—	\$1,343,311
Net income	—	—	—	180,923	—	—	180,923
Discount – Preferred stock beneficial conversion feature	—	—	8,688	—	—	—	8,688
Preferred stock dividend	—	—	—	(145)	—	—	(145)
Conversion of 3.25% Convertible Notes	4,635,159	46	56,364	—	—	—	56,410
Exercise of common stock options	1,082,944	11	6,276	—	—	—	6,287
Equity-based compensation	20,541	—	14,493	—	—	—	14,493
Other comprehensive income, net of income taxes	—	—	—	—	1,455	—	1,455
Balance at December 31, 2012	135,637,932	\$1,356	\$911,942	\$704,565	\$(6,441)) \$—	\$1,611,422

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income	\$ 180,923	\$ 78,323	\$ 37,992
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of mortgage servicing rights	72,897	42,996	31,455
Amortization of debt discount	3,259	8,853	5,389
Amortization of debt issuance costs – senior secured term loan	3,718	9,764	2,086
Depreciation	5,720	4,160	7,512
Write-off of investment in commercial real estate property	—	—	3,000
Provision for (reversal of) valuation allowance on mortgage servicing assets	88	(574)	(90)
Loss on trading securities	—	—	7,968
Loss on loans held for sale, net	3,364	4,529	5,865
Loss on deconsolidation of variable interest entities	3,167	—	—
Equity in losses (earnings) of unconsolidated entities	(114)	746	(1,371)
Realized and unrealized losses on derivative financial instruments	4,294	7,426	133
Loss (gain) on extinguishment of debt	2,167	(3,651)	(152)
Decrease (increase) in deferred tax assets, net	62,393	29,898	(7,764)
Net cash provided by trading activities	—	—	239,555
Net cash provided by loans held for sale activities	67,172	1,468	1,771
Changes in assets and liabilities:			
Decrease in advances and match funded advances	1,443,643	842,545	447,219
Decrease (increase) in receivables and other assets, net	(53,870)	(36,452)	(48,468)
Increase (decrease) in servicer liabilities	1,750	(1,196)	(36,180)
Increase (decrease) in other liabilities	(4,343)	(15,470)	24,637
Other, net	19,626	8,780	6,987
Net cash provided by operating activities	1,815,854	982,145	727,544
Cash flows from investing activities			
Cash paid to acquire Homeward Residential Holdings, Inc.	(524,213)	—	—
Cash paid to acquire Litton Loan Servicing LP	—	(2,646,700)	—
Cash paid to acquire HomEq Servicing (a business within Barclays Bank PLC)	—	—	(1,167,122)
Investment in unconsolidated entities	—	(15,340)	—
Distributions of capital from unconsolidated entities	3,226	2,415	3,542
Purchase of mortgage servicing rights, net	(180,039)	—	(23,425)
Proceeds from sale of beneficial interest in consolidated variable interest entities	3,020	—	—
Acquisition of advances in connection with the purchase of mortgage servicing rights	(1,920,437)	—	(528,882)
	76,334	—	—

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Proceeds from sale of advance financing subsidiary and special purpose entity			
Proceeds from sale of match funded advances	2,824,645	—	—
Additions to premises and equipment	(19,217)	(3,822)	(3,821)
Purchase of real estate	(6,501)	—	—
Proceeds from sales of real estate	1,701	1,678	2,434
Decrease in restricted cash – for securitization investors	103	52	1,028
Principal payments received on loans – restricted for securitization investors	3,230	5,250	5,616
Proceeds from sale of investments in affordable housing projects	—	929	6,036
Other	1,018	420	888
Net cash provided by (used in) investing activities	262,870	(2,655,118)	(1,703,706)
Cash flows from financing activities			
Proceeds from (repayment of) match funded liabilities	(1,665,330)	1,076,422	1,016,838
Repayment of secured borrowings – owed to securitization investors	(6,080)	(9,382)	(9,346)
Proceeds from lines of credit and other secured borrowings	204,784	563,500	448,316
Repayments of lines of credit and other secured borrowings	(822,137)	(281,768)	(263,442)
Payment of debt issuance costs – senior secured term loan	(1,052)	(13,147)	(10,689)
Proceeds from sale of mortgage servicing rights accounted for as a financing	320,381	—	—
Repayment of investment line	—	—	(156,968)
Redemption of 10.875% Capital Securities	(26,829)	—	(11,659)
Issuance of common stock	—	354,445	—
Exercise of common stock options	6,005	1,483	3,146
Other	(12,570)	(2,142)	(3,157)
Net cash (used in) provided by financing activities	(2,002,828)	1,689,411	1,013,039
Net increase in cash	75,896	16,438	36,877
Cash at beginning of year	144,234	127,796	90,919
Cash at end of year	\$220,130	\$144,234	\$127,796
Supplemental cash flow information			
Interest paid	\$219,825	\$128,947	\$88,354
Income tax payments, net	37,199	29,461	6,756
Supplemental non-cash investing and financing activities			
Conversion of 3.25% Convertible Notes to common stock	\$56,410	\$—	\$—
Supplemental business acquisition information			
Fair value of assets acquired			
Cash	\$(79,511)	\$(23,791)	\$—
Loans held for sale	(558,721)	—	—
Advances	(2,266,882)	(2,468,137)	(1,063,180)
Mortgage servicing rights	(358,119)	(144,314)	(84,324)
Deferred tax assets	(47,346)	—	—
Premises and equipment	(16,803)	(3,386)	(6,728)
Goodwill	(300,843)	(57,430)	(12,810)
Debt service accounts	(69,287)	—	—
Receivables and other assets	(62,371)	(4,888)	(7,957)
	(3,759,883)	(2,701,946)	(1,174,999)

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Fair value of liabilities assumed			
Match funded liabilities	1,997,459	—	—
Lines of credit and other secured borrowings	864,969	—	—
Servicing liabilities	—	8,972	709
Checks held for escheat	16,418	3,939	4,616
Accrued expenses and other liabilities	115,313	18,544	4,001
Total consideration	(765,724)	(2,670,491)	(1,165,673)
Issuance of preferred stock as consideration	162,000	—	—
Amount due from seller for purchase price adjustments	—	—	(1,449)
Cash paid	(603,724)	(2,670,491)	(1,167,122)
Less cash acquired	79,511	23,791	—
Net cash paid	\$(524,213)	\$(2,646,700)	\$(1,167,122)

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands, except per share data and unless otherwise indicated)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen or OCN) is a financial services holding company which, through its subsidiaries, is engaged in the servicing and origination of mortgage loans. Ocwen is headquartered in Atlanta, Georgia with offices in Florida, Texas, New Jersey, United States Virgin Islands (USVI) and Washington, DC and support operations in India and Uruguay. Ocwen is a Florida corporation organized in February 1988. Ocwen Loan Servicing, LLC (OLS), a wholly-owned subsidiary, is licensed to service mortgage loans in all 50 states, the District of Columbia and two U.S. territories.

At December 31, 2012, Ocwen directly or indirectly owned all of the outstanding stock of its primary operating subsidiaries: OLS, Ocwen Financial Solutions Private Limited, Ocwen Mortgage Servicing, Inc. (OMS) and Homeward Residential Holdings, Inc. (Homeward). OMS is a corporation formed on February 27, 2012 under the laws of the USVI and is a wholly owned subsidiary of OCN. OMS has its principal place of business in St. Croix, USVI. As disclosed below, we acquired Homeward, a Delaware corporation, through a merger transaction which closed on December 27, 2012.

Ocwen also holds a 49% equity interest in Correspondent One S.A. (Correspondent One), an entity formed with Altisource Portfolio Solutions S.A. (Altisource) in March 2011, a 26% interest in Ocwen Structured Investments, LLC (OSI) and an approximate 25% interest in Ocwen Nonperforming Loans, LLC (ONL) and Ocwen REO, LLC (OREO). The assets of ONL and OREO were liquidated to cash, and the entities were subsequently dissolved in December 2012. As part of the Homeward Acquisition, we acquired a 69.79% equity interest in Powerlink Settlement Services, LP.

On December 27, 2012, Ocwen completed the merger by and among Ocwen, O&H Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Ocwen, Homeward and WL Ross & Co. LLC, a Delaware limited liability company as shareholder representative, pursuant to which O&H Acquisition Corp. merged with and into Homeward with Homeward continuing as the surviving corporation and becoming a wholly-owned subsidiary of

Ocwen (the Homeward Acquisition). Homeward engages in the servicing of residential mortgage loans, the majority of which are nonprime, and also originates prime loans.

On September 1, 2011, Ocwen completed its acquisition (the Litton Acquisition) of (i) all the outstanding partnership interests of Litton Loan Servicing LP (Litton), a subsidiary of The Goldman Sachs Group, Inc. (Goldman Sachs) and a provider of servicing and subservicing of primarily non-prime residential mortgage loans and (ii) certain interest-only servicing securities previously owned by Goldman Sachs & Co., also a subsidiary of Goldman Sachs (collectively referred to as the Litton Loan Servicing Business).

On September 1, 2010, Ocwen, through OLS, completed its acquisition (the HomEq Acquisition) of the U.S. non-prime mortgage servicing business within Barclays Bank PLC known as “HomEq Servicing” including, but not limited to, the mortgage servicing rights and associated servicer advances of the business as well as the servicing platforms.

See Note 2 for additional information regarding the Homeward Acquisition, Litton Acquisition and HomEq Acquisition.

Principles of Consolidation

Our financial statements include the accounts of Ocwen, its majority-owned subsidiaries and any variable interest entity (VIE) where we have determined that Ocwen is the primary beneficiary. We apply the equity method of accounting to investments when the entity is not a VIE, and we are able to exercise significant influence, but not control, over the policies and procedures of the entity but own 50% or less of the voting securities. We account for our investments in OSI, ONL, OREO and Correspondent One using the equity method. We have eliminated intercompany accounts and transactions in consolidation.

Variable Interest Entities

We evaluate each special purpose entity (SPE) for classification as a VIE. When an SPE meets the definition of a VIE and we determine that Ocwen is the primary beneficiary, we include the SPE in our consolidated financial statements.

We have determined that the SPEs created in connection with the match funded financing facilities discussed below are VIEs of which we are the primary beneficiary. We also determined that we were the primary beneficiary for four residential mortgage loan securitization trusts.

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Securitizations and Asset Backed Financing Arrangements

Ocwen or its subsidiaries have been a transferor in connection with a number of securitizations and asset-backed financing arrangements. We have continuing involvement with the financial assets of five of the securitizations and nine of the asset-backed financing arrangements. We have aggregated these securitizations and asset-backed financing arrangements into two groups: (1) securitizations of residential mortgage loans and (2) financings of advances on loans serviced for others.

Securitizations of Residential Mortgage Loans. In prior years, we securitized residential mortgage loans using certain trusts. We accounted for these transactions as sales even though we continued to be involved with the trusts, typically by acting as the servicer or sub-servicer for the loans held by the trust and by retaining a beneficial ownership interest in the trust. The beneficial interests that we held consisted of both subordinate and residual securities that were either retained at the time of the securitization or subsequently acquired. We held beneficial interests in five of these trusts. We also acquired residual and subordinated interests in six additional trusts where we were not the transferor but were the servicer.

Effective January 1, 2010, as a result of our adoption of Accounting Standards Update (ASU) No. 2009-16 (Accounting Standards Codification (ASC) 860, Transfers and Servicing) and ASU 2009-17 (ASC 810, Consolidation), we included four of these eleven trusts in our consolidated financial statements because we determined that our involvement represented a variable interest and that we were the primary beneficiary of the trusts. We did not consolidate the remaining trusts because our involvement did not represent a variable interest. In December 2012, we sold the beneficial interests that we held in the four consolidated securitization trusts. We then deconsolidated the trusts and recognized a loss of \$3,167. We also sold our retained interests in two of the unconsolidated trusts.

The beneficial interests that we hold in the five remaining unconsolidated securitization trusts have no value and no potential for significant cash flows in the future. In addition, at December 31, 2012, we had no other significant assets in our consolidated financial statements related to these trusts. We have no obligation to provide financial support to unconsolidated securitization trusts and have provided no such support. The creditors of the trusts can look only to the assets of the trusts themselves for satisfaction of the debt issued by the trusts and have no recourse against the assets of Ocwen. The general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement with the trusts is limited to the carrying values, if any, of our investments in the residual and subordinate securities of the trusts, the mortgage servicing rights (MSRs) that are related to the trusts and the advances to the trusts. We consider the probability of loss arising from our advances to be remote because of their position ahead of most of the other liabilities of the trusts. See Note 6 and Note 8 or additional information regarding Advances and Mortgage servicing rights.

Financings of Advances on Loans Serviced for Others. Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because the transfers do not qualify for sales accounting treatment or because Ocwen is the primary beneficiary of the SPE.

These SPEs issue debt supported by collections on the transferred advances. We made these transfers under the terms of our advance facility agreements. We classify the transferred advances on our Consolidated Balance Sheet as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the entity. Holders of the debt issued by these entities can look only to the assets of the entities themselves for satisfaction of the debt and have no recourse against Ocwen. OLS had previously guaranteed the payment of obligations under the securitization documents of one of the entities; however, in September 2012, the notes outstanding under this facility were repaid, and the facility was terminated. The assets and liabilities of the advance financing SPEs are comprised solely of Match funded advances, Debt service accounts, Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation.

See Note 7, Note 11 and Note 13 for additional information regarding Match funded advances, Debt service accounts and Match funded liabilities.

Reclassification

As disclosed above, following our sale of the retained beneficial interests in December 2012, we deconsolidated the four securitization trusts that we began including in our consolidated financial statements effective January 1, 2010. As a result, we have made the following reclassifications within the assets and liabilities sections of the Consolidated Balance Sheet at December 31, 2011:

- Reclassified Restricted cash – for securitization investors balance of \$675 to Other assets;
- Reclassified Loans, net – restricted for securitization investors balance of \$58,560 to Other assets; and

Reclassified Secured borrowings – owed to securitization investors balance of \$53,323 to Other liabilities to conform to the December 31, 2012 presentation.

In addition, within the assets section of the Consolidated Balance Sheet at December 31, 2011, we:

- Reclassified Debt service accounts from Other assets to a separate line item; and
- Reclassified Loans held for sale, at lower of cost or fair value balance of \$20,633 to Other assets.

Cash

Cash includes both interest-bearing and non-interest-bearing demand deposits with financial institutions that have original maturities of 90 days or less.

Trading Securities

Trading securities includes other investments with original maturities of three months or less that we do not treat as cash equivalents.

We account for investments in auction rate, investment grade, residual and subordinate securities as trading securities at fair value. We report changes in fair value in gain (loss) on trading securities in the period of the change. We determine fair value based either on third party dealer quotations, where available, or on internal values determined using market based assumptions.

We recognize interest income on subordinate and residual securities through an “effective yield” method with changes in expected future cash flows reflected in the yield on a prospective basis. We adjust the prospective yield each time the estimates of expected future cash flows change or the actual cash flows differ from projections. We use the newly calculated yield in the accrual of interest income for subsequent reporting periods.

At December 31, 2012, our investment in trading securities was \$0.

Loans Held for Sale

As part of the Homeward Acquisition, we acquired Homeward's prime residential loan origination platform. These loans are originated or purchased and held until sold to secondary market investors. The loans are typically warehoused for a period after origination or purchase before they are sold into the secondary market, primarily to Government Sponsored Enterprises (GSEs). The servicing rights and servicing obligations of mortgage loans are generally retained upon sale into the secondary market. We elected to measure these loans at fair value on a recurring basis. At each reporting date, we measure the loans at fair value and report changes in fair value in earnings in the period in which the changes occur.

We account for all other residential mortgage loans that we do not intend to hold to maturity at the lower of cost or fair value computed on an aggregate basis. We account for the excess of cost over fair value as a valuation allowance and include changes in the valuation allowance in gain (loss) on loans held for sale, net, in the period in which the change occurs.

We accrue interest income as earned. We place loans on non-accrual status after any portion of principal or interest has been delinquent greater than 89 days or earlier if management determines the borrower is unable to continue performance. When we place a loan on non-accrual status, we reverse interest accrued but not received. We return loans to accrual status only when we reinstate the loan and have no significant uncertainty as to collectibility.

Mortgage Servicing Rights

MSRs are an intangible asset representing the right to service a portfolio of mortgage loans. We generally obtain MSRs through asset purchases or business combination transactions. We also retain servicing rights on originated loans when they are sold in the secondary market.

An agreement between the various parties to a mortgage securitization transaction typically specifies the rights and obligations of the holder of the MSRs which include guidelines and procedures for servicing the loans. Two examples of these guidelines and procedures include remittance and reporting requirements. Assets serviced for others are not included on our balance sheet.

Custodial accounts, which hold funds representing collections of principal and interest we receive from borrowers (float balances), are held in escrow by an unaffiliated bank and excluded from our Consolidated Balance Sheet.

All newly acquired MSRs are initially measured at fair value. Subsequent to acquisition, we account for MSRs using the amortization method or the fair value measurement method, based on our strategy for managing the risks of the underlying portfolios. For certain of the servicing assets we acquired in the Homeward Acquisition, we manage the effects of interest rate risk with derivative financial instruments. We elected to account for this class of servicing assets using the fair value measurement method. We recognize a servicing liability for those agreements that are not expected to compensate us adequately for performing the servicing.

For servicing assets or liabilities that we account for using the amortization method, we amortize the balances in proportion to and over the period of estimated net servicing income (if servicing revenues exceed servicing costs) or net servicing loss (if servicing costs exceed servicing revenues). We assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date. We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio, which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust amortization prospectively in response to changes in estimated projections of future cash flows. We perform an impairment analysis based on the difference between the carrying amount and estimated fair value after grouping our loans into the applicable strata based on one or more of the predominant risk characteristics of the underlying loans and recognize any impairment through a valuation allowance. We adjust the valuation allowance to reflect subsequent changes in the measurement of impairment. Fair value in excess of the carrying amount of servicing assets for that stratum, however, is not recognized.

For servicing assets or liabilities that we account for at fair value on a recurring basis, we measure the balances at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

Mortgage Servicing Fees and Advances

We earn fees for servicing mortgage loans. We collect servicing fees, generally expressed as a percent of unpaid principal balance (UPB) from the borrowers' payments. We also include late fees, prepayment penalties, float earnings and other ancillary fees in servicing income. We recognize servicing fees as revenue when the fees are earned which is generally when the borrowers' payments are collected or when loans are modified or liquidated through the sale of the underlying real estate collateral or otherwise.

During any period in which the borrower does not make payments, most of our servicing agreements require that we advance our own funds to meet contractual principal and interest remittance requirements for the investors, to pay property taxes and insurance premiums and to process foreclosures. We also advance funds to maintain, repair and market foreclosed real estate properties on behalf of investors. These advances are made pursuant to the terms of each servicing contract. Each servicing contract is associated with specific loans, identified as a pool.

When we make an advance on a loan under each servicing contract, we are entitled to recover that advance either from the borrower, for reinstated and performing loans, or from investors, for foreclosed loans. Most of our servicing contracts provide that the advances made under the respective agreement have priority over all other cash payments from the proceeds of the loan, and in the majority of cases, the proceeds of the pool of loans, which are the subject of that servicing contract. As a result, we are entitled to repayment from loan proceeds before any interest or principal is paid on the bonds, and in the majority of cases, advances in excess of loan proceeds may be recovered from pool level proceeds.

We record a charge to earnings to the extent that we believe advances are uncollectible under the provisions of each servicing contract taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance. However, we are generally only obligated to advance funds to the extent that we believe the advances are recoverable from expected proceeds from the loan. We assess collectibility using proprietary cash flow projection models which incorporate a number of different factors, depending on the characteristics of the mortgage loan or pool, including, for example, time to a foreclosure sale, estimated costs of foreclosure action, future property tax payments and the value of the underlying property net of carrying costs, commissions and closing costs.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of the net assets acquired.

We test goodwill for impairment annually or sooner if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its net carrying value. Effective with our adoption of *ASU 2011-08 (ASC 350, Intangibles – Goodwill and Other): Testing Goodwill for Impairment* in the fourth quarter of 2011, we have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. If we elect to bypass the qualitative assessment or if we determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not (defined as having a likelihood of more than 50 percent) less than the carrying value, a two-step quantitative test is required. Otherwise, no further testing is required. Factors that we consider in the qualitative assessment include general economic conditions, conditions of the industry and market in which we operate, regulatory developments, cost factors and our overall financial performance.

In the first step of the two-step quantitative assessment, we compare the fair value of the reporting unit with its net carrying value, including goodwill. If the net carrying value of the reporting unit exceeds its fair value, we then perform the second step of the impairment test to measure the amount of impairment loss, if any. The second step requires allocation of the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill (implied fair value of goodwill). If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess up to the carrying value of goodwill.

In performing the quantitative two-step impairment analysis for goodwill, we use an approach based on the fair value of the assets and liabilities. We perform this analysis using projections of future income discounted at a market rate. The determination of market discount rates is subjective and could vary based on the nature of the underlying business, stage of development and revenue to date. The projections of future cash flows and assumptions concerning future operating performance and economic conditions may differ from actual results.

We perform our annual impairment test of goodwill as of August 31st of each year. Based on our 2012 annual assessment, we determined that goodwill was not impaired.

Premises and Equipment

We report premises and equipment at cost and, except for land, depreciate them over their estimated useful lives on the straight-line method as follows:

Computer hardware and software	2 – 3 years
Leasehold improvements	Term of the lease not to exceed useful life

Furniture and fixtures	5 years
Office equipment	5 years

Investment in Unconsolidated Entities

We account for our investments in unconsolidated entities using the equity method. These investments include both entities in which we hold a significant, but less than controlling, ownership interest and VIEs in which we are not deemed to be the primary beneficiary. Under the equity method of accounting, investments are initially recorded at cost and thereafter adjusted for additional investments, distributions and the proportionate share of earnings or losses

of the investee. We evaluate our equity method investments for impairment when events or changes in circumstances indicate that any other-than-temporary decline in value may have occurred. We stop recording our share of investee losses if our share of losses reduces our investment to zero unless we have guaranteed the obligations of or are otherwise committed to provide further financial support to the investee. If the investee subsequently reports net income, we will only continue to record our share of the net income after our share of net income equals the share of net losses not recognized during the periods that the recording of losses was suspended.

Litigation

We monitor our legal matters, including advice from external legal counsel, and periodically perform assessments of these matters for potential loss accrual and disclosure. We establish reserves for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated. We recognize our legal costs associated with loss contingencies as they are incurred.

Derivative Financial Instruments

We recognize all derivatives on our consolidated balance sheet at fair value. On the date we enter into a derivative contract, we designate and document each derivative contract as one of the following at the time the contract is executed: (a) a hedge of a recognized asset or liability (fair value hedge); (b) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (c) a hedge of a net investment in a foreign operation; or (d) a derivative instrument not designated as a hedging instrument. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, the documentation must include the risk management objective and strategy. We assess and document quarterly the extent to which a derivative has been and is expected to continue to be effective in offsetting the changes in the fair value or the cash flows of the hedged item. To assess effectiveness, we use statistical methods, such as regression analysis, as well as nonstatistical methods including dollar-offset analysis. For a fair value hedge, we record changes in the fair value of the derivative and, to the extent that it is effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in the same financial statement category as the hedged item on the face of the statement of operations. For a cash flow hedge, to the extent that it is effective, we record changes in the estimated fair value of the derivative in other comprehensive income. We subsequently reclassify these changes in estimated fair value to net income in the same period, or periods, that the hedged transaction affects earnings and in the same financial statement category as the hedged item. For a derivative instrument not designated as a hedging instrument, we report changes in the fair values in current period Other income (expense), net.

If a derivative instrument in a cash flow hedge is terminated or the hedge designation is removed, we reclassify related amounts in accumulated other comprehensive income into earnings in the same period or periods during which the cash flows that were hedged affect earnings. In a period where we determine that it is probable that a hedged forecasted transaction will not occur, such as variable-rate interest payments on debt that has been repaid in advance, any related amounts in accumulated other comprehensive income are reclassified into earnings in that period.

The cash collateral held by counterparties to our derivative agreements is included in Other assets.

Match Funded Liabilities, Lines of Credit and Other Secured Borrowings

Match funded liabilities, lines of credit and other secured borrowings are collateralized by specific assets. Under the terms of these borrowing agreements, we are subject to various qualitative and quantitative covenants. Collectively, these covenants include:

- Specified net worth requirements
- Restrictions on future indebtedness
- Monitoring and reporting of various specified transactions or events, including specific reporting on defined events affecting collateral underlying certain borrowing agreements

We believe that we are currently in compliance with these covenants.

Aggregate long-term borrowings by maturity date are set forth below:

	Expected Maturity Date at December 31, 2012 (1)					There- after	Total Balance	Fair Value
	2013	2014	2015	2016	2017			
Match funded liabilities:								
Fixed rate	\$ 1,348,999	\$ 299,278	\$ —	\$ —	\$ —	\$ —	\$ 1,648,277	\$ 1,648,810
Variable rate	495,592	388,876	—	—	—	—	884,468	884,468
Lines of credit and other borrowings (2)	774,508	—	18,466	—	—	—	792,974	797,799
	\$ 2,619,099	\$ 688,154	\$ 18,466	\$ —	\$ —	\$ —	\$ 3,325,719	\$ 3,331,077

(1)

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For match funded liabilities, the expected maturity date is the date on which the revolving period ends for each advance financing facility note and repayment of the outstanding balance must begin if the note is not renewed or extended.

Excludes the liability of \$303,705 recorded in connection with sales of Rights to MSRs accounted for as a (2) financing. This financing liability has no contractual maturity and is amortized over the life of the pledged MSRs. See Note 14 for additional information regarding this financing liability.

The interest rate for 1-Month LIBOR was 0.21% and 0.30%, respectively, at December 31, 2012 and 2011. See Note 13, Note 14 and Note 15 for additional information regarding the terms of our borrowings.

Foreign Currency Translation

Where the functional currency is not the U.S. dollar, we translate assets and liabilities of foreign entities into U.S. dollars at the current rate of exchange existing at the balance sheet date, while revenues and expenses are translated at average monthly exchange rates. We report the resulting translation adjustments as a component of accumulated other comprehensive income in stockholders' equity. Where the functional currency of a foreign entity is the U.S. dollar, re-measurement adjustments of foreign-denominated amounts are included in the results of operations.

Income Taxes

We file consolidated federal income tax returns. We allocate consolidated income tax among all subsidiaries included in the consolidated return as if each subsidiary filed a separate return or, in certain cases, a consolidated return.

We account for income taxes using the asset and liability method which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Additionally, we adjust deferred taxes to reflect estimated tax rate changes. We conduct periodic evaluations to determine whether it is more likely than not that some or all of our deferred tax assets will not be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that we can implement if warranted. We provide a valuation allowance for any portion of our deferred tax assets that, more likely than not, will not be realized. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. We recognize interest and penalties related to income tax matters in income tax expense.

Basic and Diluted Earnings per Share

We calculate basic earnings per share based upon the weighted average number of shares of common stock outstanding during the year. We calculate diluted earnings per share based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the estimated impact of the exercise of the outstanding options to purchase common stock using the treasury stock method. The computation of diluted earnings per share also includes the potential shares of converted common stock associated with our Series A Perpetual Convertible Preferred Stock and our Convertible Notes using the if-converted method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly significant in the near or medium term relate to fair value measurements, the provision for potential losses that may arise from litigation proceedings, the amortization of MSRs and the valuation of loans held for sale, goodwill and deferred tax assets.

Stock-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. For stock option awards with a service condition, we recognize the cost of the awards as compensation expense ratably over the vesting period. For stock options awarded with a market condition, we recognize the cost as compensation expense ratably over the expected life of the option that is derived from a lattice (binomial) options pricing model. When options with a market condition meet their vesting requirements, any unrecognized compensation at the vesting date is recognized ratably over the vesting period.

Recent Accounting Pronouncements

ASU 2011-03 (ASC 860, Transfers and Servicing): Reconsideration of Effective Control for Repurchase Agreements. Repurchase agreements are accounted for as secured borrowings (and therefore not as sales) if the transferor has not surrendered control over the transferred assets. The amendments in this ASU remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. Consequently, the amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The effect of these amendments is to reduce the criteria that must be met in order for the transaction to be accounted for as a secured borrowing. The guidance shall be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Our adoption of the provisions in this ASU effective January 1, 2012 did not have a material impact on our consolidated financial statements. See Note 14 for our disclosure of repurchase agreements, which we account for as a secured borrowing.

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. For example, the amendments specify that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. Other amendments prescribe certain additional disclosures about fair value measurements, including Level 3 fair value measurements and financial instruments not carried at fair value. See Note 4 for our fair value disclosures.

ASU 2011-05 (ASC 220, Comprehensive Income): Presentation of Comprehensive Income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires that an entity present reclassification adjustments from other comprehensive income to net income by component on the face of both the statement in which net income is presented and the statement in which other comprehensive income is presented. The FASB subsequently issued *ASU 2011-12: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers indefinitely the provision regarding the presentation of reclassification adjustments. Our adoption of ASU 2011-05 effective January 1, 2012 did not have a material impact on our consolidated financial statements.

ASU 2011-11, (ASC 210, Balance Sheet): Disclosures about Offsetting Assets and Liabilities. The amendments in this ASU require an entity to disclose information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The disclosures relate to financial instruments and derivative instruments that are either (1) offset on the balance sheet under existing accounting guidance or (2) subject to an enforceable master netting arrangement or similar agreement. The FASB subsequently issued *ASU 2013-01: Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, to clarify the scope of transactions that are subject to the disclosures about offsetting. ASU 2013-01 clarifies that ordinary trade receivables and receivables are not in the scope of ASU 2011-11. Specifically, the amendments clarify that ASU 2011-11 applies to derivatives accounted for in accordance with ASC 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210 or ASC 815 or subject to an enforceable master netting arrangement or similar agreement. Our adoption of these standards on January 1, 2013 did not have a material impact on our consolidated financial statements, as the requirements relate to disclosures only. This new guidance shall be applied retrospectively for all comparative periods presented.

NOTE 2 BUSINESS ACQUISITIONS

We completed the acquisitions of Homeward, Litton Loan Servicing Business and HomEq Servicing in order to expand our residential servicing business. We accounted for these transactions using the acquisition method which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. In a business combination, the initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (up to one year from the acquisition date). Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined business.

The pro forma consolidated results presented below for each business acquisition are not indicative of what Ocwen's consolidated net earnings would have been had we completed the acquisition on the dates indicated because of differences in servicing practices and cost structure between Ocwen and the acquiree. In addition, the pro forma consolidated results do not purport to project the future results of Ocwen combined nor do they reflect the expected

realization of any cost savings associated with each acquisition.

The acquisition of Homeward was treated as a stock purchase for U.S. tax purposes. The acquisitions of Litton Loan Servicing Business and HomEq Servicing are treated as asset acquisitions for U.S. tax purposes. We expect the opening tax basis for the acquired assets and liabilities to be the fair value as shown in the purchase price allocation tables below. We expect the MSRs and goodwill to be treated as intangible assets acquired in connection with the purchase of a trade or business and as such, amortized over 15 years for tax purposes.

Homeward Acquisition

Ocwen completed the merger which resulted in the acquisition of Homeward on December 27, 2012. In the Homeward Acquisition, we acquired the MSRs and subservicing for approximately 421,000 residential mortgage loans with a UPB of approximately \$77 billion. We also acquired Homeward's loan origination platform and its diversified fee-based business that includes property valuation, REO management, title, closing and advisory services. We expect to sell the acquired diversified-based business to Altisource in March 2013.

As consideration, Ocwen paid an aggregate purchase price of \$765,724. Of this amount, \$603,724 was paid in cash and \$162,000 was paid in Preferred Stock. \$85,000 of the consideration has been placed into escrow for a period of 21 months following the closing date to fund any loss sharing payments and certain other indemnification payments that may become owed to Ocwen, as well as to fund certain expenses. See Note 18

for information related to the preferred stock.

Payment of the cash consideration was financed, in part, by a \$100,000 incremental term loan from Barclays Bank PLC (Barclays) pursuant to the existing senior secured term loan (SSTL) facility we entered into on September 1, 2011 and \$75,000 from Altisource, pursuant to a new senior unsecured loan agreement. See Note 14 for additional information regarding the terms of these agreements.

Following the acquisition, we paid \$350,000 to terminate the senior credit facility and revolving line of credit that we assumed from Homeward.

Purchase Price Allocation

The following table summarizes the fair values of assets acquired and liabilities assumed as part of the Homeward Acquisition:

Cash	\$79,511
Loans held for sale (1)	558,721
Mortgage servicing rights (1)	358,119
Advances and match funded advances (1)	2,266,882
Deferred tax assets (1)	47,346
Premises and equipment (1)	16,803
Debt service accounts	69,287
Investment in unconsolidated entities (1)	5,485
Receivables and other assets (1)	56,886
Match funded liabilities	(1,997,459)
Lines of credit and other secured borrowings	(864,969)
Accrued bonuses	(35,201)
Checks held for escheat (1)	(16,418)
Other liabilities (1)	(80,112)
Total identifiable net assets	464,881
Goodwill (1)	300,843
Total consideration	\$765,724

(1) Initial fair value estimate

The estimated fair values of the assets acquired and liabilities assumed at the acquisition date, as set forth in the table above, includes some accounts that are based on preliminary fair value estimates. The following factors led to certain balances (denoted above) having preliminary fair value estimates:

- The proximity of the Homeward acquisition date (December 27, 2012) to our fiscal year end (December 31, 2012);
 - The complex nature of certain acquired assets and liabilities prevented us from completing our valuations and reconciliations;
 - We engaged a third party specialist to assist in valuing certain assets and liabilities and this work is not yet complete; and
- Underlying information such as UPB and other loan level details have not yet been boarded and reconciled onto our servicing platform and therefore we have not been able to fully validate and reconcile certain assets and liability balances correlated with UPB data.

Our purchase agreement with Homeward allows for us to fully assess the valuation of the assets and liabilities acquired during an evaluation period that extends beyond the date of these consolidated financial statements. Because the measurement period is still open we expect that certain fair value estimates will change once we receive all information necessary to make a final fair value assessment. We expect that the measurement period will extend until at least June 30, 2013. Any measurement period adjustments that we determine to be material will be applied retrospectively to the period of acquisition in our consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

Post-Acquisition Results of Operations

The following table presents the revenue and earnings of the Homeward that is included in our Consolidated Statement of Operations from the acquisition date of December 27, 2012 through December 31, 2012:

Revenues	\$5,881
Net income	\$44

Pro Forma Results of Operations

The following table presents supplemental pro forma information as if the acquisition of Homeward occurred on January 1, 2011. Pro forma adjustments include:

- conforming servicing revenues to the revenue recognition policy followed by Ocwen;
- conforming the accounting for MSR to the valuation and amortization policies of Ocwen;

reversing depreciation recognized by Homeward and reporting depreciation based on the estimated fair values and remaining lives of the acquired premises and equipment at the date of acquisition;
 adjusting interest expense to eliminate the pre-acquisition interest expense of Homeward and to recognize interest expense as if the acquisition-related debt of Ocwen had been outstanding at January 1, 2011 and
 reporting acquisition-related charges for professional services related to the acquisition as if they had been incurred in 2011 rather than 2012.

	2012 (Unaudited)	2011 (Unaudited)
Revenues	\$ 1,362,927	\$ 1,085,914
Net income (loss)	\$ 254,051	\$ 163,647

Through December 31, 2012, we incurred approximately \$990 of fees for professional services related to the Homeward Acquisition that are included in Operating expenses.

Litton Acquisition

Ocwen completed its acquisition of the Litton Loan Servicing Business on September 1, 2011. The Litton Acquisition included a servicing portfolio of approximately 245,000 primarily non-prime residential mortgage loans with approximately \$38.6 billion in UPB and the servicing platform of the Litton Loan Servicing Business based in Houston, Texas and McDonough, Georgia.

The base purchase price for the Litton Acquisition was \$247,154, which was paid in cash by Ocwen at closing. In addition and as part of the closing, Ocwen repaid Litton's \$2.4 billion outstanding debt on an existing servicing advance financing facility and entered into a new advance financing facility under which it borrowed \$2.1 billion. On September 1, 2011, Ocwen and certain of its subsidiaries also entered into a \$575,000 SSTL facility agreement to fund the base purchase price and the difference between the proceeds from the new advance financing facility and the amount repaid on Litton's existing facility.

The base purchase price was increased by \$214 as a result of post-closing adjustments specified in the purchase agreement for changes in Litton's estimated closing date net worth, servicing portfolio UPB and advance balances, among others. There were no adjustments to the purchase price subsequent to December 31, 2011.

Purchase Price Allocation

In August 2012, we finalized the purchase price allocation and recognized the following measurement-period adjustments:

	December 31, 2011	Adjustments	Final
Cash	\$23,791	\$ —	\$23,791
Advances	2,468,137	—	2,468,137
MSRs	144,314	—	144,314
Premises and equipment	3,386	—	3,386
Receivables	2,159	(941)	1,218
Other assets	3,670	—	3,670
Servicing liabilities	(8,972)	—	(8,972)
Checks held for escheat	(6,145)	2,206	(3,939)
Accrued expenses	(25,471)	6,927	(18,544)
Total identifiable net assets	2,604,869	8,192	2,613,061
Goodwill	65,622	(8,192)	57,430
Total consideration	2,670,491	—	2,670,491
Litton debt repaid to Goldman Sachs at closing	(2,423,123)	—	(2,423,123)
Base purchase price, as adjusted	\$247,368	\$ —	\$247,368

The December 31, 2011 comparative balance sheet has been revised to reflect the above measurement period adjustments. These adjustments had no effect on earnings.

We estimated the fair value of the acquired advances, loans held for sale and MSRs and the assumed debt in a manner consistent with the methodology described in Note 4. Other assets and liabilities that are expected to have a short life were also valued at the face value of the specific assets and liabilities purchased, including receivables, prepaid expenses, accounts payable and accrued expenses.

Premises and equipment which consisted primarily of computer hardware and software were initially valued based on the “in-use” valuation premise, where the fair value of an asset is based on the highest and best use of the asset that would provide maximum value to market participants principally through its use with other assets as a group. The initial valuation presumed the continued operation of the Litton Loan Servicing Business platform as installed or otherwise configured for use. During the fourth quarter of 2011, we ceased operation of the Litton Loan Servicing Business platform and sold the computer hardware and software to Altisource for a cash purchase price of \$418 which was significantly less than the initial valuation because the individual assets were no longer valued as part of a working platform. As a result, we reduced the provisional fair value assigned to these assets at the acquisition date to a value that reflected their subsequent sales price and increased the amount allocated to goodwill. In addition, certain of the acquired premises and equipment were no longer in use and were written down to their salvage value. For those assets that were to be abandoned after year end but before the end of their previously estimated useful life, we adjusted depreciation to reflect the shortened life.

Additionally, the purchase agreement provided that the severance plans of Litton and Goldman Sachs remain in effect for one year. We recognized severance expense of \$10,119 during 2011 as steps taken to reorganize and streamline the operations of Litton obligated Ocwen to pay severance under those plans. Severance expense is included in Compensation and benefits in our Consolidated Statements of Operations.

In connection with the establishment of the match funded advance facility Ocwen funded a reserve in the initial amount of \$42,535 which is held by the facility Indenture Trustee for the benefit of the note holders. Ocwen also paid an \$11,500 arrangement fee in connection with the SSTL agreement. This fee along with the discount and certain other professional fees incurred in connection with the establishment of the facility are being amortized over the five-year life of the loan.

In connection with the Litton Acquisition, Ocwen, Goldman Sachs Bank USA, Litton and the New York State Banking Department have entered into an agreement (the NY Agreement) that sets forth certain loan servicing practices and operational requirements. No fines, penalties or other payments were assessed against Ocwen or Litton under the terms of the NY Agreement. We do not believe that our commitments under the NY Agreement will have a material impact on our financial statements.

Post-Acquisition Results of Operations

The following table presents the revenue and earnings of the Litton Loan Servicing Business that is included in our Consolidated Statement of Operations from the acquisition date of September 1, 2011 through December 31, 2011:

Revenues	\$62,750
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Net loss (1) \$(20,910)

(1) Net loss includes non-recurring transaction related expenses of \$49,552, including (i) \$33,127 of severance and other compensation related to Litton employees, (ii) \$6,778 of amortization of the acquired MSR, (iii) \$1,967 of depreciation resulting from the write-down of certain of the acquired furniture and fixtures that are no longer in use and (iv) \$384 of fees for professional services related to the acquisition. Net loss does not include an allocation of costs related to the servicing of the Litton loans on Ocwen's platform. We computed income taxes using a combined statutory rate of 36.12% for federal and state income taxes.

Pro Forma Results of Operations

The following table presents supplemental pro forma information as if the acquisition of Litton occurred on January 1, 2010. Pro forma adjustments include:

- conforming revenues to the revenue recognition policy followed by Ocwen;
- conforming the accounting for MSR to the valuation and amortization policy of Ocwen;
- reversing depreciation recognized by Litton and reporting depreciation based on the estimated fair values and remaining lives of the acquired premises and equipment at the date of acquisition;
- adjusting interest expense to eliminate the pre-acquisition interest expense of Litton and to recognize interest expense as if the acquisition-related debt of Ocwen had been outstanding at January 1, 2010; and
- reporting acquisition-related charges, including severance paid to Litton employees and fees for professional services related to the acquisition as if they had been incurred in 2010 rather than 2011.

	2011 (Unaudited)	2010 (1) (Unaudited)
Revenues	\$ 642,033	\$ 632,721
Net income (loss)	\$ 52,407	\$ (169,886)

- (1) In December 2010, Litton deemed goodwill to be wholly impaired and wrote off the balance of \$154,065. Litton also recorded a provision for losses on servicing advances of \$33,734 in 2010.

Through December 31, 2011, we incurred approximately \$1,170 of fees for professional services related to the Litton Acquisition that are included in Operating expenses.

HomEq Acquisition

Ocwen completed the HomEq Acquisition on September 1, 2010. This transaction did not result in the transfer of ownership of any legal entities.

With the close of the HomEq Acquisition, OLS boarded 134,000 residential mortgage loans with an aggregate unpaid principal balance of \$22.4 billion onto its servicing platform.

OLS paid an initial aggregate purchase price of \$1.2 billion in cash upon completion of the HomEq Acquisition. Of this amount, \$852,617 was funded by notes issued by a new \$1.0 billion structured servicing advance financing facility, \$150,000 was paid from funds held in escrow in accordance with the terms of the new \$350,000 SSTL facility and \$194,130 consisted of cash and funds borrowed pursuant to the SSTL facility. See Note 13 and Note 14 for additional details regarding the terms of the notes supporting these facilities. The initial purchase price was reduced by \$29,625 pursuant to an initial true-up of advances as reflected in the table below. We recorded a receivable of \$1,449 as of December 31, 2010 for amounts due to us for further true-up under adjustment mechanisms and repurchase rights as provided in the HomEq Agreement. We collected this receivable in 2011.

Purchase Price Allocation

The following table summarizes the final purchase price allocation:

Mortgage servicing rights	\$84,324
Advances	1,063,180
Receivables	7,957
Premises and equipment	6,728
Checks held for escheat	(4,616)
Accrued bonus	(3,037)

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Servicing liabilities	(709)
Other liabilities	(964)
Total identifiable net assets	1,152,863
Goodwill	12,810
Total consideration	\$1,165,673

We estimated the fair value of the acquired advances, loans held for sale and MSRs and the assumed debt in a manner consistent with the methodology described in Note 4. Other assets and liabilities that are expected to have a short life were also valued at the face value of the specific assets and liabilities purchased, including receivables, prepaid expenses, accounts payable and accrued expenses.

The valuation of premises and equipment was based on the in-use valuation premise where the highest and best use of the assets would provide maximum value to market participants principally through its use with other assets as a group. This valuation presumed the continued operation of the HomEq platform as installed or otherwise configured for use. The acquired premises and equipment consisted primarily of leasehold improvements. Subsequent to the acquisition, we vacated the leased premises in 2010 following termination of the former HomEq employees and recorded a charge of \$5,840 to write off the leasehold improvements. We sold the equipment acquired from HomEq to Altisource for cash proceeds equal to the acquisition fair value of \$888.

The asset purchase agreement provided for a 90-day true-up process for Advances and Mortgage servicing rights under limited circumstances. Payment for advances in the amount of \$3,500 was held back in an escrow account under a four-year agreement during which Ocwen can seek reimbursement for existing and future uncollectible advances on certain pooling and servicing agreements under limited circumstances. Notwithstanding this holdback amount, the agreement provides for the reimbursement of uncollectible advances under all pooling and servicing agreements under limited circumstances.

Severance payments for all HomEq Servicing employees who entered an employment agreement with Ocwen were recorded as steps were taken that obligated Ocwen to pay severance for all such employees. Severance expense of \$20,727 is included in Compensation and benefits in our Consolidated Statement of Operations.

In connection with the establishment of the match funded advance facility Ocwen paid Barclays a \$10,110 securitization fee and funded a reserve in the initial amount of \$14,342 held by the facility Indenture Trustee for the benefit of the note holders.

Ocwen has no material financial obligation for litigation related to the operations of HomEq prior to the closing.

Post-Acquisition Results of Operations

The following table presents the revenue and earnings of HomEq Servicing that are included in our Consolidated Statement of Operations from the acquisition date of September 1, 2010 through December 31, 2010:

Revenues	\$43,127
Net loss (1)	\$(26,953)

(1) Net loss includes non-recurring transaction-related expenses of \$51,136, including (i) \$32,954 of severance and other compensation related to HomEq employees who accepted employment with Ocwen, (ii) \$7,794 of lease termination costs, (iii) \$5,840 of depreciation resulting from the write off of leasehold improvements, (iv) \$5,486 of amortization of the acquired MSR's and (v) \$2,556 of fees for professional services related to the acquisition. Net loss does not include an allocation of costs related to the servicing of the HomEq loans on Ocwen's platform. We computed income taxes using a combined statutory rate of 37% for federal and state income taxes.

Pro Forma Results of Operations

The following table presents supplemental pro forma information as if the acquisition of HomEq Servicing occurred on January 1, 2009. Pro forma adjustments include:

- conforming revenues to the revenue recognition policy followed by Ocwen;
- reversing revenues for servicing portfolios not acquired by Ocwen;
- conforming the accounting for MSR's to the valuation and amortization policy of Ocwen;
- reversing depreciation recognized by HomEq and reporting depreciation based on the estimated fair values and remaining lives of the acquired premises and equipment at the date of acquisition;
- adjusting interest expense to eliminate the pre-acquisition interest expense of HomEq and to recognize interest expense as if the acquisition-related debt of Ocwen had been outstanding at January 1, 2010; and

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reporting acquisition-related charges, including severance paid to HomEq employees and fees for professional services related to the acquisition as if they had been incurred in 2009 rather than 2010.

	2010 (Unaudited)
Revenues	\$ 458,548
Net income (loss)	\$ 42,786

Through December 31, 2010, we incurred approximately \$3,977 of fees for professional services related to the HomEq Acquisition which are also included in Operating expenses.

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Facility Closure Costs

During 2010, we incurred facility closure costs primarily consisting of severance, Worker Adjustment and Retraining Notification Act (WARN Act) compensation and lease termination costs for closure of the leased HomEq facilities. Following the acquisition, we terminated the former HomEq employees and vacated the leased facilities. During 2011 and 2012, we incurred similar costs related to the Litton Acquisition. The following table provides a reconciliation of the beginning and ending liability balances for these termination costs:

	Employee termination benefits (1)	Lease termination costs (2)	Total
Liability balance as at January 1, 2010	\$ —	\$ —	\$—
Additions charged to operations (3)	32,954	7,794	40,748
Payments	(31,622)	—	(31,622)
Liability balance as at December 31, 2010 (3)	1,332	7,794	9,126
Additions charged to operations (3)	33,127	—	33,127
Amortization of discount	—	99	99
Payments	(29,296)	(2,606)	(31,902)
Liability balance as at December 31, 2011 (3)	5,163	5,287	10,450
Additions charged to operations (3)	2,869	5,030	7,899
Amortization of discount	—	176	176
Payments	(8,032)	(5,602)	(13,634)
Liability balance as at December 31, 2012 (3)	\$ —	\$ 4,891	\$4,891

(1) Employee termination benefits include severance expense of \$20,727 and \$10,119 related to HomEq Servicing and Litton, respectively. The remaining liability for employee termination benefits related to the HomEq Acquisition was settled in 2011. We paid the liability for employee termination benefits related to the Litton Acquisition during 2012.

(2) The lease agreements that we assumed for the HomEq facilities expire in 2017 and 2018. In December 2010, we exercised our option to terminate the HomEq lease agreements effective in 2013 and provided formal notice to the lessors. At that time, we recorded a charge of \$7,794 to establish a reserve for the remaining lease payments discounted through the early termination date, including early termination penalties due in 2013. The balance at December 31, 2011 represented the remainder of the liability for the HomEq lease payments. In March 2012, we ceased using the Litton Georgia facility and recorded a charge of \$4,779 to establish a liability for the remaining lease payments discounted through the lease expiration date in 2017. This lease does not contain an option for early termination, and we are actively attempting to sublease the space. In June 2012, we negotiated a buyout of the lease on the HomEq California facility for \$2,900 which resulted in an additional expense of \$251 as the payment exceeded the liability, net of unamortized discount.

(3) All charges were recorded in the Servicing segment. Charges related to employee termination benefits and lease termination costs are reported in Compensation and benefits expense and Occupancy and equipment expense, respectively, in the Consolidated Statements of Operations. The liabilities are included in Other liabilities in the Consolidated Balance Sheet.

In addition to the HomEq facility closure costs described above, we recorded a depreciation charge of \$5,840 in 2010 to write off the leasehold improvements related to the closed HomEq facilities.

Goodwill

The following table provides a reconciliation of the beginning and ending balances of goodwill for 2012:

	Homeward Acquisition	Litton Acquisition	HomEq Acquisition	Total
Balance at December 31, 2011	\$ —	\$ 57,430	\$ 12,810	\$ 70,240
Homeward Acquisition	300,843	—	—	300,843
Balance at December 31, 2012	\$ 300,843	\$ 57,430	\$ 12,810	\$ 371,083

For Homeward, \$102,374 of the goodwill portion of the purchase price allocation has been assigned to the Servicing segment, \$121,458 has been assigned to the Lending segment and the remaining \$77,011 has been assigned to the diversified fee-based business which is included in Corporate Items and Other. For Litton and HomEq, the entire balance of goodwill pertains to the Servicing segment. As disclosed above, we finalized the Litton purchase price allocation in August 2012 and recognized measurement-period adjustments which resulted in a reduction in goodwill of \$8,192. The December 31, 2011 balance sheet was revised to reflect these adjustments. We have not recognized any impairment on the goodwill associated with these three business acquisitions.

NOTE 3 ASSET SALES AND FINANCING

On March 5, 2012, Ocwen completed its initial sale to Home Loan Servicing Solutions, Ltd. and its wholly owned subsidiary, HLSS Holdings, LLC (collectively referred to as HLSS), of the right to receive the servicing fees, excluding ancillary income, relating to certain mortgage servicing (Rights to MSR) for approximately \$15.2 billion of UPB and related servicing advances that we acquired in connection with the HomeEq Acquisition. HLSS also acquired HomeEq Servicer Advance Facility Transferor, LLC and HomeEq Servicer Advance Receivables Trust 2010-ADV1 (together the Advance SPEs). As a result of the acquisition of the Advance SPEs, HLSS also assumed the related match funded liabilities under the structured servicing advance financing facility that we entered into as part of the HomeEq Acquisition (the HomeEq Servicing advance facility), with the exception of the Class D Term Note which Ocwen agreed to repay prior to closing. The final purchase price of \$138,792 reflects post-closing adjustments that principally resulted from declines in match funded advances between February 28, 2012 and March 5, 2012. See Note 13 for additional information regarding the match funded liabilities assumed by HLSS.

Since the initial sale on March 5, 2012, Ocwen completed five additional sales to HLSS on May 1st, August 1st, September 13th, September 28th and December 26th of Rights to MSR for loans with approximately \$67.5 billion of UPB together with the related servicing advances. The initial and flow transactions with HLSS are collectively referred to as the HLSS Transactions. In 2012, Ocwen received total proceeds of \$3.1 billion from the flow transactions. On December 31, 2012, Ocwen recorded a receivable of \$1,410 from HLSS for post-closing adjustments that resulted from an increase in match funded advances and a decline in MSR through the closing date.

As part of the HLSS Transactions, Ocwen retains legal ownership of the MSR and continues to service the related mortgage loans. However, Ocwen will service the loans for a reduced fee because HLSS has assumed the match funded liabilities as well as the obligation for future servicing advances related to the MSR. Ocwen is obligated to transfer legal ownership of the MSR to HLSS if and when the required third party consents are obtained. At that time, Ocwen would commence subservicing the MSR under essentially the same terms and conditions pursuant to a subservicing agreement with HLSS which was executed on February 10, 2012.

The following table summarizes the sales price of the assets and liabilities acquired by HLSS in connection with the HLSS Transactions:

	Initial sale	Flow sales	Total
Sale of MSR accounted for as a financing (1)	\$62,458	\$254,149	\$316,607
Sale of match funded advances (2)	—	2,827,227	2,827,227
Sale of Advance SPEs:			
Match funded advances	413,374	—	413,374
Debt service account	14,786	—	14,786

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Prepaid lender fees and debt issuance costs	5,422	—	5,422
Other prepaid expenses	1,928	—	1,928
Match funded liabilities	(358,335)	—	(358,335)
Accrued interest payable and other accrued expenses	(841)	—	(841)
Net assets of Advance SPEs (3)	76,334	—	76,334
Sales price, as adjusted	138,792	3,081,376	3,220,168
Amount due from HLSS for post-closing adjustments at December 31, 2012	—	(1,410)	(1,410)
Cash received	\$138,792	\$3,079,966	\$3,218,758

(1) Reported in the Consolidated Statements of Cash Flows cash flows with financing activities as Proceeds from sale of mortgage servicing rights accounted for as a financing.

- (2) Reported in the Consolidated Statements of Cash Flows with investing activities as Proceeds from sale of match funded advances.
- (3) Reported in the Consolidated Statements of Cash Flows with investing activities as Proceeds from sale of advance financing subsidiary and special purpose entity.

Because Ocwen has retained legal title to the MSR, the sales to HLSS of Rights to MSR have been accounted for as financings. As a result, we have not derecognized the MSR, and we have established a liability equal to the sales price. If and when the third party consents are obtained, legal title will transfer to HLSS, and we expect to record a sale with the gain deferred and derecognize the MSR. Until such time, we continue to recognize the full amount of servicing revenue and amortization of the MSR. The sales proceeds represent the estimated fair value of the MSR. This excess amount will be realized over time as the MSR amortize. Our investment in the Advance SPE was sold at carrying value and accounted for as a sale. The consolidated assets and liabilities of the Advance SPE were derecognized at the time of the sale.

We have determined that the HLSS Transactions do not constitute the disposal of a business. Therefore, there was no need to consider goodwill in determining the gain on the sale. Because the HLSS Transactions resulted in the sale of a portion of the assets within the Residential Servicing reporting unit which is an indicator that goodwill for the reporting unit should be tested for impairment, we updated our qualitative assessment of whether it was more likely than not that the fair value of the Residential Servicing reporting unit was less than its carrying amount. Our updated assessment indicated that goodwill was not impaired.

Ocwen also entered into an agreement with HLSS Management, LLC (HLSS Management), a wholly owned subsidiary of HLSS, for the provision of certain professional services to us and the provision by us of certain professional services to HLSS Management. See Note 27 for additional information regarding this agreement.

NOTE 4 FAIR VALUE

Fair value is estimated based on a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Where available, we utilize quoted market prices or observable inputs rather than unobservable inputs to determine fair value. We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

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The carrying amounts and the estimated fair values of our financial instruments and our nonfinancial assets measured at fair value are as follows at December 31:

	Level	2012 Carrying Value	Fair Value	2011 Carrying Value	Fair Value
Financial assets:					
Loans held for sale, at fair value (1)	2	\$426,480	\$426,480	\$—	\$—
Loans held for sale, at lower of cost or fair value (2)	3	82,866	82,866	20,633	20,633
Advances and match funded advances(3)	3	3,233,707	3,233,707	3,733,502	3,733,502
Receivables, net (3)	3	167,459	167,459	83,202	83,202
Loans, net – restricted for securitization investors (3)	3	—	—	58,560	55,165
Financial liabilities:					
Match funded liabilities (3)	3	\$2,532,745	\$2,533,278	\$2,558,951	\$2,569,131
Lines of credit and other secured borrowings (3)	3	1,096,679	1,101,504	540,369	550,860
Debt securities (3)	2	—	—	82,554	92,125
Secured borrowings – owed to securitization investors (3)	3	—	—	53,323	52,652
Derivative financial instruments (1):					
IRLCs	2	\$5,781	\$5,781	\$—	\$—
Interest rate swaps	3	(10,836)	(10,836)	(14,491)	(14,491)
Forward MBS trades	1	(1,719)	(1,719)	—	—
U.S. Treasury futures	1	(1,258)	(1,258)	—	—
Interest rate caps	3	168	168	3,600	3,600
Nondeliverable FX forward contracts	3	—	—	(5,785)	(5,785)
Impaired stratum of MSRs (2)(4)	3	\$—	\$—	\$214	\$214
MSRs, at fair value (1)	3	\$85,213	\$85,213	\$214	\$214

(1) Measured at fair value on a recurring basis.

(2) Measured at fair value on a non-recurring basis.

(3) Financial instruments disclosed, but not carried, at fair value.

The high-loan-to-value stratum is measured at fair value on a non-recurring basis and is classified as Level 3 (4) because of the nature of the valuation inputs. The values are net of a valuation allowance of \$2,378 and \$2,290 at December 31, 2012 and 2011, respectively.

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The following tables present a reconciliation of the changes in fair value of Level 3 assets that we measure at fair value on a recurring basis:

For the year ended December 31, 2012:	Derivative Financial Instruments	MSRS at Fair Value	Total
Beginning balance	\$ (16,676)	\$—	\$(16,676)
Purchases, issuances, sales and settlements:			
Purchases (1)	4,946	85,183	90,129
Issuances	—	—	—
Sales	(405)	—	(405)
Settlements	2,451	—	2,451
	6,992	85,183	92,175
Total realized and unrealized gains and (losses) (2):			
Included in Other, net	7,331	30	7,361
Included in Other comprehensive income (loss)	(8,315)	—	(8,315)
	(984)	30	(954)
Transfers in and / or out of Level 3	—	—	—
Ending balance	\$ (10,668)	\$85,213	\$74,545

For the year ended December 31, 2011	Derivative Financial Instruments
Beginning balance	\$ (15,351)
Purchases, issuances, sales and settlements:	
Purchases	3,688
Settlements	85
	3,773
Total realized and unrealized gains and (losses) (2):	
Included in Other, net	(5,881)
Included in Other comprehensive income (loss)	783
	(5,098)
Transfers in and / or out of Level 3	—
Ending balance	\$ (16,676)

For the year ended December 31, 2010:	Derivative Financial Instruments	Auction Rate Securities	Trading Securities Subordinates and Residuals	Total
Beginning balance	\$ (45)	\$247,464	\$ 59	\$247,478
Purchases, issuances, sales and settlements:				
Sales	—	(146,810)	—	(146,810)
Settlements	(738)	(92,745)	—	(93,483)
	(738)	(239,555)	—	(240,293)
Total realized and unrealized gains and (losses) (2):				
Included in Gain (loss) on trading securities	—	(7,909)	(59)	(7,968)
Included in Other, net	(133)	—	—	(133)
Included in Other comprehensive income (loss)	(14,435)	—	—	(14,435)
	(14,568)	(7,909)	(59)	(22,536)
Transfers in and / or out of Level 3	—	—	—	—
Ending balance	\$ (15,351)	\$—	\$ —	\$(15,351)

(1) Includes \$4,946 of derivatives and \$82,275 of fair value MSR's acquired in connection with the Homeward Acquisition. Also includes \$2,908 of MSR's retained on the sale of loans.

(2) Total losses attributable to derivative financial instruments still held at December 31, 2012 and 2011 were \$1,173 and \$5,114, respectively.

The methodologies that we use and key assumptions that we make to estimate the fair value of instruments and other assets and liabilities measured at fair value on a recurring or non-recurring basis are described below:

Derivative Financial Instruments

We use interest rate swaps to hedge against the effects of changes in interest rates on our borrowings under advance funding facilities. These derivatives are not exchange-traded and therefore quoted market prices or other observable inputs are not available. Fair value is based on information provided by third-party pricing sources. Third-party valuations are derived from proprietary models based on inputs that include yield curves and contractual terms such as fixed interest rates and payment dates. Although we have not adjusted the information obtained from the third-party pricing sources, we review this information to ensure that it provides a reasonable basis for estimating fair value. Our review is designed to identify information that appears stale, information that has changed significantly from the prior period and other indicators that the information may not be accurate. For interest rate contracts, significant increases or decreases in the unobservable portion of the yield curves in isolation will result in substantial changes in the fair value measurement.

In addition, we use interest rate caps to minimize future interest rate exposures on variable rate debt issued on servicing advance facilities from increases in one-month LIBOR interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

We enter into forward trades to provide an economic hedge against changes in fair value on loans held for sale which we carry at fair value. Forward trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Forward contracts are actively traded in the market, thus they are classified within Level 1 of the valuation hierarchy.

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator, or an agreement to extend credit to a mortgage applicant, or an agreement to sell a loan to investors, whereby the interest rate is set prior to funding. IRLCs are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected “fallout” (locked pipeline loans not expected to close), using models that consider cumulative historical fallout rates and other factors.

We enter into derivative contracts including interest rate swaps, U.S. Treasury futures and forward contracts to hedge against the effects of changes in the value of the MSR which we carry at fair value. The fair value of interest rate swaps is based upon projected short-term interest rates and volatility based on published market based sources. Because futures and forward contracts are actively traded in the market, they are classified within Level 1 of the valuation hierarchy.

See Note 19 for additional information regarding derivative financial instruments.

Loans Held for sale

Loans held for sale that we measure at fair value on a recurring basis are subject to changes in fair value due to fluctuations in interest rates from the closing date through the date of the sale of the loan into the secondary market. These loans are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. We have the ability to access this market, and it is the market into which conforming mortgage loans are typically sold.

For all other loans held for sale which we report at the lower of cost or fair value, current market illiquidity has reduced the availability of observable pricing data. When we enter into an agreement to sell a loan to an investor at a set price, the loan is valued at the commitment price. We base the fair value of uncommitted loans on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. The more significant assumptions used in the December 31, 2012 valuation of performing loans include: historical default rates of 5% to 10%; re-performance rates on defaulted loans of 25%; loss severity on defaulted loans of 20% to 50%; an average resolution timeline of 12 months; an average coupon rate of 7%; and a discount rate of 10%. Significant assumptions used in the December 31, 2012 valuation of nonperforming loans include: the current market value of the underlying collateral based on third party sources such as appraisals or broker price opinions; a resolution timeline of one to 84 months depending on the stage of delinquency, the state in which the property is located and the type of property; estimated foreclosure and disposition costs that are based on historical experience and considering that state in which the property is located and the type of property; and a discount rate of 15%.

Loans – Restricted for Securitization Investors

We based the fair value of Loans – restricted for securitization investors on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. Significant assumptions included expected prepayment and delinquency rates and cumulative loss curves.

Mortgage Servicing Rights

Amortized Cost MSRs

We estimate the fair value of MSRs by calculating the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. The most significant assumptions used in our internal valuation are the speed at which mortgages prepay and delinquency experience, both of which we derive from our

historical experience and available market data. Other assumptions used in our internal valuation are:

• Cost of servicing	• Interest rate used for computing float earnings
• Discount rate	• Compensating interest expense
• Interest rate used for computing the cost of Servicing advances	• Collection rate of other ancillary fees

The significant components of the estimated future cash inflows for MSRs include servicing fees, late fees, prepayment penalties, float earnings and other ancillary fees. Significant cash outflows include the cost of servicing, the cost of financing servicing advances and compensating interest payments. We derive prepayment speeds and delinquency assumptions from historical experience adjusted for prevailing market conditions. We develop the discount rate internally, and we consider external market-based assumptions in determining the interest rate for the cost of financing advances, the interest rate for float earnings and the cost of servicing. The more significant assumptions used in the December 31, 2012 valuation include prepayment speeds ranging from 12.44% to 20.76% (depending on loan type) and delinquency rates ranging from 14.98% to 23.10% (depending on loan type). Other assumptions include an interest rate of 1-month LIBOR plus a range of 4% to 5.75% for computing the cost of financing advances, an interest rate of 1-month LIBOR for computing float earnings and a discount rate of approximately 20%.

We perform an impairment analysis based on the difference between the carrying amount and fair value after grouping our loans into the applicable strata based on one or more of the predominant risk characteristics of the underlying loans. The risk factors used to assign loans to strata include the credit score (FICO) of the borrower, the loan to value ratio and the default risk. Our strata include:

• Subprime	• Re-performing
• ALT A	• Special servicing
• High-loan-to-value	• Other

As disclosed above and in Note 1

we established a valuation allowance for impairment on the high-loan-to-value stratum of our MSR's because the estimated fair value was less than the carrying value. For all other strata, the fair value exceeded the carrying value at December 31, 2012.

Fair Value MSR's

MSR's carried at fair value are classified within Level 3 of the valuation hierarchy due to the use of significant unobservable inputs and the inactive market for such assets. Fair value of these MSR's is sensitive to changes in unobservable inputs, as a change in those inputs to a different amount might result in significantly higher or lower fair value measurement. Significant unobservable inputs include mortgage prepayment speeds, constant default rates, discount rates, servicing advances and delinquency rates.

We estimate the fair value of our MSR's carried at fair value by using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. The key assumptions used in the valuation of these MSR's include:

- Mortgage prepayment speeds;
- Delinquency rates and
- Discount rates.

The primary assumptions used in the December 31, 2012 valuation include a 16.83% weighted average constant prepayment rate and a discount rate equal to 1-Month LIBOR plus a range of 9% to 10%.

The cash flow and prepayment assumptions used in our discounted cash flow models are based on empirical data drawn from the historical performance of our MSR's adjusted to reflect current market conditions, which we believe are consistent with assumptions used by market participants valuing similar MSR's. On a quarterly basis, the valuation of our MSR's is reviewed by a third party valuation expert.

Advances

We value advances that we make on loans that we service for others at their carrying amounts because they have no stated maturity, generally are realized within a relatively short period of time and do not bear interest.

Receivables

The carrying value of receivables generally approximates fair value because of the relatively short period of time between their origination and realization.

Borrowings

The carrying value of match funded liabilities and secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other match funded or secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We estimate principal repayments of match funded liabilities during the amortization period based on our historical advance collection rates and taking into consideration any plans to refinance the notes. The more significant of the assumptions used in the December 31, 2012 valuation of the match funded liabilities bearing a fixed interest rate were discount rates of 2.23% – 5.92% and estimated repayments using an advance reduction curve that is based on historical experience. For the SSTL, we used a discount rate of 6.98% and the repayment schedule specified in the loan agreement.

Prior to the redemption of our debt securities in 2012, we based their fair value on quoted prices in markets with limited trading activity.

NOTE 5 LOANS HELD FOR SALE, AT FAIR VALUE

Loans held for sale, at fair value represent mortgage loans originated or purchased and held until sold to secondary market investors, such as GSEs or other third party investors. We acquired these loans as part of the Homeward Acquisition at an initial fair value of \$558,721. The change in balance from the acquisition date to \$426,480 at December 31, 2012 is primarily due to sales. See Note 2 for additional information regarding the purchase price allocation.

NOTE 6 ADVANCES

Advances, representing payments made on behalf of borrowers or on foreclosed properties, as more fully described in Note 1—Mortgage Servicing Fees and Advances, consisted of the following at December 31:

	2012	2011
Servicing:		
Principal and interest	\$83,617	\$30,462
Taxes and insurance	51,447	33,387
Foreclosures, bankruptcy and other	41,296	35,832
	176,360	99,681
Corporate Items and Other	8,103	3,910
	\$184,463	\$103,591

The balance outstanding at December 31, 2012 includes \$56,903 of advances acquired in the Homeward Acquisition. See Note 2 for additional information.

NOTE 7 MATCH FUNDED ADVANCES

Match funded advances on residential loans we service for others, as more fully described in Note 1—Principles of Consolidation—Financings of Advances on Loans Serviced for Others, are comprised of the following at December 31:

	2012	2011
Principal and interest	\$1,577,808	\$1,679,536
Taxes and insurance	1,148,486	1,452,707
Foreclosures, bankruptcy, real estate and other	322,950	497,668
	\$3,049,244	\$3,629,911

The balance outstanding at December 31, 2012 includes \$2.2 billion of advances acquired in the Homeward Acquisition. See Note 2 for additional information.

NOTE 8 MORTGAGE SERVICING

The following table presents the components of servicing and subservicing fees for the years ended December 31:

	2012	2011	2010
Loan servicing and subservicing fees	\$581,067	\$341,438	\$226,284
Home Affordable Modification Program (HAMP) fees	76,764	42,025	32,363
Late charges	69,281	38,557	32,760
Loan collection fees	15,960	11,223	8,958
Float earnings	3,749	2,105	2,843
Other	57,604	23,527	18,491
	\$804,425	\$458,875	\$321,699

Mortgage Servicing Rights – Amortization Method

Servicing Assets. The following table summarizes the activity in the carrying value of residential servicing assets for the years ended December 31:

For the year ended December 31,	2012	2011	2010
Beginning balance	\$293,152	\$193,985	\$117,802
Purchases:			
HomEq Acquisition	—	—	84,324
Litton Acquisition	—	144,314	—
Homeward Acquisition (1)	275,844	—	—
MSR asset acquisitions (2)	181,979	—	23,425
Servicing transfers and adjustments	(4)	—	(29)
Decrease in impairment valuation allowance	(88)	574	90
Amortization (3)	(74,171)	(45,721)	(31,627)
Ending balance	\$676,712	\$293,152	\$193,985
Fair value at end of year	\$743,830	\$340,015	\$237,407

(1) See Note 2 for additional information regarding the acquisition of MSR from Homeward.

(2) MSR asset acquisitions for 2012 include:

On April 2, 2012, we completed an acquisition from Saxon Mortgage Services, Inc. (Saxon) of an MSR portfolio of approximately \$22.2 billion in UPB of residential mortgage loans, approximately \$9.9 billion of which Ocwen had previously subserviced, and approximately \$1.2 billion of associated servicing advances (the 2012 Saxon MSR Transaction). To finance the 2012 Saxon MSR Transaction, we utilized a combination of available cash and two new two-year servicing advance facilities. On April 2, 2012, we also completed an acquisition of MSR from JPMorgan Chase Bank, N.A. (JPMCB) which includes servicing rights for non-prime loans with a UPB of approximately \$8.1 billion (the JPMCB MSR Transaction) and \$557,184 of servicing advances. Ocwen financed the purchase price through available cash and an existing servicing advance facility.

On May 31, 2012, we completed the acquisition of MSR from Aurora Bank FSB (Aurora) on a portfolio of small-balance commercial mortgage loans with a total UPB of \$1.8 billion and \$52,911 of servicing advances.

On June 11, 2012, we purchased residential MSR from Bank of America, N.A. (BANA) with respect to mortgage loans with a UPB of approximately \$10.1 billion owned by Freddie Mac. We entered into a new servicing advance facility to finance a portion of the related servicing advances acquired in the transaction. At December 31, 2012, the acquired MSR, which had a carrying value of \$58,472, were pledged as collateral for the promissory note used to finance the purchase.

On July 2 and 16, 2012, we closed on the acquisitions of MSR portfolios totaling approximately \$316 million in UPB of residential mortgage loans owned by Fannie Mae and Freddie Mac.

On September 4, 2012, we purchased an additional MSR portfolio of approximately \$2.2 billion in UPB of residential mortgage loans owned by Fannie Mae. We boarded these loans on October 1, 2012.

In the Consolidated Statement of Operations, Amortization of mortgage servicing rights is reported net of the

(3) amortization of servicing liabilities and includes the amount of charges we recognized to increase servicing liability obligations.

See Note 13 and Note 14 for additional information regarding the advance facilities and promissory note used to finance the advances and MSR's acquired in the transactions described above. As disclosed in Note 3, we sold certain Rights to MSR's during 2012 as part of the HLSS Transactions. The carrying value of the related MSR's which have not been derecognized at December 31, 2012 was \$273,028.

The estimated amortization expense for MSR's, calculated based on assumptions used at December 31, 2012, is projected as follows over the next five years:

2013	\$122,365
2014	100,316
2015	82,240
2016	67,421
2017	55,273

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Valuation Allowance for Impairment. During 2008, we established a valuation allowance for impairment of \$3,624 on the high-loan-to-value stratum of our mortgage servicing rights as the estimated fair value was less than the carrying value. Changes in the valuation allowance for impairment are reflected in Servicing and origination expenses in the Consolidated Statement of Operations. Net of the valuation allowance of \$2,378 and \$2,290, the carrying value of this stratum was \$0 and \$214 at December 31, 2012 and 2011, respectively. For all other strata, the fair value exceeded the carrying value.

Servicing Liabilities. Servicing liabilities are included in Other liabilities. See Note 16 for additional information.

Mortgage Servicing Rights—Fair Value Measurement Method

This portfolio comprises servicing rights for prime mortgage loans that were acquired by Homeward through asset or flow purchases or retained on loans originated and subsequently sold. We acquired these loans as part of the Homeward Acquisition at an initial fair value of \$82,275. See Note 4

for a reconciliation of changes in the fair value from the acquisition date to \$85,213 at December 31, 2012.

Because the mortgages underlying these MSR's permit the borrowers to prepay the loans, the value of the MSR's generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). The following table summarizes the estimated change in the fair value of the MSR's and related derivatives as of December 31, 2012 given hypothetical instantaneous parallel shifts in the yield curve:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	\$(6,374)	\$(13,681)
Discount rate (Option-adjusted spread)	\$(3,533)	\$(6,448)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

Portfolio of Assets Serviced

The following table presents the composition of our servicing and subservicing portfolios by type of property serviced as measured by UPB. The servicing portfolio represents loans for which we own the MSR while subservicing represents all other loans.

	Residential	Commercial	Total
UPB at December 31, 2010			
Servicing	\$51,252,380	\$ —	\$51,252,380
Subservicing	22,634,011	434,305	23,068,316
	\$73,886,391	\$ 434,305	\$74,320,696
UPB at December 31, 2011			
Servicing	\$78,675,160	\$ —	\$78,675,160
Subservicing	23,524,062	290,863	23,814,925
	\$102,199,222	\$ 290,863	\$102,490,085
UPB at December 31, 2012			
Servicing (1)	\$175,762,161	\$ —	\$175,762,161
Subservicing	27,903,555	401,031	28,304,586
	\$203,665,716	\$ 401,031	\$204,066,747

(1) Includes UPB of \$79,360,874 for which the Rights to MSRs have been sold to HLSS.

Residential assets serviced consist principally of mortgage loans, primarily subprime, but also include foreclosed real estate. Residential assets serviced also include small-balance commercial assets with a UPB of \$2.1 billion and \$586,080 at December 31, 2012 and 2011, respectively that are managed using the REALServicing™ application. Commercial assets subserviced consist of large-balance foreclosed real estate. Assets serviced for others are not included on our Consolidated Balance Sheet.

At December 31, 2012, the geographic distribution of the UPB and count of residential loans and real estate we serviced was as follows:

	Amount	Count
California	\$45,851,476	160,501
Florida	22,731,227	136,224
New York	17,276,718	67,725
Texas	9,151,031	99,935
Illinois	8,174,504	53,203
Other	100,480,760	702,368
	\$203,665,716	1,219,956

Float balances amounted to approximately \$1.3 billion and \$555,500 at December 31, 2012 and 2011, respectively.

NOTE 9 RECEIVABLES

Receivables consisted of the following at the dates indicated:

	Receivables	Allowance for Losses	Net
December 31, 2012			
Servicing (1)	\$ 84,870	\$ (1,647)	\$83,223
Income taxes receivable	55,292	—	55,292
Affordable housing (2)	1,052	(713)	339
Due from related parties (3)	12,361	—	12,361
Other	17,525	(1,281)	16,244
	\$ 171,100	\$ (3,641)	\$167,459
December 31, 2011			
Servicing (1)	\$ 53,061	\$ (1,648)	\$51,413
Income taxes receivable	21,518	—	21,518
Affordable housing (2)	5,568	(5,019)	549
Due from related parties (3)	2,309	—	2,309
Derivatives, at fair value (4)	3,600	—	3,600
Other	4,134	(1,262)	2,872
	\$ 90,190	\$ (7,929)	\$82,261

(1) The balances at December 31, 2012 and 2011 arise from our Servicing business and primarily include reimbursable expenditures due from investors and amounts to be recovered from the custodial accounts of the trustees.

The balances at December 31, 2012 and 2011 primarily represent annual payments to be received through June

(2) 2014 for proceeds from sales of investments in affordable housing properties. None of these receivables is delinquent.

(3) See Note 27 for additional information regarding transactions with Altisource and HLSS.

(4)

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The balance represents the fair value of an interest rate cap that we sold in 2012. See Note 19 for additional information regarding our derivative financial instruments.

The balance of Receivables at December 31, 2012 includes \$46,546 related to the Homeward Acquisition. See Note 2.

Receivable balances are evaluated individually. The change in the allowance for credit losses for 2012 and the balance of the related receivables at those dates were as follows (the disclosure requirements for the allowance for credit losses do not apply to mortgage banking activities, including the long-term servicing of loans, such as the activities of our Servicing segment):

	Affordable Housing	Other	Total
Allowance for credit losses balance at December 31, 2011	\$ 5,019	\$ 1,262	\$ 6,281
Charge offs	(4,306)	(387)	(4,693)
Provision	—	456	456
Other	—	(50)	(50)
Allowance for credit losses balance at December 31, 2012	\$ 713	\$ 1,281	\$ 1,994
Receivables balance at December 31, 2012	\$ 1,052	\$ 17,525	\$ 18,577

Note 10 PREMISES AND EQUIPMENT

Our premises and equipment are summarized as follows at December 31:

	2012	2011
Computer hardware and software	\$36,905	\$15,208
Leasehold improvements	14,960	6,894
Furniture and fixtures	10,369	8,559
Office equipment and other	9,108	5,932
	71,342	36,593
Less accumulated depreciation and amortization	(33,806)	(29,243)
	\$37,536	\$7,350

In 2012, we acquired premises and equipment with an estimated fair value of \$16,803 as part of the Homeward Acquisition, consisting primarily of computer hardware and software. See Note 2.

Depreciation and other amortization expense amounted to \$5,720, \$4,160 and \$7,512 for 2012, 2011 and 2010, respectively. Depreciation for 2011 includes a charge of \$1,967 to write-down certain furniture and fixtures acquired from Litton that we ceased to use during the fourth quarter. Depreciation expense for 2010 includes a charge of \$5,840 to write off leasehold improvements related to HomEq facilities that we vacated following termination of the former HomEq employees.

NOTE 11 DEBT SERVICE ACCOUNTS

Under our advance funding facilities, we are contractually required to remit collections on pledged advances to the trustee within two days of receipt. The collected funds are not applied to reduce the related match funded debt until the payment dates specified in the indenture. The balances also include amounts that have been set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest. These funds are held in interest earning accounts in the name of the SPE created in connection with the match funded financing facility. The balances at December 31, 2012 and 2011 were \$88,748 and \$115,867, respectively.

NOTE 12 OTHER ASSETS

Other assets consisted of the following at December 31:

	2012	2011
Loans held for sale, at lower of cost or fair value (1)	\$82,866	\$20,633
Asset purchase price deposit (2)	57,000	—
Interest earning collateral deposits (3)	31,710	27,191
Investment in unconsolidated entities (4)	25,187	23,507
Prepaid income taxes (5)	23,112	—
Prepaid lender fees and debt issuance costs, net (6)	14,389	27,113
Derivatives, at fair value (7)	10,795	—
Real estate, net	6,205	3,368
Loans – restricted for securitization investors (8)	—	58,560
Prepaid expenses and other	21,414	13,078
	\$272,678	\$173,450

These loans primarily represent non-performing subprime single-family residential loans that we do not intend to hold to maturity. The balances at December 31, 2012 and 2011 are net of valuation allowances of \$14,659 and (1) \$14,257, respectively. In December 2012, we acquired non-performing mortgage loans with an aggregate UPB of \$124,341 for cash consideration of \$65,356. We sold these loans to Altisource Residential, LP in February 2013 for an insignificant gain.

In connection with the entry into an agreement on November 2, 2012 to acquire MSR's and related servicing advances from Residential Capital, LLC, OLS made an earnest money cash deposit of \$57,000. This deposit was (2) subsequently applied towards the purchase price upon closing of the transaction on February 15, 2013. See Note 31 for additional information regarding this transaction.

(3) These balances include \$25,829 and \$19,623 of cash collateral held by the counterparties to certain of our derivative agreements at December 31, 2012 and 2011, respectively.

(4) The balance at December 31, 2012 includes an investment of \$5,544 in Powerlink that we acquired in the Homeward Acquisition. See Note 2.

(5) See Note 22 for additional information.

These balances relate to match funded liabilities and other secured borrowings of the Servicing segment. We (6) amortize these costs to the earlier of the scheduled amortization date, contractual maturity date or prepayment date of the debt.

(7) See Note 19 for additional information regarding derivatives.

Loans – restricted for securitization investors were held by four securitization trusts that we included in our consolidated financial statements until December 2012 when we sold our interests in the trusts, as more fully (8) described in Note 1—Securitizations of Residential Mortgage Loans. We reported loans held by the consolidated securitization trusts at cost, less an allowance for loan losses of \$2,702 at December 31, 2011.

NOTE 13 MATCH FUNDED LIABILITIES

Match funded liabilities, as more fully described in Note 1—Principles of Consolidation – Financings of Advances on Loans Serviced for Others, are comprised of the following:

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Unused Borrowing Capacity (2)	Balance Outstanding	
					December 31, 2012	December 31, 2011
2011-Servicer Advance Revolving Trust 1 (3)	2.23	% May 2043	May 2013	—	325,000	—
2011-Servicer Advance Revolving Trust 1 (3)	3.37 – 5.92	% May 2043	May 2013	—	525,000	—
2012-Servicing Advance Revolving Trust 2 (3)	3.27 – 6.90	% Sep. 2043	Sept. 2013	—	250,000	—
2012-Servicing Advance Revolving Trust 3 (3)	2.98	% Mar. 2043	Mar. 2013	—	248,999	—
2012-Servicing Advance Revolving Trust 3 (3)	3.72 – 7.04	% Mar. 2044	Mar. 2014	—	299,278	—
Promissory Note (4) Advance Receivable	3.3875	% Sept. 2013	Sept. 2013	—	—	1,784,043
Backed Note Series 2009-3 (5)	4.14	% July 2023	July 2012	—	—	210,000
Advance Receivable Backed Note Series	3.59	% Sep. 2023	Feb. 2011	—	—	40,000

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2010-1 (6)							
Total fixed rate				—	1,648,277	2,034,043	
Variable Funding	1-Month						
Note Series 2009-2	LIBOR (1ML) +	Nov.	Nov. 2012	—	—	—	
(7)	350 bps	2023					
Variable Funding	Commercial						
Note Series 2009-1	paper (CP) rate	Dec.	Dec. 2012	—	—	11,687	
(8)	+ 200 bps or	2023					
	1ML plus 325						
	bps						
Advance Receivable	1ML + 285 bps	Apr.	Apr. 2014	444,984	205,016	—	
Backed Notes (9)		2015					
Advance Receivable	CP rate + 225 or	Dec.	Dec. 2013	17,288	232,712	—	
Backed Notes Series	335 bps	2043					
2012-ADV1 (9)							
Advance Receivable	1ML + 250 bps	June	June 2014	5,905	94,095	—	
Backed Notes Series		2016					
2012-ADV1 (10)							
Advance Receivable	1ML + 300 bps	Dec.	Dec. 2014	862	49,138	—	
Backed Note (11)		2015					
2011-Servicing							
Advance Revolving	1ML + 300 bps	May	May 2013	320,367	204,633	—	
Trust 1 (3)		2043					
2012-Servicing							
Advance Revolving	1ML + 315 bps	Sep. 2043	Sept. 2013	127,997	22,003	—	
Trust 2 (3)							
2012-Servicing							
Advance Revolving	1ML + 300 bps –	Mar.	Mar. 2014	232,651	40,626	—	
Trust 3 (3)	675 bps	2044					
2012-Homeward							
Agency Advance	1ML + 300 bps	Sept.	Sept. 2013	8,906	16,094	—	
Funding Trust		2013					
2012-1 (3)							
2012-Homeward							
DSF Advance	1ML + 450 bps	Feb. 2013	Feb. 2013	1,849	20,151	—	
Revolving Trust							
2012-1 (3)							
Class A-1 Term	CP rate + 350	Aug.	Aug. 2013	—	—	340,185	
Note (12)	bps	2043					
Class A-2 Variable	CP rate + 350	Aug.	Aug. 2013	—	—	—	
Funding Note (12)	bps	2043					
Class B Term Note	CP rate + 525	Aug.	Aug. 2013	—	—	15,850	
(12)	bps	2043					
Class C Term Note	CP rate + 625	Aug.	Aug. 2013	—	—	15,056	
(12)	bps	2043					
Class D Term Note	1ML + 750 bps	Aug.	Aug. 2013	—	—	11,638	
(12)		2043					
Advance Receivable	1ML + 200 bps	Jan. 2014	July 2013	—	—	130,492	
Backed Notes (13)							
Total variable rate				1,160,809	884,468	524,908	
				\$1,160,809	\$2,532,745	\$2,558,951	

Weighted average interest rate	3.52	%	3.50	%
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(1) The amortization date of our facilities is the date on which the revolving period ends under each advance facility note and repayment of the outstanding balance must begin if the note is not renewed or extended. The maturity date is the date on which all outstanding balances must be repaid. In two advance facilities, there are multiple notes outstanding. For each note, after the amortization date, all collections that represent the repayment of advances pledged to the facility must be applied to reduce the balance of the note outstanding, and any new advances are ineligible to be financed.

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- (2) Unused borrowing capacity is available to us provided that we have additional eligible collateral to pledge. Collateral may only be pledged to one facility.
Advance facility assumed in the Homeward Acquisition. The 2011-Servicing Advance Revolving Trust 1, 2012-Servicing Advance Revolving Trust 2 and 2012-Homeward DSF Advance Revolving Trust 2012-1 facilities
- (3) were repaid in February 2013 from the proceeds of a new \$1,700,000 bridge facility which has an amortization date of August 14, 2013.
This note was issued in connection with the financing of advances acquired in connection with the acquisition of Litton on September 1, 2011. Following the sale of advance collateral to HLSS in December 2012, the
- (4) outstanding balance was repaid, the facility was terminated and the remaining collateral was transferred to other facilities.
- (5) On July 19, 2012, the borrowing under this note was transferred to the Series 2009-1 variable funding note. The amortization period for this note ended in January 2012, at which time the remaining balance of \$40,000 was
- (6) repaid. The advances pledged to this note were transferred to the Series 2009-1 variable funding note and were re-pledged under that note.
- (7) The facility was terminated on September 28, 2012.
Effective March 12, 2012, the lender transferred this note from its commercial paper conduit and began charging
- (8) interest based on 1-Month LIBOR. On September 28, 2012, the remaining balance was repaid, and the facility was terminated.
- (9) These notes were issued to finance the advances acquired in connection with the 2012 Saxon MSR Transaction. These notes were issued to finance the advances acquired from BANA in connection with the acquisition of
- (10) MSRs.
- (11) This note was issued to finance advances on the small balance commercial loan servicing portfolio that we acquired as part of the Litton Acquisition.
These notes were issued in connection with the financing of advances acquired as part of the HomEq
- (12) Acquisition. The Class D Term Note was repaid in full on March 2, 2012. On March 5, 2012, HLSS assumed the remaining balances.
- (13) On September 13, 2012, the remaining balance was repaid, the facility was terminated and the remaining collateral was transferred to another facility.

NOTE 14 LINES OF CREDIT AND OTHER BORROWINGS

Lines of credit and other secured borrowings are comprised of the following:

Borrowings	Collateral	Interest Rate	Maturity	Unused Borrowing Capacity	Balance Outstanding	
					December 31, 2012	December 31, 2011
Servicing:						
SSTL (1)	(1)	1ML + 550 bps with a LIBOR floor of 150 bps (1)	Sept. 2016	\$—	\$ 314,229	546,250
				—	75,000	—

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Senior unsecured term loan (2)		1-Month Euro-dollar rate + 675 bps with a Eurodollar floor of 150 bps	March, 2017				
Financing liability – MSR pledged (3)	MSRs (3)	(3)(3)		—	303,705	—	
Financing liability – MSR pledged (4)	MSRs (4)	(4)(4)		—	2,603	—	
Promissory note (5)	MSRs	1ML + 350 bps	May 2017	—	18,466	—	
				—	714,003	546,250	
Lending:							
Master repurchase agreement (6)	Loans held for sale (LHFS)	1ML + 175 bps		36,878	88,122	—	
			Jan. 2013				
Participation agreement (7)	LHFS	N/A		—	58,938	—	
			Feb. 2013				
Master repurchase agreement (8)	LHFS	1ML + 200 bps		116,005	133,995	—	
			Feb. 2013				
Master repurchase agreement	LHFS	1ML + 200 bps		192,980	107,020	—	
			Jul. 2013	345,863	388,075	—	
Corporate Items and Other							
Securities sold under an agreement to repurchase (9)	Ocwen Real Estate Asset Liquidating Trust 2007-1 Notes	Class A-2 notes: 1ML + 200 bps; Class A-3 notes: 1ML + 300 bps	Monthly	—	2,833	4,610	
				345,863	1,104,911	550,860	
Discount (1)				—	(8,232)	(10,491)	
				\$345,863	\$1,096,679	\$540,369	
Weighted average interest					4.49 %	6.96 %	

rate (10)

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On September 1, 2011, we entered into a new SSTL facility agreement and borrowed \$575,000 that was primarily used to fund a portion of the Litton Acquisition. This initial loan was issued with an original issue discount of \$11,500 that we are amortizing over the term of the loan. Subsequently, in order to fund a portion of the Homeward Acquisition, we entered into a Joinder Agreement with the lender in December 2012 that allowed us to borrow an additional \$100,000, net of an original issue discount of \$1,000, under this facility on essentially the same terms and conditions as the initial borrowing. Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate [the greatest of (i) the prime rate of Barclays Bank PLC in effect on such day, (ii) the federal funds effective rate in effect on such day plus 0.50% and (iii) the one-month Eurodollar rate (1) (1-Month LIBOR)], plus a margin of 4.50% and a base rate floor of 2.50% or (b) 1-Month LIBOR, plus a margin of 5.50% with a 1-Month LIBOR floor of 1.50%. We are required to repay the principal amount of the borrowings in consecutive quarterly installments of \$16,875 per quarter commencing September 30, 2011 through June 30, 2016, with the balance becoming due on September 1, 2016. In addition, Ocwen is required to use 25% of the net cash proceeds (as defined) from any asset sale (as defined) to repay loan principal. Generally, this provision applies to non-operating sales of assets, such as the HLSS Transactions, and generally, net cash proceeds represent the proceeds from the sale of the assets, net of the repayment of any debt secured by a lien on the assets sold. The borrowings are secured by a first priority security interest in substantially all of the tangible and intangible assets of Ocwen. In February 2013, we repaid this loan in full.

Ocwen borrowed funds from Altisource in connection with the financing of the Homeward Acquisition. See (2) Note 27 for additional information regarding this agreement with Altisource. We repaid this loan in full in February 2013.

As part of the HLSS Transactions completed in 2012, Ocwen transferred to HLSS certain Rights to MSR. However, because Ocwen has not yet transferred legal title to the MSR, the sales were accounted for as a financing with the proceeds from the sale of the MSR recorded as a financing liability. The financing liability is (3) being amortized using the interest method with the servicing income that is remitted to HLSS representing payments of principal and interest. The liability has no contractual maturity but will be amortized over the estimated life of the pledged MSR. The balance of the liability is reduced each month based on the change in the estimated fair value of the pledged MSR. See Note 3 for additional information regarding the HLSS Transactions. We sold MSR for certain loans to an unrelated third party in December 2012; however, we are required to repurchase the MSR for any loans that cannot be refinanced by the purchaser under the federal government's (4) Home Affordable Refinance Program (HARP). As a result, the sale is being accounted for as a financing. The financing liability is being amortized using the interest method with the servicing income that is remitted to the purchaser representing payments of principal and interest.

- (5) This note was issued to finance the acquisition of MSRs from BANA. Prepayments of the balance on this note may be required if the borrowing base, as defined, falls below the amount of the note outstanding.
- (6) On January 16, 2013, we extended the Master Repurchase Agreement maturity date to March 19, 2013. Under this participation agreement, the lender provides financing on an uncommitted basis for \$50,000 to \$90,000 at the discretion of the lender. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. However, the transaction does not qualify for sales accounting treatment as is, therefore, accounted for as a financing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement. In February 2013, we extended the participation agreement maturity date to April 30, 2013.
- (7) On January 25, 2013, we extended the Master Repurchase Agreement maturity date to May 3, 2013. In August 2010, we obtained financing under a repurchase agreement for the Class A-2 and A-3 notes issued by Ocwen Real Estate Asset Liquidating Trust 2007-1 which have a current face value of \$26,180 at December 31, 2012. This agreement has no stated credit limit and lending is determined for each transaction based on the acceptability of the securities presented as collateral. Excludes the two financing liabilities arising for the sales of Rights to MSRs and MSRs that were accounted for
- (8) as a financing and the financing liability arising from the sale of mortgage loan participations accounted for as a financing.
- (9)
- (10)

NOTE 15 DEBT SECURITIES

Debt securities consisted of the following at December 31:

	2012	2011
3.25% Contingent Convertible Senior Unsecured Notes due August 1, 2024	\$ —	\$56,435
10.875% Capital Securities due August 1, 2027		— 26,119
	\$ —	\$82,554

3.25% Convertible Notes. In July 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Convertible Notes (the Convertible Notes) due August 1, 2024. On February 27, 2012, we provided notice of redemption to all the holders of the Convertible Notes stating our election to redeem all of the outstanding notes on March 28, 2012. Of the \$56,435 outstanding principal balance of the Convertible Notes, \$56,410 was converted to 4,635,159 shares of common stock at a conversion rate of 82.1693 per \$1,000 (in dollars) principal amount (representing a conversion price of \$12.17 per share) with 11 fractional shares settled in cash. The remaining \$25 principal balance of the Convertible Notes was redeemed at a cash price of 100% of principal outstanding, plus accrued and unpaid interest. The Convertible Notes were senior general unsecured obligations not guaranteed by any of our subsidiaries.

10.875% Capital Securities. In August 1997, Ocwen Capital Trust (OCT) issued \$125,000 of 10.875% Capital Securities (the Capital Securities). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by Ocwen. The Junior Subordinated Debentures, which represent the sole assets of OCT, had a maturity date of August 1, 2027. On August 31, 2012, Ocwen redeemed the Junior Subordinated Debentures at a price of 102.719% of the \$26,119 outstanding principal, plus accrued and unpaid interest. The redemption of the Junior Subordinated Debentures resulted in the mandatory redemption of the Capital Securities in an amount equal to the amount of the related Junior Subordinated Debentures being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption. We recognized a loss of \$653 on the redemption primarily representing the excess of the redemption price over the outstanding principal balance of the Capital Securities. We reported this loss in Other, net in our Consolidated Statement of Operations. The trust entity which issued the Capital Securities in August 1997 (Ocwen Capital Trust I) was dissolved and terminated following the redemption.

For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We consolidate OCT because we own all of the beneficial ownership interests represented by common securities that were issued by OCT (Common Securities) and have repurchased 79% of the Capital Securities that were originally issued. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements.

NOTE 16 OTHER LIABILITIES

Other liabilities were comprised of the following at December 31:

	2012	2011
Accrued expenses (1)	\$106,376	\$47,198
Due to related parties (2)	45,034	4,274
Checks held for escheat	33,225	22,481
Liability for selected tax items (3)	22,702	4,524
Derivatives, at fair value (4)	18,658	20,276
Payable to servicing and subservicing investors (5)	9,973	28,824
Servicing liabilities (6)	9,830	9,662
Accrued interest payable	5,410	4,140
Secured borrowings – owed to securitization investors (7)	—	53,323
Other	26,456	8,137
	\$277,664	\$202,839

Includes \$63,406 of accrued expenses attributable to Homeward, including \$38,093 of accruals related to loan (1) repurchase obligations and reserves for indemnification for servicing errors and for compensatory fees for foreclosures that exceed investor timelines.

(2) See Note 27 for additional information regarding transactions with Altisource and HLSS.

(3) See Note 22 for information on the liability for selected tax items.

(4) See Note 19 for additional information regarding derivatives.

(5) The balance represents amounts due to investors in connection with loans we service under servicing and subservicing agreements.

Our acquisition of MSR during the second quarter of 2012 included a servicing liability with a fair value of \$1,441. During 2012, 2011 and 2010, amortization of servicing liabilities exceeded the amount of charges we recognized to increase servicing liability obligations by \$1,274, \$2,725 and \$172, respectively. Amortization of mortgage servicing rights is reported net of this amount in the Consolidated Statement of Operations.

(6) Secured borrowings – owed to securitization investors consisted of certificates representing beneficial ownership interests in four securitization trusts that we included in our consolidated financial statements until December 2012 (7) when we sold our interests in the trusts, as more fully described in Note 1—Securitizations of Residential Mortgage Loans.

The balance of Other liabilities at December 31, 2012 includes \$107,291 related to the Homeward Acquisition. See Note 2.

NOTE 17 MEZZANINE EQUITY**Preferred Stock**

On December 27, 2012, Ocwen issued 162,000 shares of Series A Perpetual Convertible Preferred Stock, having a par value of \$0.01 per share as part of the consideration paid in the Homeward Acquisition. The following is a summary of the voting powers, preferences and relative, participating, optional and other special rights of the Preferred Shares:

Ranking. The Preferred Shares shall, with respect to the payment of dividends, redemption and distributions upon the liquidation, winding up or dissolution of Ocwen rank senior to all classes of common stock.

Dividends. Holders of the Preferred Shares are entitled to receive mandatory and cumulative dividends payable quarterly at the rate per share equal to the greater of (i) 3.75% per annum multiplied by \$1,000 per share and (ii) in the event Ocwen pays a regular quarterly dividend on its common stock in such quarter, the rate per share payable in respect of such quarterly dividend on an as-converted basis. If Ocwen declares a special dividend on common stock, then any dividend shall be payable to the holders of the shares of common stock and the holders of the Preferred Shares on a *pari passu*, as-converted basis. Any such dividend may be paid either in cash or in Preferred Shares.

Conversion. Each Preferred Share, together with any accrued and unpaid dividends, may be converted to common stock at the option of the holder at a conversion price equal to \$31.79.

Redemption. Ocwen may redeem the Preferred Shares commencing on December 27, 2014. The shares of Series A Preferred Stock are redeemable, at Ocwen's option, in whole, or, from time to time, in part, at any time beginning on the second anniversary of the issue date of the Preferred Shares, payable through the issuance of shares of Common Stock. The redemption amount is any accrued and unpaid dividends plus: 103% of the liquidation preference of \$1,000 for each Preferred Share plus from the second anniversary of the issue date and prior to the third anniversary; 102% of the liquidation preference from the third anniversary and prior to the fourth anniversary; 101% of the liquidation preference from the fourth anniversary and prior to the fifth anniversary; and the liquidation preference from the fifth anniversary.

Voting. The holders of Preferred Shares shall be entitled to vote on all matters submitted to the stockholders for a vote, voting together with the holders of the common stock as a single class, with each share of common stock entitled to one vote per share and each Preferred Share entitled to one vote for each share of common stock issuable upon conversion of the Preferred Share as of the record date for such vote or, if no record date is specified, as of the date of such vote.

Protective Provisions. So long as the Preferred Shares are outstanding, Ocwen will not, without obtaining the approval of the holders of a majority of the Preferred Shares (i) issue any preferred stock other than the Preferred Shares, any senior securities or any parity securities in excess of \$325 million; (ii) amend or alter the Articles of Designation or Articles of Incorporation in any manner that under the Florida Business Corporation Act requires the prior vote as a separate class of the holders of the Preferred Shares; (iii) amend or otherwise alter the Articles of Designation or the Articles of Incorporation in any manner that would adversely affect the rights, privileges or preferences of the Preferred Shares; (iv) pay any dividend in cash to the common stock in respect of any quarterly dividend unless the dividend payable in respect of such quarter on the Preferred Shares is also paid in cash to the same extent; or (v) waive compliance with any provision of the Articles of Designation or take any actions intended to circumvent the provisions of the Articles of Designation.

Change of Control; Liquidation Event.

Change of Control. In the case of any change in control of Ocwen, then, upon consummation of such transaction, each holder of Preferred Shares shall be entitled to receive in respect of such share the greater of (i) the liquidation preference of \$1,000 plus accrued and unpaid dividends thereon, whether or not declared, if any, or (ii) the amount 1. such holder would receive if such holder converted such Preferred Shares into the kind and amount of securities, cash or other assets receivable upon the consummation of the change in control by a holder of the number of shares of Common Stock into which such Preferred Shares might have been converted immediately prior to such change in control;

Liquidation Event. Upon any liquidation event, each holder of Preferred Shares will be entitled to payment out of Ocwen's assets available for distribution, before any distribution or payment out of such assets may be made to the holders of any junior securities, and subject to the rights of the holders of any senior securities or parity securities 2. upon liquidation and the rights of Ocwen's creditors, of an amount equal to the liquidation preference of \$1,000 plus accrued and unpaid dividends thereon, whether or not declared. After payment in full of the liquidation preference plus accrued and unpaid dividends thereon to which holders of Preferred Shares are entitled, such holders will not be entitled to any further participation in any distribution of Ocwen's assets.

The holders of the Preferred Shares also received registration rights for the Preferred Shares and the shares of common stock issuable upon conversion.

We evaluated the Preferred Shares under ASC 480, Distinguishing Liabilities from Equity, and determined that the Preferred Shares should be accounted for as equity because the Preferred Shares are convertible at any time at the option of the holder into common stock and redemption of the shares by Ocwen is settled through the issuance of common stock. We also determined that the conversion feature of the Preferred Shares does not require separation from the host contract because the preponderance of the characteristics of the Preferred Shares indicates that the Preferred Shares are more akin to equity than debt and, therefore, are an equity host. Since an equity conversion option and an equity host are clearly and closely related, no further separation analysis is required under ASC 815, Derivatives and Hedging.

We also determined that the change of control provisions could result in a redemption not solely under Ocwen's control. Therefore, classification of the Preferred Shares as "mezzanine" equity in the Consolidated Balance Sheets was more appropriate than classification as part of Stockholders' equity.

We also determined that the conversion option of the Preferred Shares represented a Beneficial Conversion Feature (BCF) under ASC 470, Debt, because the conversion price of \$31.79 was lower than the common stock price at the issue date of \$33.495, determined using the average of the high and low prices for that date. The Preferred Shares are convertible into 5,095,942 shares of common stock. Therefore, the intrinsic value of the BCF — the difference between the price of common stock on the issue date and the conversion price multiplied by the number of shares of common stock into which the Preferred Shares can be converted — was \$8,688 which we accounted for as a discount on the Preferred Shares with an offsetting increase in additional paid in capital. Because the Preferred Shares are optionally redeemable by Ocwen, we are amortizing the BCF through the second anniversary of the issued date, at which time Ocwen can first redeem the Preferred Shares.

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For the period December 27, 2012 through December 31, 2012, we amortized \$60 of the BCF discount on the Preferred Shares as a deemed dividend with an offsetting reduction in retained earnings. At December 31, 2012, we accrued the mandatory and cumulative dividends payable of \$85 for the period.

The carrying value of our Preferred Shares reflects the following:

Initial issuance price on December 31, 2012	\$ 162,000
Discount for beneficial conversion feature	(8,688)
Accretion of discount	60
Carrying value at December 31, 2012	\$ 153,372

NOTE 18 EQUITY

Common Stock

On May 9, 2000, we announced that our Board of Directors authorized the repurchase of up to 6,000,000 of our issued and outstanding shares of common stock. To date, we have repurchased 431,100 shares under this plan (all in 2004). We may still purchase a total of 5,568,900 shares under this plan.

On November 9, 2011, OCN completed the public offering of 28,750,000 shares of common stock at a per share price of \$13.00, including 3,750,000 shares of common stock purchased by the underwriters pursuant to the full exercise of the over-allotment option granted under the underwriting agreement. We received net proceeds of \$354,445 from the offering after deducting underwriting fees and other incremental costs directly related to the offering.

On March 28, 2012, we converted \$56,410 of the outstanding principal balance of the Convertible Notes to 4,635,159 shares of common stock. See Note 15

for additional information regarding the conversion.

Accumulated Other Comprehensive Loss

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The components of accumulated other comprehensive loss (AOCL), net of income taxes, were as follows at December 31:

	2012	2011
Unrealized losses on cash flow hedges	\$6,310	\$7,760
Other	131	136
	\$6,441	\$7,896

NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS

Because many of our current derivative agreements are not exchange-traded, we are exposed to credit loss in the event of nonperformance by the counterparty to the agreements. We control this risk through credit monitoring procedures including financial analysis, dollar limits and other monitoring procedures. The notional amount of our contracts does not represent our exposure to credit loss.

The following table summarizes the changes in our holdings of derivatives during the year ended December 31, 2012:

	IRLCs	U.S. Treasury Futures	Forward MBS Trades	Interest Rate Caps	Foreign Exchange Forwards	Interest Rate Swaps
Beginning notional balance	\$—	\$—	\$—	\$1,600,000	\$46,200	\$1,393,685
Homeward Acquisition	1,112,519	109,000	1,638,979	1,025,000	—	432,500
Other additions	—	—	—	—	—	—
Maturities	—	—	—	—	—	(330,230)
Terminations	—	—	—	(1,600,000)	(46,200)	—
Ending notional balance	\$1,112,519	\$109,000	\$1,638,979	\$1,025,000	\$—	\$1,495,955
Fair value of derivative assets (liabilities) at:						
December 31, 2012	\$5,781	\$(1,258)	\$(1,719)	\$168	\$—	\$(10,836)
December 31, 2011	\$—	\$—	\$—	\$3,600	\$(5,785)	\$(14,491)
Maturity	2013	Mar. 2013	Jan. 2013 – Mar. 2013	Feb. 2015 – May 2016	—	Feb. 2013 – Mar. 2032

Foreign Currency Exchange Rate Risk Management

We periodically enter into foreign exchange forward contracts to hedge against the effect of changes in the value of the India Rupee (INR) on amounts payable to our India subsidiary, OFSPL. Our operations in Uruguay also expose us to foreign currency exchange rate risk, but we consider this risk to be insignificant.

Interest Rate Management

Match Funded Liabilities

We entered into interest rate swaps in order to hedge against the effects of changes in interest rates on our borrowings under our advance funding facilities. These interest rate swap agreements require us to pay a fixed rate and receive a variable interest rate based on one-month LIBOR. At the time that we entered into the agreements, these swaps were designated as hedges for accounting purposes. We also purchased interest rate caps to minimize future interest rate exposure from increases in one-month LIBOR interest rates, as required by the certain of our advance financing

arrangements.

Loans Held for Sale, at Fair Value

The mortgage loans held for sale which we carry at fair value are subject to interest rate and price risk from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, we enter into forward trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. Forward trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market.

IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage applicant, whereby the interest rate is set prior to funding. The loan commitment binds us (subject to the loan approval process) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan, thus we are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to fixed rate loan commitments.

MSRs, at Fair Value

The MSRs which we measure at fair value are subject to substantial interest rate risk as the mortgage notes underlying the MSRs permit the borrowers to prepay the loans. Therefore, the value of these MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). Although the level of interest rates is a key driver of prepayment activity, there are other factors

that influence prepayments, including home prices, underwriting standards and product characteristics. The amount and composition of derivatives used, if any, will depend on the exposure to loss of value on the MSR, the expected cost of the derivatives, expected liquidity needs and the expected increase to earnings generated by the origination of new loans resulting from the decline in interest rates.

We enter into economic hedges including interest rate swaps, U.S. Treasury futures and forward contracts to minimize the effects of loss in value of these MSR associated with increased prepayment activity that generally results from declining interest rates. These interest rate swap agreements generally require us to pay a variable interest rate based on LIBOR and receive a fixed rate. Futures contracts are exchange-traded contracts where two parties agree to purchase and sell a specific quantity of a financial instrument at a specific price, with delivery or settlement at a specified date. Forward contracts are over-the-counter contracts where two parties agree to purchase and sell a specific quantity of financial instruments at a specified price, with delivery and settlement at a specified date.

The following summarizes our use of derivatives at December 31, 2012 and the gains (losses) on those derivatives for the year then ended. The table also indicates whether or not each derivative was designated as a hedge for accounting purposes at December 31, 2012:

Purpose	Expiration Date	Notional Amount	Fair Value (1)	Gains / (Losses)	Financial Statement Caption
Hedge the effect of changes in interest rates on interest expense on borrowings					
Interest rate swaps (pay fixed, receive variable)					
Not designated as hedges:					
Hedge the effects of a change in 1ML on borrowing under an advance funding facility (2)	2013	\$250,000	\$(2,699)	\$3,605	Other, net
Hedge the effects of a change in the lender's CP rate and 1ML on borrowing under an advance funding facility (3)	2013	321,659	(2,958)	3,352	Other, net / AOCL
Total not designated as hedges		571,659	(5,657)	6,957	
Designated as hedges:					
Hedge the effects of changes in 1ML or the lenders' CP rate on advance funding facilities (5)	2015	201,892	(7,746)	(6,246)	AOCL
Hedge the effects of changes in 1ML or the lenders' CP rate on advance funding facilities (6)	2015	289,904	(2,211)	(1,859)	AOCL
Total designated as hedges		491,796	(9,957)	(8,105)	
Total swaps		1,063,455	(15,614)	(1,148)	
Interest rate caps					
<u>Not designated as hedges:</u>					
	2014	—	—	(3,195)	Other, net

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Hedge the effects of changes in 1ML on advance funding facilities (7)					
Hedge the effects of changes in 1ML on advance funding facilities (4)	2015-2016	1,025,000	168	—	Other, net
Total caps		1,025,000	168	(3,195)	
Total hedges of debt		2,088,455	(15,446)	(4,343)	
Hedge the effect of changes in interest rates on MSR _s measured at fair value					
<u>Not designated as hedges:</u>					
Interest rate swaps (pay variable, receive fixed) (4)	2014-2032	432,500	4,778	—	Other, net
U.S. Treasury futures (4)	2013	109,000	(1,258)	—	Other, net
Forward MBS trades (4)	2013	314,000	67	—	Other, net
Total hedges of MSR _s		855,500	3,587	—	
<i>Hedge the effect of changes in interest rates on the value of mortgage loans held for sale and IRLCs</i>					
<u>Not designated as hedges:</u>					
Forward MBS trades (4)	2013	1,324,979	(1,786)	(1,226)	Other, net
IRLCs	2013	1,112,519	5,781	153	Loss on loans held for sale, net
Total derivatives		\$5,381,453	\$(7,864)	\$(5,416)	

(1) Derivatives are reported at fair value in Receivables, Other assets or in Other liabilities.

(2) We discontinued hedge accounting for this hedging relationship effective July 1, 2011 and began amortizing to earnings the \$6,179 of deferred losses in accumulated other comprehensive income. Amortization was scheduled to continue until the related advance facility matures in July 2013. In September 2012, we repaid the advance facility and wrote-off the remaining \$2,317 of unamortized deferred losses in AOCL.

(3) The hedging relationship was terminated when the advance facility was assumed on March 5, 2012 by HLSS. At that time, we wrote-off the \$5,958 of deferred losses in AOCL. See Note 3 and Note 13 for additional information regarding the match funded liabilities assumed by HLSS.

(4) Acquired in connection with the Homeward Acquisition.

(5) Monthly settlements on this forward-starting swap begin June 2013.

(6) Projected net settlements on the swap for the next twelve months total approximately \$3,748 of payments to the counterparties.

(7) Sold in November 2012.

Included in AOCL at December 31, 2012 and December 31, 2011, respectively, were \$9,878 and \$12,114 of deferred unrealized losses, before taxes of \$3,568 and \$4,354, respectively, on the interest rate swaps that we designated as cash flow hedges. Other income (expense), net, includes the following related to derivative financial instruments for the years ended December 31:

	2012	2011	2010
Gains (losses) on non-hedging derivatives (1)(2)	\$6,256	\$(4,488)	\$17
Ineffectiveness of cash flow hedges	41	(1,393)	(150)
Write-off of losses in AOCL for a discontinued hedge relationship (3)	(4,633)	(1,545)	—
Write-off of losses in AOCL for hedge of a financing facility assumed by HLSS (See Note 3)	(5,958)	—	—
	\$ (4,294)	\$ (7,426)	\$ (133)

(1) Includes a gain of \$3,359 during 2012 from the termination of foreign exchange forward contracts. Also includes a loss of \$1,514 on the sale of the interest rate cap in 2012.

(2) Includes \$1,368 of net unrealized gains during 2011 relating to the swap for which we discontinued hedge accounting effective July 1, 2011.

(3) Includes the write off in 2012 of the remaining \$2,317 of unamortized losses when the borrowing under the related advance financing facility was repaid in full, and the facility was terminated.

NOTE 20 INTEREST INCOME

The following table presents the components of interest income for each category of our interest-earning assets for the years ended December 31:

2012	2011	2010
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Interest earning cash	\$963	\$756	\$1,190
Loans held for sale	2,946	2,291	3,398
Loans, net - restricted for securitization investors	4,420	5,829	6,271
	\$8,329	\$8,876	\$10,859

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NOTE 21 INTEREST EXPENSE

The following table presents the components of interest expense for each category of our interest-bearing liabilities for the years ended December 31:

	2012	2011	2010
Match funded liabilities	\$122,292	\$93,051	\$61,656
Lines of credit and other borrowings (1)	96,220	32,985	17,553
Debt securities:			
3.25% Convertible Notes	153	1,834	1,834
10.875% Capital Securities	1,894	2,840	2,954
Secured borrowings – owed to securitization investors	616	670	632
Escrow deposits and other	2,280	1,390	1,294
	\$223,455	\$132,770	\$85,923

Includes interest expense of \$54,710 in 2012 on the financing liability arising from the sales of Rights to MSRs to (1)HLSS that were accounted for as financings. See Note 3 and Note 14 for additional information regarding these sales and the financing liability.

NOTE 22 INCOME TAXES

For income tax purposes, the components of income from continuing operations before taxes were as follows for the years ended December 31:

	2012	2011	2010
Domestic	\$176,075	\$118,708	\$33,394
Foreign	81,433	4,287	5,760
	\$257,508	\$122,995	\$39,154

The components of income tax expense (benefit) on continuing operations were as follows for the years ended December 31:

	2012	2011	2010
Current:			
Federal	\$10,621	\$13,894	\$8,836
State	(759)	(195)	1,049
Foreign	2,968	1,079	2,033

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	12,830	14,778	11,918
Deferred:			
Federal	62,704	29,440	(6,953)
State	(431)	368	(145)
Foreign	1,482	86	725
Provision for valuation allowance on deferred tax assets	—	—	—
	63,755	29,894	(6,373)
Total	\$76,585	\$44,672	\$5,545

Income tax expense differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows for the years ended December 31:

	2012	2011	2010
Expected income tax expense at statutory rate	\$90,127	\$43,049	\$13,704
Differences between expected and actual income tax expense:			
State tax, after Federal tax benefit	(1,184)	254	610
Tax effect of Altisource Separation	—	—	749
Provision for (reversal of) liability for selected tax items	5,558	1,611	(9,126)
Permanent differences	15	61	878
Foreign tax differential	(17,816)	(716)	(197)
Provision-to-return and other	—	—	(580)
Other	(115)	413	(493)
Actual income tax expense	\$76,585	\$44,672	\$5,545

Net deferred tax assets were comprised of the following at December 31:

	2012	2011
Deferred tax assets:		
Mortgage servicing rights amortization	\$—	\$32,654
Net operating loss carryforward	16,068	18,078
Net unrealized gains and losses on securities	2,702	11,828
Partnership losses	11,036	9,960
Bad debt and allowance for loan losses	6,551	8,020
Accrued other liabilities	2,925	5,122
Interest rate swaps	3,813	4,371
Tax residuals and deferred income on tax residuals	4,175	3,941
Stock-based compensation expense	3,127	2,874
Accrued incentive compensation	6,210	2,755
Foreign deferred assets	1,805	2,512
Accrued lease termination costs	1,887	1,910
Intangible asset amortization	2,070	1,641
Valuation allowance on real estate	386	884
Deferred income or loss on servicing advance receivables	78,832	—
Capital losses	665	—
Other	7,339	8,608
	149,591	115,158
Deferred tax liabilities:		
Mortgage servicing rights amortization	56,265	—
Deferred income or loss on servicing advance receivables	—	7,030
Other	1,190	160
	57,455	7,190
Net deferred tax assets	\$92,136	\$107,968

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. Among the factors considered in this evaluation are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted. As a result of this evaluation, we concluded that no valuation allowance was necessary at December 31, 2012 and 2011.

We recognized total interest and penalties of \$(75), \$1,257 and \$182 in 2012, 2011 and 2010, respectively. At December 31, 2012 and 2011, accruals for interest and penalties were \$1,561 and \$1,636, respectively. As of December 31, 2012 and 2011, we had a total liability for selected tax items of \$21,140 and \$4,524, respectively, all of which if recognized would affect the effective tax rate.

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Our major jurisdiction tax years that remain subject to examination are our U.S. federal tax return for the years ended December 31, 2008 through the present and our India corporate tax returns for the years ended March 31, 2004 through the present. Our U.S. federal tax return for the years ended December 31, 2008 and 2009 are currently under examination. A reconciliation of the beginning and ending amount of the liability for selected tax items is as follows for the years ended December 31:

	2012	2011
Balance at January 1	\$4,524	\$2,913
Additions based on tax positions related to current year	17,396	—
Additions for tax positions of prior years	875	1,817
Reductions for tax positions of prior years	—	(206)
Lapses in statutes of limitation	(93)	—
Balance at December 31	\$22,702	\$4,524

At December 31, 2012, we had a net operating loss carryforward tax benefit of \$45,909 that related to realized built-in losses from the acquisition of Ocwen Asset Investment Corporation in 1999. Utilization of these carryforwards is subject to an annual IRC section 382 limitation of \$5,742. These carryforwards will expire beginning 2019 through 2024. We have a \$1,725 capital loss carry forward. We have no remaining capital loss carryforwards or tax credit carryforwards related to low-income housing tax credits.

NOTE 23 DISCONTINUED OPERATIONS

On December 3, 2009, we finalized and consummated the transaction to dispose of our investment in Bankhaus Oswald Kruber GmbH & Co. KG (BOK), a German banking entity, for proceeds of \$11,443 and recognized a pre-tax gain of \$4,034 on the disposition. Management concluded that BOK met and continued to meet the definition of a discontinued operation through the date of disposition. Accordingly, the results of BOK are classified as discontinued in the accompanying consolidated financial statements. For segment reporting purposes, the operations of BOK are included in Corporate Items and Other. In 2010, we recorded an income tax benefit of \$4,383 to recognize the effect of additional tax losses.

NOTE 24 BASIC AND DILUTED EARNINGS PER SHARE

Basic EPS excludes common stock equivalents and is calculated by dividing net income attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income attributable to OCN, as adjusted to add back preferred stock dividends and interest expense net of income tax on the Convertible Notes, by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options, restricted stock awards, the Preferred Shares and the Convertible Notes. The following is a reconciliation of the calculation of basic EPS to diluted EPS for the years ended December 31:

	2012	2011	2010
Basic EPS:			
Net income attributable to Ocwen common stockholders	\$ 180,778	\$ 78,331	\$ 37,984
Weighted average shares of common stock	133,912,643	104,507,055	100,273,121
Basic EPS	\$ 1.35	\$ 0.75	\$ 0.38
Diluted EPS:			
Net income attributable to Ocwen common stockholders	\$ 180,778	\$ 78,331	\$ 37,984
Preferred stock dividends (1)	—	—	—
Interest expense on Convertible Notes, net of income tax (2)	107	1,187	1,122
Adjusted net income attributable to Ocwen	\$ 181,885	\$ 79,518	\$ 39,106
Weighted average shares of common stock	133,912,643	104,507,055	100,273,121
Effect of dilutive elements:			
Preferred Shares (1)	—	—	—
Convertible Notes (2)	1,008,891	4,637,224	4,637,224
Stock options	3,593,419	2,711,682	2,571,282
Common stock awards	6,326	—	1,388
Dilutive weighted average shares of common stock	138,521,279	111,855,961	107,483,015

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Diluted EPS	\$1.31	\$0.71	\$0.36
Stock options excluded from the computation of diluted EPS:			
Anti-dilutive(3)	143,125	27,031	20,000
Market-based(4)	1,535,000	468,750	1,615,000

- (1) The effect of our Preferred Shares on diluted EPS is computed using the if-converted method. We assumed no conversion to common shares for 2012 because the effect was anti-dilutive. Prior to the redemption of the Convertible Notes in March 2012, we also computed their effect on diluted EPS using the if-converted method. Interest expense and related amortization costs applicable to the Convertible Notes, net of income tax, were added back to net income. As disclosed in Note 15, we issued 4,635,159 shares of common stock upon conversion of \$56,410 of the Convertible Notes.
- (2) These stock options were anti-dilutive because their exercise price was greater than the average market price of our stock.
- (3) Shares that are issuable upon the achievement of certain performance criteria related to OCN's stock price and an annualized rate of return to investors. See Note 25 for additional information regarding these market-condition options.
- (4)

NOTE 25 EMPLOYEE COMPENSATION AND BENEFIT PLANS

We maintain a defined contribution plan to provide post retirement benefits to our eligible employees. We also maintain additional compensation plans for certain employees. We designed these plans to facilitate a pay-for-performance policy, further align the interests of our officers and key employees with the interests of our shareholders and assist in attracting and retaining employees vital to our long-term success. These plans are summarized below.

Retirement Plan

We maintain a defined contribution 401(k) plan. We match 50% of each employee's contributions, limited to 2% of the employee's compensation. Our contributions to the 401(k) plan were \$399, \$238 and \$233 for the years ended December 31, 2012, 2011 and 2010, respectively.

Annual Incentive Plan

The Ocwen Financial Corporation Amended 1998 Annual Incentive Plan (the AIP) is our primary incentive compensation plan for executives and other key employees. Under the terms of the AIP, participants can earn cash and equity-based awards as determined by the Compensation Committee of the Board of Directors (the Committee). The awards are generally based on objective performance criteria established by the Committee which includes corporate profitability, growth in our core businesses, meeting budget objectives and achieving cost savings through Six Sigma initiatives. The Committee may at its discretion adjust performance measurements to reflect significant unforeseen events. For the past six years, we have awarded annual incentive compensation entirely in cash. We recognized \$7,192, \$9,472 and \$6,031 of compensation expense during 2012, 2011 and 2010, respectively, related to annual incentive compensation awarded in cash.

In 2007, the stockholders approved the 2007 Equity Incentive Plan (the 2007 Equity Plan) to replace the 1991 Non-Qualified Stock Option Plan. The 2007 Equity Plan authorizes the grant of stock options, restricted stock or other equity-based awards to employees. At December 31, 2012, there were 8,895,599 shares of common stock remaining available for future issuance under the 2007 Equity Plan. In 2008, 2009, 2011 and 2012, we awarded stock options to certain members of senior management under the 2007 Equity Plan. These awards had the following characteristics in common:

Type of Award	Percent of Options	Vesting Period
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Awarded		
Service Condition: Time-Based	25%	Ratably over four years (1/4 on each of the four anniversaries of the grant date)
Market Condition:		
Performance-Based	50	Over three years beginning with 1/4 vesting on the date that the stock price has at least doubled over the exercise price and the compounded annual gain over the exercise price is at least 20% and then ratably over three years (1/4 on the next three anniversaries of the achievement of the market condition)
Extraordinary Performance-Based	15	Over three years beginning with 1/4 vesting on the date that the stock price has at least tripled over the exercise price and the compounded annual gain over the exercise price is at least 25% and then ratably over three years (1/4 on the next three anniversaries of the achievement of the market condition)
Total award	100%	

Stock options awarded prior to 2008 consist of service condition awards that generally vest ratably over a five-year period including the award year. The contractual term of all options granted is ten years from the grant date, except where employment terminates by reason of retirement, in which case the time-based options will terminate no later than three years after such retirement or the end of the option term, whichever is earlier. The terms of the market-based options do not include a retirement provision.

Stock option activity for the years ended December 31:

	2012		2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	7,894,728	\$ 5.48	8,084,953	\$ 5.03	9,278,581	\$ 4.97
Granted (1)	2,160,000	23.92	545,000	12.83	—	—
Exercised (2)(3)	(1,116,549)	3.56	(735,225)	6.01	(774,345)	4.19
Forfeited	—	—	—	—	(419,283)	5.21
Outstanding at end of year(4)(5)	8,938,179	9.93	7,894,728	5.48	8,084,953	5.03
Exercisable at end of year (4)(5)(6)	5,569,432	5.04	4,947,228	4.91	4,122,453	5.13

(1) Stock options granted in 2012 includes 2,000,000 granted to Ocwen's Executive Chairman of the Board of Directors, William C. Erbey at an exercise price of \$24.38 equal to the closing price of the stock on the day of the Committee's approval. See Note 27 for additional information regarding Mr. Erbey's stock and stock option holdings.

(2) The total intrinsic value of stock options exercised, which is defined as the amount by which the market value of the stock on the date of exercise exceeds the exercise price, was \$23,864, \$4,114 and \$4,265 for 2012, 2011 and 2010, respectively.

(3) In connection with the exercise of stock options during 2012, 2011 and 2010, employees delivered 33,605, 324,248 and 21,750 shares, respectively, of common stock to Ocwen as payment for the exercise price and the income tax withholdings on the compensation. As a result, a total of 1,082,944, 410,977 and 752,595 net shares of stock were issued in 2012, 2011 and 2010, respectively, related to the exercise of stock options.

(4) Excluding 1,535,000 market-based options that have not met their performance criteria, the net aggregate intrinsic value of stock options outstanding and stock options exercisable at December 31, 2012 was \$204,657 and \$164,591, respectively. A total of 6,335,000 market-based options were outstanding at December 31, 2012, of which 2,727,810 were exercisable.

(5) At December 31, 2012, the weighted average remaining contractual term of options outstanding and options exercisable was 4.2 years and 5.3 years, respectively.

(6) The total fair value of the stock options that vested and became exercisable during 2012, 2011 and 2010, based on grant-date fair value, was \$2,208, \$1,342 and \$1,948, respectively.

Compensation expense related to options is measured based on the grant-date fair value of the options using an appropriate valuation model based on the vesting condition of the award. The fair value of the time-based options was determined using the Black-Scholes options pricing model, while a lattice (binomial) model was used to determine the fair value of the market-based options. Lattice (binomial) models incorporate ranges of assumptions for inputs.

The following assumptions were used to value the 2012 and 2011 stock option awards as of the grant dates:

	2012		2011	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate	1.20 – 1.60%	0.70% – 3.06%	1.57	% 0.35% – 2.74%
Expected stock price volatility (1)	40% – 42%	6.87% – 42%	41	% 30% – 41%
Expected dividend yield	—	—	—	—
Expected option life (in years) (2)	6.50	4.50 – 6.50	6.50	4.25 & 5.75
Contractual life (in years)	—	10	—	10
Fair value	\$6.49 – \$10.48	\$3.41 – \$8.87	\$5.51	\$4.66 & \$4.09

(1) We estimate volatility based on the historical volatility of OCN’s common stock over the most recent period that corresponds with the estimated expected life of the option.

For the options valued using the Black-Scholes model we determined the expected life based on historical experience with similar awards, giving consideration to the contractual term, exercise patterns and post vesting forfeitures. The expected term of the options valued using the lattice (binomial) model is derived from the output of the model. The lattice (binomial) model incorporates exercise assumptions based on analysis of historical data.

(2) For all options, the expected life represents the period of time that options granted were expected to be outstanding at the date of the award.

The following table sets forth equity-based compensation related to stock options and stock awards and the related excess tax benefit for the years ended December 31:

	2012	2011	2010
Equity-based compensation expense:			
Stock option awards	\$2,776	\$926	\$1,088
Stock awards	158	—	—
Excess tax benefit related to share-based awards	11,031	2,142	3,157

As of December 31, 2012, unrecognized compensation costs related to non-vested stock options amounted to \$18,308, which will be recognized over a weighted-average remaining requisite service period of 2.68 years.

NOTE 26 BUSINESS SEGMENT REPORTING

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. A brief description of our current business segments is as follows:

Servicing. Through this segment, we provide residential and commercial mortgage loan servicing, special servicing and asset management services. We earn fees for providing these services to owners of the mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSR from the owner of the mortgage or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Subprime loans represent the largest category, or stratum of the residential loans that we service. Subprime loans represent residential loans that were made to borrowers who generally did not qualify under GSE guidelines (nonconforming loans) or have subsequently become delinquent. This segment is primarily comprised of our core residential servicing business.

Lending. In addition to acquiring Homeward's residential servicing business, we also acquired its loan origination platform as part of the Homeward Acquisition which closed on December 27, 2012. The Lending segment is focused on originating and purchasing agency-conforming residential mortgage loans mainly through our correspondent lending business. In addition, in 2012, Homeward commenced a direct lending business to initially pursue refinancing opportunities from its existing portfolio, where permitted. The loans are typically sold shortly after origination into a liquid market on a servicing retained basis and are measured at fair value.

Corporate Items and Other. Corporate Items and Other includes items of revenue and expense that are not directly related to a business, business activities that are individually insignificant, interest income on short-term investments of cash, corporate debt and certain corporate expenses. Business activities that are not considered to be of continuing

significance include subprime loans held for sale (at lower of cost or fair value), investments in unconsolidated entities and affordable housing investment activities. Corporate Items and Other also includes the diversified fee-based business that we acquired as part of the Homeward Acquisition on December 27, 2012 and expect to sell to Altisource in March 2013. Services provided by this business include property valuation, REO management, title and closing and advisory.

We allocate interest income and expense to each business segment for funds raised or for funding of investments made, including interest earned on cash balances and short-term investments and interest incurred on corporate debt. We also allocate expenses generated by corporate support services to each business segment.

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Financial information for our segments is as follows:

	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Results of Operations					
For the year ended December 31, 2012					
Revenue (1) (2)	\$840,648	\$ 141	\$5,122	\$ (905)	\$ 845,006
Operating expenses (1) (3)	344,333	409	19,667	(484)	363,925
Income (loss) from operations	496,315	(268)	(14,545)	(421)	481,081
Other income (expense):					
Interest income	9	309	8,011	—	8,329
Interest expense	(221,948)	(514)	(993)	—	(223,455)
Other (1) (2)	(13)	214	(9,069)	421	(8,447)
Other income (expense), net	(221,952)	9	(2,051)	421	(223,573)
Income (loss) from continuing operations before income taxes	\$274,363	\$ (259)	\$(16,596)	\$ —	\$ 257,508
For the year ended December 31, 2011					
Revenue (1) (2)	\$494,871	\$ —	\$2,348	\$ (1,289)	\$ 495,930
Operating expenses (1) (3) (4)	231,238	—	8,971	(625)	239,584
Income (loss) from operations	263,633	—	(6,623)	(664)	256,346
Other income (expense):					
Interest income	110	—	8,766	—	8,876
Interest expense	(132,574)	—	(196)	—	(132,770)
Other (1) (2)	4,711	—	(14,832)	664	(9,457)
Other income (expense), net	(127,753)	—	(6,262)	664	(133,351)
Income (loss) from continuing operations before income taxes	\$135,880	\$ —	\$(12,885)	\$ —	\$ 122,995
For the year ended December 31, 2010					
Revenue (1) (2)	\$359,798	\$ —	\$2,112	\$ (1,529)	\$ 360,381
Operating expenses (1) (3) (4)	200,108	—	37,130	(764)	236,474
Income (loss) from operations	159,690	—	(35,018)	(765)	123,907
Other income (expense):					
Interest income	207	—	10,652	—	10,859
Interest expense	(80,514)	—	(5,409)	—	(85,923)
Other (1) (2) (5) (6)	(1,188)	—	(9,266)	765	(9,689)
Other income (expense), net	(81,495)	—	(4,023)	765	(84,753)
Income (loss) from continuing operations before income taxes	\$78,195	\$ —	\$(39,041)	\$ —	\$ 39,154

	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Total Assets					

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December 31, 2012	\$4,461,755	\$551,733	\$658,394	\$	—	\$ 5,671,882
December 31, 2011	\$4,301,371	\$—	\$426,653	\$	—	\$ 4,728,024
December 31, 2010	\$2,495,966	\$—	\$425,443	\$	—	\$ 2,921,409

(1) Intersegment billings for services rendered to other segments are recorded as revenues, as contra-expense or as other income, depending on the type of service that is rendered.

servicing has a contractual right to receive interest income on float balances. However, Corporate controls investment decisions associated with the float balances. Accordingly, Servicing receives revenues generated by those investments that are associated with float balances but are reported in Corporate Items and Other. Gains and losses associated with corporate investment decisions are recognized in Corporate Items and Other.

(3) Depreciation and amortization expense are as follows:

	Servicing	Lending	Corporate Items and Other	Business Segments Consolidated
For the year ended December 31, 2012:				
Depreciation expense	\$ 1,469	\$ 8	\$ 4,243	\$ 5,720
Amortization of MSR's	72,897	—	—	72,897
Amortization of debt discount	3,259	—	—	3,259
Amortization of debt issuance costs – SSTL	3,718	—	—	3,718
For the year ended December 31, 2011:				
Depreciation expense	\$ 2,410	\$ —	\$ 1,750	\$ 4,160
Amortization of MSR's	42,996	—	—	42,996
Amortization of debt discount	8,853	—	—	8,853
Amortization of debt issuance costs – SSTL	9,764	—	—	9,764
For the year ended December 31, 2010:				
Depreciation expense	\$ 5,916	\$ —	\$ 1,596	\$ 7,512
Amortization of MSR's	31,455	—	—	31,455
Amortization of debt discount	5,217	—	172	5,389
Amortization of debt issuance costs – SSTL	2,086	—	—	2,086

- (4) Operating expenses for 2011 and 2010 include non-recurring transaction-related expenses associated with the Litton and HomeEq acquisitions of \$50,340 and \$52,603, respectively, recorded in the Servicing segment.
- (5) Other income (expense) for 2010 includes gains of \$6,036 recorded in Corporate Items and Other from sales of our investments in affordable housing projects.
- (6) Other income (expense) for 2010 includes losses on auction rate securities of \$7,909 recorded in Corporate Items and Other.

NOTE 27 RELATED PARTY TRANSACTIONS

Relationship with Executive Chairman of the Board of Directors

Ocwen's Executive Chairman of the Board of Directors, William C. Erbey, also serves as Chairman of the Board for both Altisource and HLSS. As a result, he has obligations to Ocwen as well as to Altisource and HLSS. Mr. Erbey currently owns approximately 13% of the common stock of Ocwen, approximately 23% of the common stock of Altisource and approximately 2% of the common stock of HLSS. At December 31, 2012, Mr. Erbey also held 4,684,177 options to purchase OCN common stock, of which 2,384,177 were exercisable. He also held 894,728 options to purchase Altisource (ASPS) common stock, including 844,728 which were exercisable.

Mr. Erbey has relocated to St. Croix, USVI to serve as Chairman and CEO of OMS. On August 21, 2012, the Ocwen Board of Directors approved Ocwen's purchase of Mr. Erbey's residence in Atlanta, Georgia, for his cost-basis in the home of \$6,477. Ocwen also incurred approximately \$24 of related transaction costs. The transaction is consistent with Ocwen's standard senior executive relocation policy and practice. We have classified our investment in this property as real estate held for sale, a component of Other assets. We account for the excess of cost over fair value (less costs to sell) as a valuation allowance and include changes in the valuation allowance in Loss on loans held for sale, net.

Relationship with Altisource

For purposes of governing certain of the ongoing relationships between Ocwen and Altisource after the Separation, and to provide for an orderly transition to the status of two independent companies, we entered into certain agreements with Altisource. Under the Transition Services Agreement, the companies provide to each other services in such areas as human resources, vendor management, corporate services, six sigma, quality assurance, quantitative analytics, treasury, accounting, tax matters, risk management, law, strategic planning, compliance and other areas. The Transition Services Agreement was amended on August 10, 2011, in order to extend the initial twenty-four month term for an additional twelve months, and it expired on August 10, 2012.

Under the Services Agreement, Altisource provides various business process outsourcing services, such as valuation services and property preservation and inspection services, among other things. Altisource also provides certain technology products and support services to Ocwen under the Technology Products Services Agreement and the Data Center and Disaster Recovery Services Agreement both of which had an initial term of eight years from the spin-off date. In addition, under the Data Access and Services Agreement entered into in the third quarter of 2011, Ocwen has agreed to make available to Altisource certain data from Ocwen's servicing portfolio in exchange for a per asset fee.

On August 10, 2012, OMS entered into a Support Services Agreement with Altisource setting forth certain services OMS and Altisource will provide to each other which are similar to the services the parties provided to each other pursuant to the Transition Services Agreement. The Support Services Agreement has an initial term of five years. OMS also entered into a Services Agreement, a Technology Products Services Agreement and a Center and Disaster Recovery Services Agreement under which Altisource will provide services similar to those provided under the similarly titled agreements entered into in connection with the Separation. These agreements all have an initial term of eight years.

Certain services provided by Altisource under these contracts are charged to the borrower and/or loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales.

Our business is currently dependent on many of the services and products provided under these long-term contracts which are effective for up to eight years with renewal rights. We believe the rates charged under these agreements are market rates as they are materially consistent with one or more of the following: the fees charged by Altisource to other customers for comparable services and the rates Ocwen pays to or observes from other service providers.

In addition to the revenues and expenses we recorded associated with the agreements discussed above, during 2010 and 2011 we sold certain equipment to Altisource that we had acquired from HomEq and Litton. As disclosed in Note 2, these assets consisted primarily of computer hardware and software and furniture and fixtures and were sold for cash proceeds equal to the acquisition fair value, as adjusted. As a result, we recognized no gain or loss on these sales. Also, in 2010 we entered into an agreement to sublease from Altisource our principal executive office space in Atlanta, Georgia.

As disclosed in Note 1, Ocwen and Altisource each hold a 49% equity interest in Correspondent One, a company that facilitates the purchase of conforming and government-guaranteed residential mortgages from approved mortgage originators and resells the mortgages to secondary market investors. As of December 31, 2012, Ocwen had invested \$13,432 in Correspondent One.

On December 27, 2012, we entered into a senior unsecured term loan facility agreement (the Unsecured Loan Agreement) with Altisource and borrowed \$75 million. The proceeds of this loan were used to fund a portion of the Homeward Acquisition. Borrowings under the Unsecured Loan Agreement bear interest at a rate equal to the one-month Eurodollar Rate (1-Month LIBOR) plus 675 basis points with a Eurodollar Rate floor of 150 basis points.

The final maturity date for the Unsecured Loan Agreement is March 1, 2017, and it does not provide for any scheduled amortization. Borrowings under the Unsecured Loan Agreement must be repaid when the SSTL is paid in full. However, if the SSTL is not paid off before October 31, 2013, Altisource may require that we convert all or a portion of the outstanding principal and unpaid interest accrued on the Unsecured Loan into any of the following, at Altisource's discretion (i) an investment in or of Homeward, (ii) property or assets of Homeward, (iii) equity interests of Homeward, or (iv) if Altisource and Ocwen agree, any other assets of Ocwen or its subsidiaries. Any such conversion will be based upon mutually agreeable terms and conditions, including without limitation, conversion price, as reasonably negotiated in good faith between Ocwen and Altisource. Unless Altisource otherwise agrees in writing, the conversion must take place on or prior to November 15, 2013. The Unsecured Loan Agreement contains provisions equivalent to those found in the SSTL with respect to covenants and events of default.

Relationship with HLSS

As disclosed in Note 3, Ocwen and HLSS Management entered into an agreement to provide to each other certain professional services including valuation analysis of potential MSR acquisitions, treasury management services and other similar services, legal, licensing and regulatory compliance support services, risk management services and other similar services.

The following table summarizes our transactions with related parties for the years ended December 31, and amounts receivable from or payable to related parties:

	2012	2011	2010
Revenues and Expenses:			
Altisource:			
Revenues	\$16,532	\$12,242	\$13,520
Expenses	28,987	23,226	20,082
HLSS:			
Revenues	\$195	\$—	\$—
Expenses	2,432	—	—
	December	December	
	31, 2012	31, 2011	

Net Receivable (Payable)

Altisource	\$ (5,971)	\$ (1,965)
HLSS	(25,524)	—
	\$ (31,495)	\$ (1,965)

NOTE 28 REGULATORY REQUIREMENTS

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the Consumer Financial Protection Bureau (CFPB), the Federal Trade Commission (FTC), the SEC and various state agencies that license, audit and conduct examinations of our mortgage originations, servicing and collection activities in a number of states. The CFPB asserts supervisory authority (including the authority to conduct examinations) over Ocwen and its affiliates, including Homeward. From time to time, we also receive requests from federal, state and local agencies for records, documents and information relating to our policies, procedures and practices regarding our loan origination, loan servicing and debt collection business activities. We incur significant ongoing costs to comply with new and existing laws and governmental regulation of our business.

We must comply with a number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, Homeowners Protection Act, the Federal Trade Commission Act and, more recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and state mortgage origination, mortgage servicing and foreclosure laws. These laws apply to loan origination, loan servicing, debt collection, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

On January 17, 2013, the CFPB issued a set of new rules under the Dodd-Frank Act that will require mortgage servicers and mortgage holders, as applicable, to (i) with respect to adjustable-rate mortgage transactions, provide notices to borrowers in advance of any adjustment to the initial interest rate the borrower's mortgage loan and in advance of any later adjustments to the interest rate resulting in changes in the borrower's monthly payment, (ii) provide enhanced disclosures to borrowers relating to mortgage servicing transfers, (iii) provide monthly mortgage statements to borrowers that explicitly breakdown break down outstanding principal, due date, amount due (principal, interest and escrow amounts), transaction activity in the last payment cycle and past payment history, (iv) establish a reasonable basis for requiring lender-placed, or "force-placed" insurance before charging a fee for it and provide advance notices and reminder notices to borrowers before purchasing force place insurance, (v) provide early outreach (by live contact and written notice) to delinquent borrowers regarding options to avoid foreclosure, (vi) provide that payments be credited to borrower accounts the day they are received, (vii) require borrower account records be kept current, (viii) provide increased accessibility to servicing staff during loss mitigation efforts, (ix) adopt and follow prescribed loss mitigation timelines for receipt, evaluation and denial or approval of loss mitigation or foreclosure avoidance options, and (x) investigate errors and respond to borrower notices of error within 30 days and timely respond to borrower requests for loan account information, among other things. The new rules are scheduled to go into effect on January 10, 2014 and could cause us to modify servicing processes and procedures and to incur additional costs in connection therewith. Certain of these requirements, if not met, could result in private causes of action under the applicable federal laws (for example, TILA or RESPA) or administrative or civil fines or penalties imposed by regulators with supervisory authority over Ocwen, such as the CFPB.

The CFPB has also promulgated an extensive array of final regulations under the Dodd-Frank Act governing mortgage loan originations. As with the mortgage servicing regulations, the CFPB finalized these regulations in January 2013 to become effective in January 2014. Compliance with these regulations likely will lead to increased costs and expenditures for compliance staff, systems and resources. The CFPB's recent mortgage origination regulations include rules:

- Requiring the loan originator to determine, prior to consummation, the borrower's reasonable ability to repay the loan. Legal liability for violations of this rule is limited if the lender follows certain procedures related to determination of the borrower's repayment ability based on verified documentation. The rule provides a so-called "safe harbor" from liability for loans eligible for purchase by Fannie Mae or Freddie Mac or for insurance or guaranty under certain U.S. government lending programs.

- Expanding the coverage of, lowering the pricing thresholds with respect to and expanding limitations and prohibitions on high-cost mortgages under the Home Ownership and Equity Protection Act (HOEPA).

- Amending the Federal Reserve Board's loan originator compensation and anti-steering regulation. This rule, inter alia, follows the Federal Reserve Board rule in prohibiting loan originator compensation based on a residential mortgage transaction's terms. This rule also places restrictions on the payment of bonuses or other incentive compensation to individual loan originators employed by mortgage lenders.

- Implementing the Dodd-Frank Act's concerning appraisals for higher-priced mortgage transactions and a rule requiring escrows for higher-priced mortgage transactions.

There are a number of foreign laws and regulations that are applicable to our operations in India and Uruguay, including acts that govern licensing, employment, safety, taxes, insurance, and the laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between the shareholders, the

company, the public and the government in both countries.

NOTE 29 COMMITMENTS AND CONTINGENCIES

Litigation Contingencies

In September 2006, the Bankruptcy Trustee in Chapter 7 proceedings involving American Business Financial Services, Inc. (ABFS) brought an action against multiple defendants, including Ocwen, in Bankruptcy Court. The action arises out of Debtor-in-Possession financing to ABFS by defendant Greenwich Capital Financial Products, Inc. and the subsequent purchases by Ocwen of MSRs and certain residual interests in mortgage-backed securities previously held by ABFS. The Trustee filed an amended complaint in March 2007 alleging various claims against Ocwen including turnover, fraudulent transfers, accounting, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, breach of contract, fraud, civil conspiracy and conversion. The Trustee seeks compensatory damages in excess of \$100,000 and punitive damages jointly and severally against all defendants. In April 2008, Ocwen filed an answer denying all charges and a counterclaim for breach of contract, fraud, negligent misrepresentation and indemnification in connection with the MSR purchase transaction. On August 30, 2012, the Bankruptcy Court entered an order granting Ocwen's motion for partial summary judgment and denying the Trustee's motion for partial summary judgment. This order effectively rejects the bulk of the Trustee's damage claims against Ocwen. In light of this order, the parties entered into a definitive written settlement agreement that provides for a final resolution and termination of this matter. This settlement, which is subject to the approval of the Bankruptcy Court, will not have a material effect on our financial condition, results of operations or cash flows.

We are subject to various other pending legal proceedings, including those subject to loss sharing and indemnification provisions of our various acquisitions. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

Tax Matters

India tax authorities issued income tax assessment orders with respect to assessment years 2006 - 2007 and 2007 - 2008. The proposed adjustments would impose upon OFSPL additional tax and interest of INR 156,718 (\$2,809), and penalties may be assessed. Ocwen and OFSPL intend to vigorously contest the assessments and do not believe they have violated any statutory provision or rule. OFSPL has submitted appeals in both cases to the India Income Tax Appellate Tribunal and petitioned for Competent Authority assistance under the Mutual Agreement Procedures of the U.S./India income tax treaty. OFSPL has furnished bank guarantees of INR 205,473 (\$3,684) related to transfer pricing matters, paid INR 7,647 (\$137) towards non-transfer pricing issues and obtained abeyance on the demand of INR 4,376 (\$78) relating to non-transfer pricing matters. Due to uncertainties inherent in the appeals processes, Ocwen and OFSPL cannot currently estimate any additional exposure beyond the amount currently assessed and cannot predict when these tax matters will be resolved. Competent Authority relief should preserve Ocwen's right to offset any potential increase in India tax against Ocwen's U.S. taxes.

Regulatory Contingencies

We are subject to a number of pending federal and state regulatory investigations, examinations, inquiries, requests for information and/or other actions. In July 2010, OLS received two subpoenas from the Federal Housing Finance Agency as conservator for Freddie Mac and Fannie Mae in connection with ten private label mortgage securitization transactions where Freddie Mac and Fannie Mae have invested. The transactions include mortgage loans serviced but not originated by OLS or its affiliates. On November 24, 2010, OLS received a Civil Investigative Demand (CID) from the FTC requesting documents and information regarding various servicing activities. On June 6, 2012, the FTC notified OLS that it had referred this CID to the CFPB. On November 7, 2011, OLS received a CID from the Attorney General's Office of the Commonwealth of Massachusetts requesting documents and information regarding certain foreclosures executed in Massachusetts. On January 18, 2012, OLS received a subpoena from the New York Department of Financial Services (NY DFS) requesting documents regarding OLS' policies, procedures and practices regarding lender-placed or "force-placed" insurance which is required to be provided for borrowers who allow their hazard insurance policies to lapse. Separately, on December 5, 2012, we entered into a Consent Order with the NY DFS in which we agreed to the appointment of an independent Monitor to oversee our compliance with the Agreement on Servicing Practices. A process is underway with respect to the selection and appointment of a Monitor by the NY DFS, and we intend to continue to cooperate with respect thereto. On August 13, 2012, OLS received a request from the Multi-State Mortgage Committee of the Conference of State Bank Supervisors (MMC) to provide information and data relating to our loan servicing portfolio, including loan count and volume data, loan modifications, fees assessed, delinquencies, short sales, loan-to-value data and rating agency reports. The MMC, along with the CFPB, certain state Attorneys General and other agencies who were involved in the National Mortgage Settlement executed on February 9, 2012 by the five large banks, also requested that we indicate our position on

behalf of OLS and Litton on the servicing standards and consumer relief provisions contained in that settlement.

We are cooperating with and providing requested information to each of the agencies involved in the foregoing actions. Specifically in response to the request from the MMC, CFPB, state Attorneys General and other agencies, we indicated our willingness to adopt the servicing standards set out in the National Mortgage Settlement with certain caveats. We further indicated our willingness to undertake various consumer assistance commitments in the form of loan modifications and other foreclosure avoidance alternatives. On February 26, 2013, the MMC, CFPB and state Attorneys General requested that we consider a proposal to contribute to a consumer relief fund that would provide cash payments to borrowers foreclosed upon by OLS and various entities we have acquired. We believe the maximum liability under this proposal would be approximately \$135 million. We do not believe such a contribution from us is warranted under the circumstances and have so notified the requesting parties. It is reasonably possible that legal proceedings could ensue with regard to this matter and, if so, we will defend vigorously. At this time, the amounts, if any, that ultimately could be incurred with regard to this matter are not reasonably estimable.

On November 30, 2012, prior to our completion of the Homeward Acquisition, two CIDs were issued to Homeward Residential, Inc. (HRI) by the U.S. Department of Justice, Eastern District of Texas, as part of an investigation of whether HRI violated the False Claims Act in connection with its participation in the Home Affordable Mortgage Program (HAMP). We were advised by HRI that documents and information have been provided pursuant to these CIDs. The investigation remains open, and we intend to cooperate in the event there are further informational requests.

As part of the ResCap Acquisition, OLS will be required to service the ResCap loans in accordance with the requirements of the National Mortgage Settlement, although OLS is not responsible for any payment, penalty or financial obligation, including but not limited to providing Ally's share of financial relief to borrowers under that settlement. The Office of Mortgage Settlement Oversight, which is responsible for monitoring compliance with obligations under the National Mortgage Settlement, issued a report on February 14, 2013 confirming that Ally/ResCap have completed its minimum consumer relief obligations.

One or more of the foregoing regulatory actions or similar actions in the future against Ocwen, OLS, Litton or Homeward could cause us to incur fines, penalties, settlement costs, damages, legal fees or other charges in material amounts, or undertake remedial actions pursuant to administrative orders or court-issued injunctions, any of which could adversely affect our financial results or incur additional significant costs related to our loan servicing operations.

In addition to these matters, Ocwen receives periodic inquiries, both formal and informal in nature, from various state and federal agencies as part of those agencies' oversight of the mortgage servicing sector. Such ongoing inquiries, including those into servicer foreclosure processes, could result in additional actions by state or federal governmental bodies, regulators or the courts that could result in an extension of foreclosure timelines, which may be applicable generally to the servicing industry or to us in particular. In addition, a number of our match funded advance facilities contain provisions that limit the eligibility of advances to be financed based on the length of time that advances are outstanding, and two of our match funded advance facilities have provisions that limit new borrowings if average foreclosure timelines extend beyond a certain time period, either of which, if such provisions applied, could adversely affect liquidity by reducing our average effective advance rate. Increases in the amount of advances and the length of time to recover advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for advances would lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability.

Loan Put-Back and Related Contingencies

Ocwen has been a party to loan sales and securitizations dating back to the 1990s. The majority of securities issued in these transactions have been retired and are not subject to put-back risk. There is one remaining securitization with an original UPB of approximately \$200,000 where Ocwen provided representations and warranties and the loans were originated in the last decade. Ocwen performed due diligence on each of the loans included in this securitization. The outstanding UPB of this securitization was \$41,240 at December 31, 2012, and the outstanding balance of the notes was \$41,132. Ocwen is not aware of any inquiries or claims regarding loan put-backs for any transaction where we made representations and warranties. We do not expect loan put-backs, if any, in these transactions to result in any material change to our financial position, operating results or liquidity.

Homeward's contracts with purchasers of originated loans contain provisions that require indemnification or repurchase of the related loans under certain circumstances. Additionally, in one of the servicing contracts that

Homeward acquired in 2008 from Freddie Mac involving non-prime mortgage loans, it assumed the origination representations and warranties even though it did not originate the loans. While the language in the purchase contracts vary, they contain provisions that require Homeward to indemnify purchasers of related loans or repurchase such loans if:

- representations and warranties concerning loan quality, contents of the loan file or loan
- underwriting circumstances are inaccurate;
- adequate mortgage insurance is not secured within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- there is a failure to comply, at the individual loan level or otherwise, with regulatory requirements.

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and under which such purchasers would benefit from enforcing any indemnification rights and repurchase remedies they may have.

As our lending business grows, we expect that our exposure to indemnification risks and repurchase requests is likely to increase. If home values continue to decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As a result, our reserve for repurchases may increase beyond our current expectations. If we are required to indemnify or repurchase loans that we originate and sell, and where we have assumed this risk on loans that we service, as discussed above, in either case resulting in losses that exceed our related reserve, our business, financial condition and results of operations could be adversely affected.

In several recent court actions, mortgage loan sellers against whom repurchase claims have been asserted based on alleged breaches of representations and warranties are defending on various grounds including the expiration of statutes of limitation, lack of notice and opportunity to cure and vitiation of the obligation to repurchase as a result of foreclosure or charge off of the loan. Ocwen is not a party to any of the actions, but we are the servicer for certain securitizations involved in such actions. Should Ocwen be made a party to these or similar actions, we may need to defend allegations that we failed to service loans in accordance with applicable agreements and that such failures prejudiced the rights of repurchase claimants against loan sellers. We believe that any such allegations would be without merit and, if necessary, would vigorously defend against them. If, however, we were required to compensate claimants for losses related to seller breaches of representations and warranties in respect of loans we service, then our business, financial condition and results of operations could be adversely affected.

Lease Commitments

We lease certain of our premises and equipment under non-cancelable operating leases with terms expiring through 2018 exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

2013	\$ 13,521
2014	13,497
2015	13,351
2016	13,085
2017	6,235
Thereafter	4,400
Total minimum lease payments	\$64,089

We assumed the obligation for the lease agreements associated with HomEq Servicing, Litton and Homeward facilities. The rental commitments in the table above for operating leases include the remaining amounts due through the earlier of the lease expiration date or the early termination date. During 2012, we negotiated a buyout of one of the two HomEq leases and renewed one of the two Litton leases on a temporary basis. The Homeward facility leases expire on various dates through 2018.

In December 2010, we entered into an agreement with Altisource to sublease of 2,094 square feet of space as our principal executive office in Atlanta, Georgia. Under the terms of the agreement, Ocwen is responsible for monthly base rent of \$3 plus a proportionate amount of maintenance costs and other shared services. The sublease is in effect through October 2014.

We converted rental commitments for our facilities outside the U.S. to U.S. dollars using exchange rates in effect at December 31, 2012. Rent expense for 2012, 2011 and 2010 was \$14,666, \$5,578 and \$12,315, respectively.

Genworth Acquisition

On October 26, 2012, Ocwen and Genworth Financial, Inc. (NYSE: GNW) entered into an agreement whereby Ocwen will acquire Genworth Financial Home Equity Access, Inc. for approximately \$22 million in cash. The company, which will be renamed Liberty Home Equity Solutions, Inc., is the number one reverse mortgage originator based on September 2012 industry data with strong positions in both retail and wholesale originations. We expect the acquisition to close on April 1, 2013.

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NOTE 30 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue	\$236,375	\$232,700	\$211,385	\$164,546
Operating expenses (1)	99,097	92,793	85,908	86,127
Income from operations	137,278	139,907	125,477	78,419
Other expense	(60,799)	(59,161)	(55,313)	(48,300)
Income before income taxes	76,479	80,746	70,164	30,119
Income tax expense	11,138	29,346	25,331	10,770
Net income	65,341	51,400	44,833	19,349
Net loss (income) attributable to non-controlling interests	—	—	—	—
Net income attributable to Ocwen stockholders	65,341	51,400	44,833	19,349
Preferred stock dividends	(145)	—	—	—
Net income attributable to Ocwen common stockholders	\$65,196	\$51,400	\$44,833	\$19,349
Earnings per share attributable to Ocwen common stockholders				
Basic	\$0.48	\$0.38	\$0.33	\$0.15
Diluted	\$0.47	\$0.37	\$0.32	\$0.14

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	Quarters Ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue	\$ 156,625	\$ 122,462	\$ 105,837	\$ 111,006
Operating expenses (2)	90,481	65,650	42,254	41,199
Income from operations	66,144	56,812	63,583	69,807
Other expense	(47,625)	(27,861)	(22,547)	(35,318)
Income before income taxes	18,519	28,951	41,036	34,489
Income tax expense	8,864	8,730	14,653	12,425
Net income	9,655	20,221	26,383	22,064
Net loss (income) attributable to non-controlling interests	(4)	7	(5)	10
Net income attributable to Ocwen stockholders	\$9,651	\$ 20,228	\$26,378	\$22,074
Earnings per share attributable to Ocwen stockholders				
Basic	\$0.08	\$ 0.20	\$0.26	\$0.22
Diluted	\$0.08	\$ 0.19	\$0.25	\$0.21

(1) Operating expenses for 2012 include non-recurring costs of \$1,270 that we incurred as a result of the Homeward Acquisition.

(2) Operating expenses for 2011 include non-recurring costs of \$50,340 that we incurred as a result of the Litton Acquisition, including \$472, \$18,746 and \$31,122 in the second, third and fourth quarters, respectively. See Note 2 for additional information on the Litton Acquisition.

NOTE 31 SUBSEQUENT EVENTS

ResCap Acquisition

On February 15, 2013, we completed the acquisition of certain assets of Residential Capital, LLC (“ResCap”), an indirect subsidiary of Ally Financial, Inc., in connection with the proposed asset sale by ResCap and other entities pursuant to a plan under Chapter 11 of the Bankruptcy Code. We purchased MSR to “private label”, Freddie Mac and Ginnie Mae loans with a UPB of approximately \$107.3 billion and master servicing agreements with a UPB of approximately \$42.1 billion. The acquisition included \$1.5 billion of related servicing advance receivables and related elements of the servicing platform for the MSRs and advances. We also assumed the subservicing contracts for \$25.9 billion of loans. The aggregate purchase price, net of assumed liabilities, was approximately \$2.1 billion, subject to post-closing adjustments. In addition, until certain consents and court approvals are obtained, we will subservice MSRs to approximately \$9 billion of private label loans previously serviced by the sellers. When such consents and approvals are obtained, we will purchase those MSRs as well.

To finance the ResCap acquisition, we deployed approximately \$840 million of net additional capital from the proceeds of a new \$1.3 billion SSTL facility and borrowed \$1.25 billion pursuant to three servicing advance facilities.

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