

Invesco Mortgage Capital Inc.
Form 10-Q/A
August 17, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____
Commission file number 001-34385

(Exact Name of Registrant as Specified in Its Charter)

Maryland 26-2749336
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

1555 Peachtree Street, N.E., Suite 1800 30309
Atlanta, Georgia
(Address of Principal Executive Offices) (Zip Code)

(404) 892-0896
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of May 1, 2015, there were 123,133,574 outstanding shares of common stock of Invesco Mortgage Capital Inc.

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Explanatory Note

Invesco Mortgage Capital Inc. (referred to herein as "we," "our," or the "Company") is filing this Amendment No. 1 on Form 10-Q/A (this "Form 10-Q/A") to its Quarterly Report on Form 10-Q for the period ended March 31, 2015, which was originally filed with the Securities and Exchange Commission (the "SEC") on May 7, 2015 (the "Original Filing"), for the purpose of restating previously filed financial statements, including notes thereto, and amending portions of the related disclosures contained in the Original Filing (the "Restatement"). This Form 10-Q/A includes (i) restated condensed consolidated balance sheets as of March 31, 2015 and 2014, and (ii) restated condensed consolidated statements of operations, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of equity and condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014 and (iii) restated quarterly financial information for the quarter ended March 31, 2015.

Restatement Background

In late June 2015 after the filing of our Form 10-Q for the quarter ended March 31, 2015, we undertook a thorough review of our generally accepted accounting principles ("GAAP") accounting treatment of our securities, including our credit risk transfer securities issued by government-sponsored enterprises ("GSE CRT") and interest-only strips of residential mortgage-backed securities that are guaranteed by a U.S. government agency ("Agency MBS IOs"). We determined that the GSE CRTs are hybrid financial instruments consisting of (i) a debt host contract (the unsecured GSE debenture) and (ii) an embedded derivative related to the credit protection feature of the GSE CRTs that should have been accounted for applying the guidance of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815 - Derivatives and Hedging ("ASC 815"). Under ASC 815, changes in fair value of the embedded derivative are required to be recorded in the Company's consolidated statement of operations, instead of in other comprehensive income on the Company's consolidated balance sheet while changes in fair value of the debt host contract remain within other comprehensive income. Additionally, we determined that the Agency MBS IOs are also hybrid financial instruments, which consist of (i) a debt host contract (the mortgage-backed security) and (ii) an embedded interest derivative related to prepayment risk. We have determined that Agency MBS IOs should have been accounted for under ASC 815 by recording changes in fair value of the embedded derivative in the consolidated statement of operations instead of in other comprehensive income on the Company's consolidated balance sheet. Management determined that the Agency MBS IOs embedded derivative cannot be reliably valued as a stand-alone instrument and therefore recorded the entire Agency MBS IOs change in fair value in the consolidated statement of operations in accordance with ASC 815.

On August 9, 2015, the Audit Committee of the Board of Directors of the Company concluded, based on the recommendation of management, that each of the Company's previously issued (i) consolidated financial statements as of and for the years ended December 31, 2013 and 2014, which were included in its Annual Report on Form 10-K for the year ended December 31, 2014, and (ii) interim consolidated financial statements as of and for the quarter ended March 31, 2013 and for all subsequent quarters through the quarter ended March 31, 2015 need to be restated and should no longer be relied upon. The Company filed Amendment No. 1 to its Form 10-K/A for the year ended December, 31, 2014 on August 17, 2015. The Company's Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2015, which is also being filed on August 17, 2015, includes restated unaudited condensed consolidated financial statements and amended related financial information for the fiscal period ended June 30, 2014.

The following sections of this Form 10-Q/A contain information that has been amended where necessary to reflect the restatement and certain other events that have occurred subsequent to May 7, 2015, the date of the Original Filing with the SEC:

Part I, Item 1. Financial Statements

Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Certain Sections As Restated)

Part I, Item 4. Controls and Procedures

Part II, Item 6. Exhibits

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Except as described in this Explanatory Note, the information contained in the Original Filing has not been updated to reflect any subsequent events, conditions or other developments that have occurred or existed since May 7, 2015, the date of the Original Filing with the SEC.

In accordance with applicable SEC rules, this Form 10-Q/A includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the filing date of this Form 10-Q/A. For more information about the Restatement, see the Company's Amendment No. 1 to Form 10K/A.

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PART I

ITEM 1. FINANCIAL STATEMENTS

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2015 (As Restated) ⁽²⁾ (Unaudited)	December 31, 2014 (As Restated) ⁽²⁾
In thousands except share amounts		
ASSETS		
Mortgage-backed and credit risk transfer securities, at fair value	17,340,595	17,248,895
Residential loans, held-for-investment ⁽¹⁾	3,597,147	3,365,003
Commercial loans, held-for-investment	146,211	145,756
Cash and cash equivalents	157,025	164,144
Due from counterparties	82,215	57,604
Investment related receivable	27,697	38,717
Accrued interest receivable	66,144	66,044
Derivative assets, at fair value	6,706	24,178
Deferred securitization and financing costs	12,286	13,080
Other investments	110,993	106,498
Other assets	1,055	1,098
Total assets ⁽¹⁾	21,548,074	21,231,017
LIABILITIES AND EQUITY		
Liabilities:		
Repurchase agreements	13,333,081	13,622,677
Secured loans	1,550,000	1,250,000
Asset-backed securities issued by securitization trusts ⁽¹⁾	3,133,527	2,929,820
Exchangeable senior notes	400,000	400,000
Derivative liabilities, at fair value	290,852	254,026
Dividends and distributions payable	61,766	61,757
Investment related payable	30,351	17,008
Accrued interest payable	23,800	29,670
Collateral held payable	4,300	14,890
Accounts payable and accrued expenses	3,248	2,439
Due to affiliate	9,535	9,880
Total liabilities ⁽¹⁾	18,840,460	18,592,167
Equity:		
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized:		
7.75% Series A Cumulative Redeemable Preferred Stock: 5,600,000 shares issued and outstanding (\$140,000 aggregate liquidation preference)	135,356	135,356
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 6,200,000 shares issued and outstanding (\$155,000 aggregate liquidation preference)	149,860	149,860
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized; 123,131,777 and 123,110,454 shares issued and outstanding, respectively	1,231	1,231
Additional paid in capital	2,532,353	2,532,130
Accumulated other comprehensive income	565,131	424,592
Retained earnings (distributions in excess of earnings)	(705,703) (632,854

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Total stockholders' equity	2,678,228	2,610,315
Non-controlling interest	29,386	28,535
Total equity	2,707,614	2,638,850
Total liabilities and equity	21,548,074	21,231,017

The condensed consolidated balance sheets include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations and liabilities of the VIEs for which creditors do not have recourse to the

(1) Company. As of March 31, 2015 and December 31, 2014, total assets of the consolidated VIEs were \$3,613,043 and \$3,380,597, respectively, and total liabilities of the consolidated VIEs were \$3,142,670 and \$2,938,512, respectively. Refer to Note 3 - "Variable Interest Entities" for further discussion.

(2) For discussion of the restatement adjustments, see Note 16 - "Restatement of Previously Issued Financial Statements".

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

In thousands, except share amounts	Three Months Ended March		
	31, 2015 (As Restated) ⁽²⁾	2014 (As Restated) ⁽²⁾	
Interest Income			
Mortgage-backed and credit risk transfer securities	135,265	148,405	
Residential loans ⁽¹⁾	29,374	17,704	
Commercial loans	3,115	1,619	
Total interest income	167,754	167,728	
Interest Expense			
Repurchase agreements	43,310	49,071	
Secured loans	1,464	—	
Exchangeable senior notes	5,607	5,607	
Asset-backed securities ⁽¹⁾	21,898	13,935	
Total interest expense	72,279	68,613	
Net interest income	95,475	99,115	
(Reduction in) provision for loan losses	(62	) 207
Net interest income after (reduction in) provision for loan losses	95,537	98,908	
Other Income (loss)			
Gain (loss) on investments, net	2,172	(17,772)
Equity in earnings of unconsolidated ventures	6,006	441	
Gain (loss) on derivative instruments, net	(122,745) (151,312)
Realized and unrealized credit derivative income (loss), net	21,362	17,487	
Other investment income (loss), net	(894) —	
Total other income (loss)	(94,099) (151,156)
Expenses			
Management fee – related party	9,415	9,335	
General and administrative	1,727	2,012	
Consolidated securitization trusts ⁽¹⁾	2,156	1,184	
Total expenses	13,298	12,531	
Net loss	(11,860) (64,779)
Net loss attributable to non-controlling interest	(136) (733)
Net loss attributable to Invesco Mortgage Capital Inc.	(11,724) (64,046)
Dividends to preferred stockholders	5,716	2,713	
Net loss attributable to common stockholders	(17,440) (66,759)
Loss per share:			
Net loss attributable to common stockholders			
Basic	(0.14) (0.54)
Diluted	(0.14) (0.54)
Dividends declared per common share	0.45	0.50	

(1) The condensed consolidated statements of operations include income and expenses of consolidated variable interest entities. Refer to Note 3 - “Variable Interest Entities” for further discussion.

(2)

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For discussion of the restatement adjustments, see Note 16 - "Restatement of Previously Issued Financial Statements".

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

In thousands	Three Months Ended March 31,	
	2015 (As Restated) ⁽¹⁾	2014 (As Restated) ⁽¹⁾
Net loss	(11,860	) (64,779)
Other comprehensive income (loss):		
Unrealized gain (loss) on mortgage-backed and credit risk transfer securities	125,954	161,697
Reclassification of unrealized (gain) loss on sale of mortgage-backed and credit risk transfer securities to gain (loss) on investments, net	(2,934	) 11,718
Reclassification of amortization of net deferred losses on de-designated interest rate swaps to repurchase agreements interest expense	19,145	21,296
Total other comprehensive income	142,165	194,711
Comprehensive income	130,305	129,932
Less: Comprehensive income attributable to non-controlling interest	(1,490	) (1,483)
Less: Dividends to preferred stockholders	(5,716	) (2,713)
Comprehensive income attributable to common stockholders	123,099	125,736

(1) For discussion of the restatement adjustments, see Note 16 - "Restatement of Previously Issued Financial Statements".

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

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CONDENSED CONSOLIDATED STATEMENT OF EQUITY

For the three months ended March 31, 2015

(Unaudited)

In thousands except share amounts	Attributable to Common Stockholders										
	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Distributions in excess of earnings)	Total Stockholders' Equity	Non- Controlling Interest
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at January 1, 2015 (As Restated) ⁽¹⁾	5,600,000	135,356	6,200,000	149,860	123,110,454	1,231	2,532,130	424,592	(632,854)	2,610,315	28
Net loss (As Restated) ⁽¹⁾	—	—	—	—	—	—	—	—	(11,724)	(11,724)	(13)
Other comprehensive income (loss) (As Restated) ⁽¹⁾	—	—	—	—	—	—	—	140,539	—	140,539	1,000
Proceeds from issuance of common stock, net of offering costs	—	—	—	—	4,444	—	70	—	—	70	—
Stock awards	—	—	—	—	16,879	—	—	—	—	—	—
Common stock dividends	—	—	—	—	—	—	—	—	(55,409)	(55,409)	(13)
Common unit dividends	—	—	—	—	—	—	—	—	—	—	(64)
Preferred stock dividends	—	—	—	—	—	—	—	—	(5,716)	(5,716)	—
Amortization of equity-based compensation	—	—	—	—	—	—	153	—	—	153	2
Balance at March 31, 2015 (As Restated) ⁽¹⁾	5,600,000	135,356	6,200,000	149,860	123,131,777	1,231	2,532,353	565,131	(705,703)	2,678,228	29

(1) For discussion of the restatement adjustments, see Note 16 - "Restatement of Previously Issued Financial Statements".

The accompanying notes are an integral part of this condensed consolidated financial statement.

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

In thousands	Three Months Ended March 31,	
	2015 (As Restated) ⁽¹⁾	2014 (As Restated) ⁽¹⁾
Cash Flows from Operating Activities		
Net loss	(11,860	) (64,779
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of mortgage-backed and credit risk transfer securities premiums and (discounts), net	29,389	32,527
Amortization of residential loans and asset-backed securities premiums (discount), net	37	824
Amortization of commercial loan origination fees	(6	) (1
(Reduction in) provision for loan losses	(62	) 207
Unrealized (gain) loss on derivative instruments, net	51,034	81,047
Unrealized (gain) loss on credit derivatives, net	(15,976	) (13,914
(Gain) loss on sale of mortgage-backed and credit risk transfer securities, net	(2,172	) 17,772
Realized (gain) loss on derivative instruments, net	26,103	18,824
Realized (gain) loss on credit derivatives, net	792	—
Equity in earnings of unconsolidated ventures	(6,006	) (441
Amortization of equity-based compensation	155	124
Amortization of deferred securitization and financing costs	794	719
Reclassification of amortization of net deferred losses on de-designated interest rate swaps	19,145	21,296
Non-cash interest income capitalized in commercial loans	—	(670
(Gain) loss on foreign currency transactions, net	1,500	—
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets	(53	) 1,389
Decrease in operating liabilities	(5,392	) (5,877
Net cash provided by operating activities	87,422	89,047
Cash Flows from Investing Activities		
Purchase of mortgage-backed and credit risk transfer securities	(726,494	) (681,827
(Contributions) distributions (from) to investment in unconsolidated ventures, net	8,761	2,721
Change in other investments	(7,250	) 9,891
Principal payments from mortgage-backed and credit risk transfer securities	570,110	397,431
Proceeds from sale of mortgage-backed and credit risk transfer securities	180,790	949,905
Payments on sale of credit derivatives	(792) —
Payment of premiums for interest rate swaptions	(1,485	) (4,688
Payments for termination of futures/currency forward contracts and TBAs	(2,360	) (3,749
Purchase of residential loans held-for-investment	(372,305	) (283,421
Principal payments from residential loans held-for-investment	138,210	21,951
Origination and advances of commercial loans, net of origination fees	(1,944	) (27,478
Net cash (used in) provided by investing activities	(214,759	) 380,736
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	70	73
Repurchase of common stock	—	(21,129
Cost of issuance of preferred stock	(15) —

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Due from counterparties	(23,626) (3,379)
Collateral held payable	(10,590) (28,231)
Proceeds from repurchase agreements	35,603,951	33,987,939	
Principal repayments of repurchase agreements	(35,893,498	) (34,587,304)
Proceeds from asset-backed securities issued by securitization trusts	336,077	245,864	
Principal repayments of asset-backed securities issued by securitization trusts	(130,394	) (19,258)
Proceeds from secured loans	600,000	—	
Principal repayments on secured loans	(300,000) —	
Payments of deferred costs	—	(512)
Payments of dividends and distributions	(61,757	) (66,087)
Net cash provided by (used in) financing activities	120,218	(492,024)
Net change in cash and cash equivalents	(7,119	) (22,241)
Cash and cash equivalents, beginning of period	164,144	210,612	
Cash and cash equivalents, end of period	157,025	188,371	
Supplement Disclosure of Cash Flow Information			
Interest paid	59,713	50,363	
Non-cash Investing and Financing Activities Information			
Net change in unrealized gain on mortgage-backed and credit risk transfer securities	123,020	173,415	
Dividends and distributions declared not paid	61,766	64,969	
(Receivable) / payable for mortgage-backed and credit risk transfer securities sold / purchased, net	4,265	710,958	
Repurchase agreements, not settled	(49) —	
Collateral held payable, not settled	—	(4,319)
Interest rate swaps terminated, not settled	19,055	—	
Net change in due from counterparties	(985) —	

(1) For discussion of the restatement adjustments, see Note 16 - "Restatement of Previously Issued Financial Statements".

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization and Business Operations

Invesco Mortgage Capital Inc. (the “Company”) is a Maryland corporation primarily focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans. The Company is externally managed and advised by Invesco Advisers, Inc. (the “Manger”), a registered investment adviser and an indirect, wholly-owned subsidiary of Invesco Ltd. (“Invesco”), a leading independent global investment management firm. The Company conducts its business through IAS Operating Partnership LP (the “Operating Partnership”) as its sole general partner. As of March 31, 2015, the Company owned 98.9% of the Operating Partnership, and a wholly-owned subsidiary of Invesco owned the remaining 1.1%. The Company has one operating segment.

The Company primarily invests in:

Residential mortgage-backed securities (“RMBS”) that are guaranteed by a U.S. government agency such as the Government National Mortgage Association, or a federally chartered corporation such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (collectively “Agency RMBS”);

RMBS that are not guaranteed by a U.S. government agency (“non-Agency RMBS”);

Credit risk transfer securities that are unsecured obligations issued by government-sponsored enterprises (“GSE CRT”);

Commercial mortgage-backed securities (“CMBS”);

Residential and commercial mortgage loans; and

Other real estate-related financing agreements.

The Company generally finances its investments through short- and long-term borrowings structured as repurchase agreements and secured loans. The Company finances its residential loans held-for-investment through asset-backed securities (“ABS”) issued by consolidated securitization trusts. The Company has also financed investments through the issuances of debt and equity and may utilize other forms of financing in the future.

The Company elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986, as amended, commencing with the Company's taxable year ended December 31, 2009. To maintain the Company's REIT qualification, the Company is generally required to distribute at least 90% of its REIT taxable income to its stockholders annually. The Company operates its business in a manner that permits exclusion from the “Investment Company” definition under the Investment Company Act of 1940, as amended.

Note 2 – Summary of Significant Accounting Policies (As Restated)

Restatement

The Company is restating its previously issued condensed consolidated balance sheets included in its Quarterly Report on Form 10-Q as of March 31, 2015 and 2014 and condensed consolidated statements of operations, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of equity, and condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014, along with certain related notes (the “Restatement”). The impact of the Restatement is included in this Amendment No. 1 on Form 10-Q/A and is more specifically described in Note 16 - “Restatement of Previously Issued Financial Statements.”

Basis of Presentation and Consolidation

The Company filed Amendment No. 1 to its Annual Report on Form 10-K/A on August 17, 2015 (“Form 10-K/A”). Certain disclosures included in the Company's Form 10-K/A are not required to be included on an interim basis in the Company's quarterly reports on Form 10-Q. The Company has condensed or omitted these disclosures. Therefore, this Form 10-Q/A should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2014.

In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for a fair presentation of the financial condition and results of

operations for the

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periods presented. All significant intercompany transactions, balances, revenues and expenses are eliminated upon consolidation.

The condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and consolidate the financial statements of the Company and its controlled subsidiaries. The condensed consolidated financial statements also include the consolidation of certain securitization trusts that meet the definition of a variable interest entity ("VIE") because the Company has been deemed to be the primary beneficiary of the securitization trusts. These securitization trusts hold pools of residential mortgage loans and issue series of asset-backed securities payable from the cash flows generated by the underlying pools of residential mortgage loans. The securitizations are non-recourse financing for the residential mortgage loans held-for-investment. Generally, a portion of the asset-backed securities issued by the securitization trusts is sold to unaffiliated third parties and the balance is purchased by the Company. The Company classifies the underlying residential mortgage loans owned by the securitization trusts as residential loans held-for-investment in its condensed consolidated balance sheets. The asset-backed securities issued to third parties are recorded as liabilities on the Company's condensed consolidated balance sheets. The Company records interest income on the residential loans held-for-investment, interest expense on the asset-backed securities issued to third parties and direct operating expenses incurred by the securitization trusts in the Company's condensed consolidated statements of operations. The Company eliminates all intercompany balances and transactions between itself and the consolidated securitization trusts. The Company records the initial underlying assets and liabilities of the consolidated securitization trusts at their fair value upon consolidation into the Company and, as such, no gain or loss is recorded upon consolidation. Refer to Note 3 - "Variable Interest Entities" for additional information regarding the impact of consolidation of securitization trusts.

The consolidated securitization trusts are VIEs because the securitization trusts do not have equity that meets the definition of U.S. GAAP equity at risk. In determining if a securitization trust should be consolidated, the Company evaluates whether it has both (i) the power to direct the activities of the securitization trust that most significantly impact its economic performance and (ii) the right to receive benefits from the securitization trust or the obligation to absorb losses of the securitization trust that could be significant. The Company's determination of whether it is the primary beneficiary of a securitization trust includes both a qualitative and quantitative analysis. The Company determined that it was the primary beneficiary of certain securitization trusts because it was involved in certain aspects of the design of the securitization trusts and has certain default oversight rights on defaulted residential loans. In addition, the Company owns the most subordinated class of asset-backed securities issued by the securitization trusts and has the obligation to absorb losses and right to receive benefits from the securitization trust that could potentially be significant to the securitization trust. The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company's initial consolidation assessment.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Examples of estimates include, but are not limited to, estimates of the fair values of financial instruments, interest income on mortgage-backed and credit risk transfer securities, allowance for loan losses and other-than-temporary impairment charges. Actual results may differ from those estimates.

Significant Accounting Policies

Included in Note 2 to the consolidated financial statements of the Company's 2014 Annual Report on Form 10-K/A is a summary of the Company's significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the Company's condensed consolidated financial condition and results of operations for the three months ended March 31, 2015.

Mortgage-Backed and Credit Risk Transfer Securities

All of the Company's mortgage-backed securities ("MBS") except for Agency interest-only securities ("Agency MBS IOs"), are classified as available-for-sale and reported at fair value. Fair value is determined by obtaining valuations from an independent source. If the fair value of a security is not available from a third-party pricing service, or such

data appears unreliable, the Company may estimate the fair value of the security using a variety of methods including other pricing services, discounted cash flow analysis, matrix pricing, option adjusted spread models and other fundamental analysis of observable market factors.

The Company records its purchases of mortgage-backed and credit risk transfer securities on the trade date. Although the Company generally intends to hold most of its mortgage-backed and credit risk transfer securities until maturity, the Company may, from time to time, sell any of its mortgage-backed and credit risk transfer securities as part of its overall management of its investment portfolio.

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Unrealized gains or losses on all MBS, except for Agency MBS IOs, are recorded in accumulated other comprehensive income, a separate component of stockholders' equity, until sale or disposition of the investment. Upon sale or disposition, the cumulative gain or loss previously reported in stockholders' equity is recognized in income. Realized gains and losses from sales of MBS are determined based upon the specific identification method. Agency MBS IOs are hybrid financial instruments that contain embedded derivatives. Agency MBS IOs are carried at fair value on the Company's balance sheet with changes in fair value recognized in the Company's condensed consolidated statement of operations because the embedded interest derivative in Agency MBS IOs cannot be reliably measured.

GSE CRTs are unsecured obligations of Fannie Mae and Freddie Mac. Coupon payments on the securities are based on LIBOR and principal payments are based on prepayments and defined credit events in a reference pool of mortgage loans that collateralize Agency RMBS. GSE CRTs are accounted for as hybrid financial instruments consisting of a debt host contract and an embedded derivative. GSE CRTs are measured at fair value. Unrealized gains or losses arising from changes in fair value of the debt host contract, excluding other-than-temporary impairment, are recognized in accumulated other comprehensive income, a separate component of stockholders' equity, until sale or disposition of the investment. Upon sale or disposition of the debt host contract, the cumulative gain or loss previously reported as a separate component of stockholders' equity is recognized in income. Realized gains and losses from sales of GSE CRTs are determined based upon the specific identification method. Realized and unrealized gains or losses arising from changes in fair value of the embedded derivative are recognized in realized and unrealized credit derivative income (loss), net in the Company's condensed consolidated statement of operations.

The Company considers its portfolio of Agency RMBS to be of high credit quality under applicable accounting guidance. For non-Agency RMBS, GSE CRTs and CMBS, the Company does not rely on ratings from third party agencies to determine the credit quality of the investment. The Company uses internal models that analyze the loans underlying each security and evaluates factors including, but not limited to, delinquency status, loan-to-value ratios, borrower credit scores, occupancy status and geographic concentration to estimate the expected future cash flows. The Company places reliance on these internal models in determining credit quality.

While non-Agency RMBS, GSE CRTs and CMBS with expected future losses would generally be purchased at a discount to par, the potential for a significant adverse change in expected cash flows remains. The Company therefore evaluates each security for other-than-temporary impairment at least quarterly.

The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. Consideration is given to (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near-term prospects of recovery in fair value of the security, and (iii) the Company's intent and ability to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company recognizes in earnings and reflects as a reduction in the cost basis of the security the amount of any other-than-temporary impairment related to credit losses or impairments on securities that the Company intends to sell or for which it is more likely than not that the Company will need to sell before recoveries. The amount of the other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of condensed consolidated stockholders' equity in other comprehensive income or loss with no change to the cost basis of the security.

Residential Loans Held-For-Investment

Residential loans held-for-investment are residential mortgage loans held by consolidated securitization trusts.

Residential loans held-for-investment are carried at unpaid principal balance net of any premiums and an allowance for loan losses. The Company expects that it will be required to continue to consolidate the securitization trusts that hold the residential loans.

The Company establishes an allowance for residential loan losses based on the Company's estimate of credit losses. The Company calculates expected losses by estimating the default rate and expected loss severities on the loans. The Company considers the following factors in its evaluation of the allowance for loan losses:

• Loan-to-value ratios, credit scores, geographic concentration and other observable data;

Historical default rates of loans with similar characteristics; and
Expected future macroeconomic trends including changes in home prices and the unemployment rate.

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Commercial Loans Held-For-Investment

Commercial loans held-for-investment by the Company are carried at cost, net of any allowance for loan losses. An individual loan is considered impaired when it is deemed probable that the Company will not be able to recover its investment and any other anticipated future payments. The Company generally considers the following factors in evaluating whether a commercial loan is impaired:

• Loan-to-value ratios;

• The most recent financial information available for each loan and associated properties, including net operating income, debt service coverage ratios, occupancy rates, rent rolls, as well as any other factors the Company considers relevant, including, but not limited to, specific loan trigger events that would indicate an adverse change in expected cash flows or payment delinquency;

• Economic trends, both macroeconomic as well as those directly affecting the properties associated with the loans, and the supply and demand trends in the market in which the subject property is located; and

• The loan sponsor or borrowing entity's ability to ensure that properties associated with the loan are managed and operated sufficiently.

Where an individual commercial loan is deemed to be impaired, the Company records an allowance to reduce the carrying value of the loan to the current present value of expected future cash flows discounted at the loan's effective interest rate, with a corresponding charge to provision for loan losses on the Company's condensed consolidated statements of operations.

Interest Income Recognition

Mortgage-Backed Securities

Interest income on MBS is accrued based on the outstanding principal balance of the securities and their contractual terms. Premiums or discounts are amortized or accreted into interest income over the life of the investment using the effective interest method. Interest income on the Company's non-Agency RMBS (and other prepayable mortgage-backed securities where the Company may not recover substantially all of its initial investment) is based on estimated cash flows. Management estimates, at the time of purchase, the future expected cash flows and determines the effective interest rate based on these estimated cash flows and the Company's purchase price. Over the life of the investments, these estimated cash flows are updated and a revised yield is computed based on the current amortized cost of the investment. In estimating these cash flows, there are a number of assumptions that are subject to uncertainties and contingencies, including the rate and timing of principal payments (prepayments, repurchases, defaults and liquidations), the pass through or coupon rate and interest rate fluctuations. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact management's estimates and the Company's interest income.

For Agency RMBS that cannot be prepaid in such a way that the Company would not recover substantially all of its initial investment, interest income recognition is based on contractual cash flows. The Company does not estimate prepayments in applying the effective interest method.

Credit Risk Transfer Securities

Interest income on credit risk transfer securities is accrued based on the coupon rate of the debt host contract which reflects the credit risk of GSE unsecured senior debt with a similar maturity. Premiums or discounts associated with the purchase of credit risk transfer securities are amortized or accreted into interest income over the life of the debt host contract using the effective interest method. The difference between the coupon rate on the hybrid instrument and the coupon rate on the GSE CRT debt host contract is considered premium income associated with the embedded derivative and is recorded in realized and unrealized credit derivative income (loss), net in the Company's condensed consolidated statement of operations.

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Residential Loans

The Company recognizes interest income from residential loans on an accrual basis and amortizes the related premiums into interest income using the effective interest method over the weighted average life of these loans. In estimating the weighted average life of these loans, there are a number of assumptions that are subject to estimation, including the rate and timing of principal payments, defaults, loss severity given default and other factors. Coupon interest is recognized as revenue when earned and deemed collectible or until a loan becomes more than 90 days past due, at which point the loan is placed on nonaccrual status. Interest previously accrued for loans that have been placed on non-accrual status is reversed against interest income in the period the loan is placed in nonaccrual status. Residential loans delinquent more than 90 days or in foreclosure are characterized as delinquent. Cash principal and interest that is advanced from servicers after a loan becomes greater than 90 days past due is recorded as a liability due to the servicer. When a delinquent loan previously placed on nonaccrual status has cured, meaning all delinquent principal and interest have been remitted by the borrower, the loan is placed back on accrual status. Alternatively, nonaccrual loans may be placed back on accrual status if restructured and after the loan is considered re-performing. A restructured loan is considered re-performing when the loan has been current for at least 12 months.

Commercial Loans

The Company recognizes interest income from commercial loans when earned and deemed collectible, or until a loan becomes past due based on the terms of the loan agreement. Any related originating fees, net of origination cost are amortized into interest income using the effective interest method over the life of the loan. Interest received after a loan becomes past due or impaired is used to reduce the outstanding loan principal balance. When a delinquent loan previously placed on nonaccrual status has cured, meaning all delinquent principal and interest have been remitted by the borrower, the loan is placed back on accrual status. Alternately, loans that have been individually impaired may be placed back on accrual status if restructured and after the loan is considered re-performing. A restructured loan is considered re-performing when the loan has been current for at least 12 months.

Repurchase Agreements

Effective January 1, 2015, the Company adopted Accounting Standard Update No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures ("ASU 2014-11"). Under the new standard, the Company no longer applies the "linked" accounting model to instances where the Company purchases mortgage-backed and credit risk transfer securities and enters into repurchase agreements to finance the purchase with the same counterparty. Purchases of mortgage-backed securities and repurchase financings are considered separately, and the repurchase agreement component of the transaction is accounted for as a secured borrowing. The Company records the mortgage-backed securities and the related repurchase agreement financing on a gross basis in its condensed consolidated balance sheets, and the corresponding interest income and interest expense on a gross basis in its condensed consolidated statements of operations.

None of the Company's repurchase financing transactions prior to January 1, 2015 qualified as linked transactions and were accounted for as derivatives. Accordingly, the Company did not record a cumulative effect adjustment to retained earnings as of January 1, 2015 as a result of adopting ASU 2014-11.

Comprehensive Income

The Company's comprehensive income consists of net income, as presented in the condensed consolidated statements of operations, adjusted for changes in fair value of MBS classified as available for sale securities; changes in the fair value of the debt host contract associated with GSE CRTs; and amortization of repurchase agreement interest expense resulting from the de-designation of derivatives previously accounted for as cash flow hedges. Unrealized gains and losses on the Company's MBS and the debt host contract associated with GSE CRTs are reclassified into net income upon their sale or termination.

Accounting for Derivative Financial Instruments

U.S. GAAP provides disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. U.S. GAAP requires

qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company records all derivatives on the condensed consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes

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in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts, such as credit default swaps, that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under U.S. GAAP.

The Company is a party to hybrid financial instruments that contain embedded derivative instruments. At inception, the Company assesses whether the economic characteristics of the embedded derivative instruments are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the debt host contract), whether the financial instrument is remeasured to fair value through earnings and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded instrument possesses economic characteristics that are not clearly and closely related to the economic characteristics of the debt host contract, (2) the financial instrument is not remeasured to fair value through earnings and (3) a separate instrument with the same terms would qualify as a derivative instrument, the embedded instrument qualifies as an embedded derivative that is separated from the debt host contract. The embedded derivative is recorded at fair value, and changes in fair value are recorded in realized and unrealized credit derivative income (loss), net in the Company's condensed consolidated statement of operations.

Effective December 31, 2013, the Company voluntarily discontinued hedge accounting for its interest rate swap agreements by de-designating the interest rate swaps as cash flow hedges. No interest rate swaps were terminated in conjunction with this action, and the Company's risk management and hedging practices were not impacted. However, the Company's accounting for these transactions changed beginning January 1, 2014. All of the Company's interest rate swaps had previously been accounted for as cash flow hedges under the applicable guidance. As a result of discontinuing hedge accounting, changes in the fair value of the interest rate swap agreements are recorded in gain (loss) on derivative instruments, net in the Company's condensed consolidated statements of operations, rather than in accumulated other comprehensive income (loss) ("AOCI"). Also, net interest paid or received under the interest rate swaps, which up through December 31, 2013 was recognized in interest expense, is now recognized in gain (loss) on derivative instruments, net on the Company's condensed consolidated statements of operations. The interest rate swaps continue to be reported as derivative assets or derivative liabilities on the Company's condensed consolidated balance sheets at their fair value.

As long as the forecasted transactions that were being hedged (i.e., rollovers of the Company's repurchase agreement borrowings) are still expected to occur, the balance in AOCI from the interest rate swap activity up through December 31, 2013 will remain in AOCI and be recognized in the Company's condensed consolidated statements of operations as interest expense over the remaining term of the interest rate swaps. Refer to Note 8 - "Derivatives and Hedging Activities" for further information.

The Company evaluates the terms and conditions of its holdings of swaptions, futures contracts, currency forward contracts and to-be-announced ("TBA") securities to determine if an instrument has the characteristics of an investment or should be considered a derivative under U.S. GAAP. Accordingly swaptions, futures contracts, currency forward contracts and TBAs having the characteristics of derivatives are accounted for at fair value with such changes recognized in gain (loss) on derivative instruments, net in the condensed consolidated statements of operations. The fair value of these swaptions, futures contracts, currency forward contracts and TBAs is included in derivative assets or derivative liabilities on the condensed consolidated balance sheets.

Reclassifications

Certain prior period reported amounts have been reclassified to be consistent with the current presentation. Such reclassifications had no impact on net income or equity attributable to common stockholders.

Recent Accounting Pronouncements Not Yet Adopted

In February 2015, the FASB issued modifications to existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of the new guidance on its condensed consolidated financial statements, as well as the available transition methods.

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

Note 3 – Variable Interest Entities

The Company's maximum risk of loss in VIEs in which the Company is not the primary beneficiary at March 31, 2015 is presented in the table below.

\$ in thousands	Carrying Amount	Company's Maximum Risk of Loss
Non-Agency RMBS	2,947,675	2,947,675
CMBS	3,456,892	3,456,892
Total	6,404,567	6,404,567

Refer to Note 4 - "Mortgage-Backed and Credit Risk Transfer Securities" for additional details regarding these investments.

As discussed in Note 2 - "Summary of Significant Accounting Policies," the Company has determined that it is the primary beneficiary of certain securitization trusts. The following table presents a summary of the assets and liabilities of the Company's consolidated securitization trusts as of March 31, 2015 and December 31, 2014. Intercompany balances have been eliminated for purposes of this presentation.

\$ in thousands	March 31, 2015	December 31, 2014
Residential loans, held-for-investment	3,597,147	3,365,003
Accrued interest receivable	11,050	10,562
Deferred costs	4,846	5,032
Total assets	3,613,043	3,380,597
Accrued interest and accrued expenses payable	9,143	8,692
Asset-backed securities issued by securitization trusts	3,133,527	2,929,820
Total liabilities	3,142,670	2,938,512

The Company's risk with respect to each investment in a securitization trust is limited to its direct ownership in the securitization trust. The residential loans held by the consolidated securitization trusts are held solely to satisfy the liabilities of the securitization trusts, and the investors in the securitization trusts have no recourse to the general credit of the Company for the asset-backed securities issued by the securitization trusts. The assets of a consolidated securitization trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any additional financial support to the securitization trusts for the period ended March 31, 2015.

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During the three months ended March 31, 2015, the Company invested in and consolidated one new securitization trust. The following table presents the balances of the assets and liabilities of the newly consolidated securitization trust before consolidation into the Company. The current period activity for the securitization trust is reflected in the Company's condensed consolidated financial statements.

\$ in thousands	2015
Residential loans, held-for-investment	372,305
Accrued interest receivable	1,236
Total assets	373,541
Accrued interest and accrued expenses payable	1,236
Asset-backed securities issued by securitization trusts	372,305
Total liabilities	373,541

The Company did not deconsolidate any securitization trusts during the three months ended March 31, 2015.

Residential Loans Held by Consolidated Securitization Trusts

Residential loans held by consolidated securitization trusts are carried at unpaid principal balance net of any premiums and discount and allowance for loan losses. The residential loans are secured by a lien on the underlying residential property.

The following table details the carrying value for residential loans held-for-investment at March 31, 2015 and December 31, 2014.

\$ in thousands	March 31, 2015	December 31, 2014
Principal balance	3,566,418	3,332,192
Unamortized premium (discount), net	31,409	33,553
Recorded investment	3,597,827	3,365,745
Allowance for loan losses	(680)	(742)
Carrying value	3,597,147	3,365,003

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The following table summarizes residential loans held-for-investment at March 31, 2015 by year of origination.

\$ in thousands	2014	2013	2012	2011	2010	2009	2008	2007	Total
Portfolio									
Characteristics:									
Number of Loans	760	2,788	765	99	30	6	17	16	4,481
Current Principal Balance	573,464	2,160,438	665,613	103,886	30,021	2,754	16,515	13,727	3,566,418
Net Weighted Average Coupon Rate	3.49	% 3.47	% 3.25	% 3.38	% 3.70	% 3.69	% 4.96	% 4.73	% 3.44
Weighted Average Maturity (years)	29.13	28.23	27.70	26.18	25.63	24.18	23.34	22.26	28.15
Current Performance:									
Current	571,545	2,158,820	665,613	103,886	30,021	2,754	16,515	13,727	3,562,881
30 Days Delinquent	1,285	1,618	—	—	—	—	—	—	2,903
60 Days Delinquent	634	—	—	—	—	—	—	—	634
90+ Days Delinquent	—	—	—	—	—	—	—	—	—
Bankruptcy/Foreclosure	—	—	—	—	—	—	—	—	—
Total	573,464	2,160,438	665,613	103,886	30,021	2,754	16,515	13,727	3,566,418

The following table summarizes the geographic concentrations of residential loans held-for-investment at March 31, 2015 based on principal balance outstanding.

State	Percent
California	53.5 %
New York	7.6 %
Massachusetts	5.8 %
Illinois	3.7 %
Other states (none greater than 3%)	29.4 %
Total	100.0 %

The following table presents future contractual minimum annual principal payments of residential loans held-for-investment at March 31, 2015.

\$ in thousands	March 31, 2015
Scheduled Principal	62,173
Within one year	131,815
One to three years	142,940
Three to five years	3,229,490
Greater than or equal to five years	3,566,418
Total	3,566,418

Allowance for Loan Losses on Residential Loans Held by Consolidated Securitization Trusts

The following table summarizes the activity in the allowance for loan losses for the three months ended March 31, 2015 and 2014.

\$ in thousands	March 31, 2015	March 31, 2014
Balance at beginning of period	(742)	(884)
Charge-offs, net	—	—
Reduction in (provision for) loan losses	62	(207)
Balance at end of period	(680)	(1,091)

Asset-Backed Securities Issued by Securitization Trusts

Asset-backed securities issued by securitization trusts are recorded at principal balance net of unamortized premiums or discounts. Asset-backed securities issued by securitization trusts are issued in various tranches and have a weighted

average

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contractual maturity of 28.80 years and 28.94 years at March 31, 2015 and December 31, 2014, respectively. The investors in the asset-backed securities are not affiliated with the Company and have no recourse to the general credit of the Company.

The asset-backed securities are collateralized by residential loans held in the securitization trusts as summarized in the following table at March 31, 2015 and December 31, 2014.

	March 31, 2015		December 31, 2014	
	ABS Outstanding	Residential loans Held as Collateral	ABS Outstanding	Residential loans Held as Collateral
\$ in thousands				
Principal balance	3,106,212	3,566,418	2,902,378	3,332,192
Interest-only securities	14,574	—	15,040	—
Unamortized premium	23,371	39,497	23,735	41,928
Unamortized discount	(10,630)	(8,088)	(11,333)	(8,375)
Allowance for loan losses	—	(680)	—	(742)
Carrying value	3,133,527	3,597,147	2,929,820	3,365,003
Range of weighted average interest rates	2.8% - 4.0%		2.8% - 4.0%	
Number of securitization trusts consolidated	11		10	

The following table presents the estimated principal repayment schedule of asset-backed securities issued by securitization trusts at March 31, 2015 based on estimated cash flows of the underlying residential mortgage loans, as adjusted for projected prepayments and losses on such loans. The estimated principal repayments may differ from actual amounts to the extent prepayments and/or loan losses vary.

\$ in thousands	March 31, 2015
Estimated principal repayment	
Within one year	411,313
One to three years	676,771
Three to five years	511,839
Greater than or equal to five years	1,506,289
Total	3,106,212

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Note 4 – Mortgage-Backed and Credit Risk Transfer Securities (As Restated)

The following tables summarize the Company's MBS and GSE CRT portfolio by asset type as of March 31, 2015 and December 31, 2014.

March 31, 2015 (As Restated)

\$ in thousands	Principal Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/(Loss), net	Fair Value	Net Weighted Average Coupon (1)	Period-end Weighted Average Yield (2)	Quarterly Weighted Average Yield (3)	
Agency RMBS:									
15 year fixed-rate	1,718,391	86,529	1,804,920	35,330	1,840,250	3.77	% 2.54	% 2.21	%
30 year fixed-rate	4,239,350	285,902	4,525,252	98,204	4,623,456	4.29	% 3.02	% 2.99	%
ARM*	448,286	5,345	453,631	9,711	463,342	2.75	% 2.41	% 2.69	%
Hybrid ARM	2,806,427	48,919	2,855,346	48,618	2,903,964	2.77	% 2.28	% 2.28	%
Total Agency pass-through	9,212,454	426,695	9,639,149	191,863	9,831,012	3.65	% 2.68	% 2.62	%
Agency-CMO ⁽⁴⁾	1,997,925	(1,554,128)	443,797	(548)	443,249	2.29	% 4.91	% 3.71	%
Non-Agency RMBS ⁽⁵⁾⁽⁶⁾	3,428,864	(569,772)	2,859,092	88,583	2,947,675	3.55	% 4.03	% 4.35	%
GSE CRT ⁽⁷⁾	633,000	25,054	658,054	3,713	661,767	1.02	% 0.50	% 0.50	%
CMBS ⁽⁸⁾	3,218,583	52,371	3,270,954	185,938	3,456,892	4.71	% 4.36	% 4.34	%
Total	18,490,826	(1,619,780)	16,871,046	469,549	17,340,595	3.58	% 3.21	% 3.20	%

* Adjustable-rate mortgage ("ARM")

(1) Net weighted average coupon ("WAC") as of March 31, 2015 is presented net of servicing and other fees.

(2) Period-end weighted average yield is based on amortized cost as of March 31, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

Quarterly weighted average portfolio yield for the period was calculated by dividing interest income, including amortization of premiums and discounts, by the Company's average of the amortized cost of the investments. All yields are annualized.

(4) Agency collateralized mortgage obligation ("Agency CMO") includes Agency MBS IOs, which represent 29.7% of the balance based on fair value.

(5) Non-Agency RMBS held by the Company is 52.5% variable rate, 40.3% fixed rate, and 7.2% floating rate based on fair value.

(6) Of the total discount in non-Agency RMBS, \$392.5 million is non-accretable.

(7) GSE CRT weighted average coupon and weighted average yield excludes embedded derivative coupon interest recorded as realized and unrealized credit derivative income (loss), net.

(8) CMBS includes commercial real estate mezzanine loan pass-through certificates which represent 1.3% of the balance based on fair value.

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December 31, 2014 (As Restated)

\$ in thousands	Principal Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/(Loss), net	Fair Value	Net Weighted Average Coupon (1)	Period-end Weighted Average Yield (2)	Quarterly Weighted Average Yield (3)
Agency RMBS:								
15 year fixed-rate	1,236,297	60,764	1,297,061	30,040	1,327,101	4.05	% 2.60	% 2.66
30 year fixed-rate	4,432,301	297,311	4,729,612	60,681	4,790,293	4.29	% 2.97	% 3.05
ARM	531,281	9,068	540,349	6,433	546,782	2.83	% 2.27	% 2.29
Hybrid ARM	2,901,078	50,757	2,951,835	25,083	2,976,918	2.78	% 2.34	% 2.24
Total Agency pass-through	9,100,957	417,900	9,518,857	122,237	9,641,094	3.69	% 2.68	% 2.71
Agency-CMO ⁽⁴⁾	1,957,296	(1,502,785)	454,511	(3,616)	450,895	2.34	% 4.57	% 3.62
Non-Agency RMBS ⁽⁵⁾⁽⁶⁾	3,555,249	(583,890)	2,971,359	90,288	3,061,647	3.51	% 4.12	% 4.86
GSE CRT ⁽⁷⁾	615,000	25,814	640,814	(15,390)	625,424	1.03	% 0.49	% 0.48
CMBS ⁽⁸⁾	3,277,208	54,893	3,332,101	137,734	3,469,835	4.74	% 4.39	% 4.38
Total	18,505,710	(1,588,068)	16,917,642	331,253	17,248,895	3.61	% 3.24	% 3.36

(1) Net WAC as of December 31, 2014 is presented net of servicing and other fees.

(2) Period-end weighted average yield based on amortized cost as of December 31, 2014 incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

(3) Quarterly weighted average portfolio yield for the period was calculated by dividing interest income, including amortization of premiums and discounts, by the Company's average of the amortized cost of the investments. All yields are annualized.

(4) Agency collateralized mortgage obligation ("Agency CMO") includes Agency MBS IOs, which represent 29.1% of the balance based on fair value.

(5) Non-Agency RMBS held by the Company is 52.8% variable rate, 40.1% fixed rate, and 7.1% floating rate based on fair value.

(6) Of the total discount in non-Agency RMBS, \$405.5 million is non-accretable.

(7) GSE CRT weighted average coupon and weighted yield excludes embedded derivative coupon interest recorded as realized and unrealized credit derivative income (loss), net.

(8) CMBS includes commercial real estate mezzanine loan pass-through certificates which represent 1.3% of the balance based on fair value.

The following table summarizes the Company's non-Agency RMBS portfolio by asset type as of March 31, 2015 and December 31, 2014.

\$ in thousands	March 31, 2015	% of Non-Agency	December 31, 2014	% of Non-Agency
Re-REMIC	954,523	32.4	1,000,635	32.7
Prime	929,961	31.5	969,849	31.7
Alt-A	674,373	22.9	694,467	22.7
Subprime/reperforming	388,818	13.2	396,696	12.9
Total Non-Agency	2,947,675	100.0	3,061,647	100.0

The following table summarizes the credit enhancement provided to the Company's re-securitization of real estate mortgage investment conduit ("Re-REMIC") holdings as of March 31, 2015 and December 31, 2014.

Percentage of Re-REMIC Holdings at Fair Value

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Re-REMIC Subordination ⁽¹⁾	March 31, 2015		December 31, 2014	
0% - 10%	7.3	%	7.0	%
10% - 20%	4.5	%	4.4	%
20% - 30%	11.9	%	11.9	%
30% - 40%	25.7	%	26.1	%
40% - 50%	31.5	%	31.8	%
50% - 60%	15.5	%	15.2	%
60% - 70%	3.6	%	3.6	%
Total	100.0	%	100.0	%

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Subordination refers to the credit enhancement provided to the Re-REMIC tranche held by the Company by any junior Re-REMIC tranche or tranches in a securitization. This figure reflects the percentage of the balance of the (1) underlying securities represented by any junior tranche or tranches at the time of securitization. Generally, principal losses on the underlying securities in excess of the subordination amount would result in principal losses on the Re-REMIC tranche held by the Company.

The components of the carrying value of the Company's MBS and GSE CRT portfolio at March 31, 2015 and December 31, 2014 are presented below.

\$ in thousands	March 31, 2015 (As Restated)	December 31, 2014 (As Restated)
Principal balance	18,490,826	18,505,710
Unamortized premium	553,290	550,071
Unamortized discount	(2,173,070)	(2,138,139)
Gross unrealized gains	533,323	439,513
Gross unrealized losses	(63,774)	(108,260)
Fair value	17,340,595	17,248,895

The following table summarizes the Company's MBS and GSE CRT portfolio according to estimated weighted average life classifications as of March 31, 2015 and December 31, 2014.

\$ in thousands	March 31, 2015	December 31, 2014
Less than one year	511,744	440,471
Greater than one year and less than five years	8,899,541	7,997,709
Greater than or equal to five years	7,929,310	8,810,715
Total	17,340,595	17,248,895

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The following tables present the estimated fair value and gross unrealized losses of the Company's MBS and GSE CRTs by length of time that such securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014.

March 31,

2015 (As Restated)	Less than 12 Months			12 Months or More			Total		
\$ in thousands	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
15 year fixed-rate	362,706	(320)	9	80,040	(378)	5	442,746	(698)	14
30 year fixed-rate	386,616	(2,830)	14	1,243,419	(20,710)	45	1,630,035	(23,540)	59
ARM	—	—	—	—	—	—	—	—	—
Hybrid ARM	73,052	(68)	4	12,670	(66)	2	85,722	(134)	6
Total Agency pass-through	822,374	(3,218)	27	1,336,129	(21,154)	52	2,158,503	(24,372)	79
Agency-CMO	31,907	(4,171)	16	161,321	(8,231)	11	193,228	(12,402)	27
Non-Agency RMBS	524,866	(4,180)	30	363,863	(10,867)	25	888,729	(15,047)	55
GSE CRT ⁽¹⁾	204,279	(11,780)	9	—	—	—	204,279	(11,780)	9
CMBS	58,151	(87)	7	32,662	(86)	2	90,813	(173)	9
Total	1,641,577	(23,436)	89	1,893,975	(40,338)	90	3,535,552	(63,774)	179

(1) Balance includes unrealized losses on both the debt host contract and the embedded derivative.

December 31,

2014 (As Restated)	Less than 12 Months			12 Months or More			Total		
\$ in thousands	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
15 year fixed-rate	10,897	(42)	1	105,644	(1,395)	6	116,541	(1,437)	7
30 year fixed-rate	137,680	(2,662)	5	1,756,894	(40,181)	62	1,894,574	(42,843)	67
ARM	24,074	(9)	1	3,719	(23)	1	27,793	(32)	2
Hybrid ARM	630,775	(1,544)	28	20,361	(197)	2	651,136	(1,741)	30
Total Agency pass-through	803,426	(4,257)	35	1,886,618	(41,796)	71	2,690,044	(46,053)	106
Agency-CMO	36,723	(6,192)	18	265,863	(9,481)	10	302,586	(15,673)	28
Non-Agency RMBS	573,122	(5,799)	34	354,532	(11,990)	21	927,654	(17,789)	55
GSE CRT ⁽¹⁾	306,603	(25,394)	13	—	—	—	306,603	(25,394)	13
CMBS	134,364	(277)	11	227,452	(3,074)	19	361,816	(3,351)	30

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Total 1,854,238 (41,919) 111 2,734,465 (66,341) 121 4,588,703 (108,260) 232

(1) Balance includes unrealized losses on both the debt host contract and the embedded derivative.

Gross unrealized losses on the Company's Agency RMBS were \$24.4 million at March 31, 2015. Due to the inherent credit quality of Agency RMBS, the Company determined that at March 31, 2015, any unrealized losses on its Agency RMBS portfolio are temporary.

Gross unrealized losses on the Company's Agency-CMO, non-Agency RMBS, GSE CRT and CMBS were \$39.4 million at March 31, 2015. The Company does not consider these unrealized losses to be credit related, but rather due to non-credit related factors such as interest rate spreads, prepayment speeds, and market fluctuations. These investment securities are included in the Company's assessment for other-than-temporary impairment on a quarterly basis.

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The following table presents the impact of the Company's MBS and GSE CRT debt host contract on its accumulated other comprehensive income for the three months ended March 31, 2015 and 2014. The table excludes Agency MBS IOs because unrealized gains and losses on Agency MBS IOs are included in earnings on the condensed consolidated statements of operations.

\$ in thousands	Three Months Ended March 31, 2015 (As Restated)	Three Months Ended March 31, 2014 (As Restated)
Accumulated other comprehensive income from investment securities:		
Unrealized gain (loss) on MBS and GSE CRT at beginning of period	351,774	(160,083)
Unrealized gain (loss) on MBS and GSE CRT	125,954	161,697
Reclassification of unrealized (gain) loss on sale of MBS and GSE CRT to gain (loss) on investments, net	(2,934)	11,718
Balance at the end of period	474,794	13,332

During the three months ended March 31, 2015 and 2014, the Company reclassified \$2.9 million of net unrealized gains and \$11.7 million of net unrealized losses, respectively, from other comprehensive income into gain (loss) on investments, net as a result of the Company selling certain investments. The following table summarizes the Company's gross realized gains and losses during the three months ended March 31, 2015 and 2014.

\$ in thousands	Three Months Ended March 31, 2015 (As Restated)	Three Months Ended March 31, 2014 (As Restated)
Gross realized gains on sale of investments	2,964	7,729
Gross realized losses on sale of investments	(30)	(19,447)
Net unrealized gains and losses on Agency MBS IOs	(762)	(6,054)
Total gains (loss) on investments, net	2,172	(17,772)

The Company assesses its investment securities for other-than-temporary impairment on a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either "temporary" or "other-than-temporary." The Company evaluates each security that has had a fair value less than amortized cost for nine or more consecutive months for other-than-temporary impairment. This analysis includes evaluating the individual loans in each security to determine estimated future cash flows. Individual loan characteristics reviewed include, but are not limited to, delinquency status, loan-to-value ratios, borrower credit scores, occupancy status and geographic concentration. To the extent a security is deemed impaired, the amount by which the amortized cost exceeds the security's market value would be considered other-than-temporary impairment.

The Company did not have other-than-temporary impairments for the three months ended March 31, 2015 and 2014. The following table presents components of interest income on the Company's MBS and GSE CRT portfolio for the three months ended March 31, 2015 and 2014. GSE CRT interest income excludes coupon interest associated with embedded derivatives recorded in realized and unrealized credit derivative income (loss), net.

For the three months ended March 31, 2015 (As Restated)

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	94,372	(26,859)	67,513
Non-Agency	30,810	658	31,468
GSE CRT (as restated)	1,568	(760)	808
CMBS	37,905	(2,428)	35,477
Other	(1)	—	(1)

Total	164,654	(29,389)	135,265
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For the three months ended March 31, 2014 (As Restated)

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	105,483	(23,664)	81,819
Non-Agency	35,555	1,531	37,086
GSE CRT (as restated)	1,178	(732)	446
CMBS	38,612	(9,661)	28,951
Other	103	—	103
Total	180,931	(32,526)	148,405

Note 5 – Commercial Loans Held-for-Investment

Commercial loans held-for-investment consist of a first mortgage loan, mezzanine loans and other subordinate interests purchased or originated by the Company as of March 31, 2015 and December 31, 2014.

March 31, 2015

\$ in thousands	Number of loans	Principal Balance	Unamortized (fees)/ costs, net	Carrying value	Unfunded commitment
First mortgage loan	1	19,978	28	20,006	1,623
Subordinate interests:					
Mezzanine loans	4	73,587	(75)	73,512	—
Other ⁽¹⁾	2	52,693	—	52,693	—
Total	7	146,258	(47)	146,211	1,623

(1) Other subordinate interests include a B-note and a preferred equity investment.

December 31, 2014

\$ in thousands	Number of loans	Principal Balance	Unamortized (fees)/ costs, net	Carrying value	Unfunded commitment
First mortgage loan	1	19,978	41	20,019	1,623
Subordinate interests:					
Mezzanine loans	4	71,643	(94)	71,549	3,357
Other ⁽¹⁾	2	54,188	—	54,188	—
Total	7	145,809	(53)	145,756	4,980

(1) Other subordinate interests include a B-note and a preferred equity investment.

These loans were not impaired, and no allowance for loan loss has been recorded as of March 31, 2015 and December 31, 2014.

Note 6 – Other Investments

The following table summarizes the Company's other investments as of March 31, 2015 and December 31, 2014.

\$ in thousands	March 31, 2015	December 31, 2014
FHLBI stock	69,750	62,500
Investments in unconsolidated ventures	41,243	43,998
Total	110,993	106,498

IAS Services LLC, the Company's wholly-owned subsidiary, is required to purchase and hold FHLBI stock as a condition of membership in the Federal Home Loan Bank of Indianapolis ("FHLBI"). The stock is recorded at cost.

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The Company has invested in unconsolidated ventures that are managed by an affiliate of the Company's Manager. The unconsolidated ventures invest in the Company's target assets. Refer to Note 15 - "Commitments and Contingencies" for additional details regarding the Company's commitments to these unconsolidated ventures.

Note 7 – Borrowings

The Company has entered into repurchase agreements, secured loans and issued exchangeable senior notes to finance the majority of its portfolio of investments. The following table summarizes certain characteristics of the Company's borrowings at March 31, 2015 and December 31, 2014.

\$ in thousands	March 31, 2015			December 31, 2014		
	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)
Repurchase Agreements:						
Agency RMBS	8,778,225	0.35	% 17	9,018,818	0.35	% 18
Non-Agency RMBS	2,613,114	1.52	% 34	2,676,626	1.51	% 36
GSE CRT	486,990	1.67	% 26	468,782	1.55	% 27
CMBS	1,454,752	1.33	% 38	1,458,451	1.32	% 26
Secured Loans	1,550,000	0.40	% 3,071	1,250,000	0.37	% 3,472
Exchangeable Senior Notes	400,000	5.00	% 1,081	400,000	5.00	% 1,170
Total	15,283,081	0.81	% 359	15,272,677	0.81	% 335

The Company finances its residential loans held-for-investment through asset-backed securities issued by securitization trusts. Refer to Note 3 - "Variable Interest Entities" for a discussion of asset-backed securities issued by securitization trusts.

Repurchase Agreements

Repurchase agreements bear interest at a contractually agreed upon rate and have maturities ranging from one month to twelve months. Repurchase agreements are accounted for as secured borrowings since the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets would require the Company to provide additional collateral or fund margin calls. In addition, the repurchase agreements are subject to certain financial covenants. The Company was in compliance with these covenants at March 31, 2015.

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The following tables summarize certain characteristics of the Company's repurchase agreements at March 31, 2015 and December 31, 2014.

March 31, 2015

\$ in thousands	Amount Outstanding	Percent of Total Amount Outstanding	Company MBS and GSE CRTs Held as Collateral	
Repurchase Agreement Counterparties				
Credit Suisse Securities (USA) LLC	1,382,129	10.4	% 1,741,155	(1)
HSBC Securities (USA) Inc	1,231,915	9.2	% 1,271,803	
Royal Bank of Canada	1,040,865	7.8	% 1,203,610	
Citigroup Global Markets Inc.	968,334	7.3	% 1,144,895	(2)
South Street Securities LLC	931,104	7.0	% 976,970	
Industrial and Commercial Bank of China Financial Services LLC	717,869	5.4	% 757,589	
Banc of America Securities LLC	662,641	5.0	% 748,193	(3)
Mitsubishi UFJ Securities (USA), Inc.	653,861	4.9	% 689,968	
Pierpont Securities LLC	630,346	4.7	% 662,713	
J.P. Morgan Securities LLC	624,508	4.7	% 719,790	
Wells Fargo Securities, LLC	613,333	4.6	% 745,065	
ING Financial Market LLC	576,864	4.3	% 611,710	
BNP Paribas Securities Corp.	526,920	4.0	% 581,521	
Scotia Capital	505,637	3.8	% 526,845	
Morgan Stanley & Co. Incorporated	467,799	3.5	% 506,123	
KGS-Alpha Capital Markets, L.P.	421,208	3.2	% 445,536	
Goldman, Sachs & Co.	327,794	2.5	% 351,736	
Barclays Capital Inc.	202,225	1.5	% 254,145	
All other counterparties (4)	847,729	6.2	% 907,882	
Total	13,333,081	100.0	% 14,847,249	

(1) Includes \$270.8 million of MBS held as collateral which are eliminated in consolidation.

(2) Includes \$34.4 million of MBS held as collateral which are eliminated in consolidation.

(3) Includes \$126.7 million of MBS held as collateral which are eliminated in consolidation.

(4) Represents amounts outstanding with nine counterparties.

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December 31, 2014

\$ in thousands	Amount Outstanding	Percent of Total Amount Outstanding	Company MBS and GSE CRTs Held as Collateral	
Repurchase Agreement Counterparties				
Credit Suisse Securities (USA) LLC	1,517,530	11.1	% 1,925,973	(1)
HSBC Securities (USA) Inc	1,190,769	8.7	% 1,225,194	
Royal Bank of Canada	1,057,798	7.8	% 1,278,612	
Citigroup Global Markets Inc.	979,247	7.2	% 1,157,265	(2)
South Street Securities LLC	961,938	7.1	% 1,020,054	
Banc of America Securities LLC	791,196	5.9	% 875,984	(3)
ING Financial Market LLC	767,733	5.6	% 820,166	
Mitsubishi UFJ Securities (USA), Inc.	710,058	5.2	% 744,836	
J.P. Morgan Securities LLC	698,856	5.1	% 814,896	
Industrial and Commercial Bank of China Financial Services LLC	682,193	5.0	% 716,989	
Wells Fargo Securities, LLC	627,071	4.6	% 754,706	
Pierpont Securities LLC	601,222	4.4	% 627,534	
Morgan Stanley & Co. Incorporated	589,950	4.3	% 632,002	
BNP Paribas Securities Corp.	559,658	4.1	% 622,749	
Scotia Capital	521,778	3.8	% 542,044	
KGS-Alpha Capital Markets, L.P.	407,920	3.0	% 430,241	
All other counterparties ⁽⁴⁾	957,760	7.1	% 1,071,019	
Total	13,622,677	100.0	% 15,260,264	

(1) Includes \$276.1 million of MBS held as collateral which are eliminated in consolidation.

(2) Includes \$20.3 million of MBS held as collateral which are eliminated in consolidation.

(3) Includes \$106.8 million of MBS held as collateral which are eliminated in consolidation.

(4) Represents amounts outstanding with ten counterparties.

Company MBS and GSE CRTs held by counterparties as security for repurchase agreements was \$14.8 billion and \$15.3 billion at March 31, 2015 and December 31, 2014, respectively. This represents a collateral ratio (Company MBS and GSE CRTs Held as Collateral/Amount Outstanding) of 111% and 112% for March 31, 2015 and December 31, 2014, respectively.

No cash collateral was held by the counterparties at March 31, 2015 and December 31, 2014.

Secured Loans

The Company's wholly-owned subsidiary, IAS Services LLC is a member of the FHLBI. As a member of the FHLBI, IAS Services LLC may borrow funds from the FHLBI in the form of secured advances.

As of March 31, 2015, IAS Services LLC, had \$1.55 billion in outstanding secured advances from the FHLBI and is approved for additional available uncommitted credit for borrowing of an amount up to \$2.5 billion. These secured advances have maturity dates ranging from 2020 to 2024 and have floating rates based on three-month LIBOR or the three-month FHLBI swap rate plus a spread. For the three months ended March 31, 2015, IAS Services LLC had average borrowings of \$1.5 billion with a weighted average borrowing rate of 0.39%.

The ability to borrow from the FHLBI is subject to the Company's continued creditworthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with FHLBI. Each advance requires approval by the FHLBI and is secured by collateral in accordance with FHLBI's credit and collateral guidelines. The FHLBI retains the right to mark the underlying collateral for FHLBI advances to fair value. A reduction in the value of pledged assets would require IAS Services LLC to provide additional collateral.

As of March 31, 2015, the FHLBI advances were collateralized by CMBS and Agency RMBS with a fair value of \$1.5 billion and \$392.1 million, respectively.

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As discussed in Note 6 - "Other Investments," IAS Services LLC is required to purchase and hold a certain amount of FHLBI stock, which is based, in part, upon the outstanding principal balance of secured advances from the FHLBI.

Note 8 – Derivatives and Hedging Activities (As Restated)

Credit Derivatives (As Restated)

As discussed in Note 2 - "Summary of Significant Accounting Policies," the Company's GSE CRTs are accounted for as hybrid financial instruments with an embedded derivative. At March 31, 2015 and December 31, 2014, terms of these GSE CRT embedded derivatives are:

\$ in thousands	March 31, 2015	December 31, 2014
Fair value amount	(5,457	) (21,495
Notional amount	633,000	615,000
Maximum potential amount of future undiscounted payments	633,000	615,000

In 2010, the Company entered into a credit default swap contract ("CDS"). The Company sold protection against losses on a specific pool of non-Agency RMBS in excess of a specified threshold. In exchange, the Company is paid a stated fixed rate fee of 3% of the notional amount of the CDS. As of March 31, 2015, the Company has not made any payments related to the CDS contract.

At March 31, 2015 and December 31, 2014, terms of the CDS are:

\$ in thousands	March 31, 2015	December 31, 2014
Fair value amount	334	396
Notional amount	33,371	36,684
Maximum potential amount of future undiscounted payments	33,371	36,684
Recourse provisions with third parties	—	—
Collateral held by counterparty	5,139	5,642

Interest Rate Swaps

The Company's repurchase agreements are usually settled on a short-term basis ranging from one to twelve months. At each settlement date, the Company refinances each repurchase agreement at the market interest rate at that time. In addition, the Company's secured loans have floating interest rates. As such, the Company is exposed to changing interest rates. The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposures to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Effective December 31, 2013, the Company voluntarily discontinued cash flow hedge accounting for its interest rate swaps to gain greater flexibility in managing interest rate exposures. Amounts recorded in AOCI through December 31, 2013 related to cash flow hedges are reclassified to interest expense, repurchase agreements on the condensed consolidated statements of operations as interest is accrued and paid on the related repurchase agreements over the remaining life of the interest rate swap agreements. The Company reclassified \$19.1 million and \$21.3 million as an increase to interest expense for the three months ended March 31, 2015 and 2014, respectively. During the next 12 months, the Company estimates that \$60.5 million will be reclassified as an increase to interest expense, repurchase agreements.

As a result of discontinuing hedge accounting, beginning January 1, 2014, changes in the fair value of the Company's interest rate swaps are recorded in gain (loss) on derivative instruments, net on the condensed consolidated statements of operations. Monthly net cash settlements under swaps are recorded in gain (loss) on derivative instruments, net on the condensed consolidated statements of operations.

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As of March 31, 2015, the Company had the following interest rate swaps outstanding:

\$ in thousands	Notional	Maturity Date	Fixed Interest Rate in Contract	
Counterparty				
Morgan Stanley Capital Services, LLC	300,000	1/24/2016	2.12	%
The Bank of New York Mellon	300,000	1/24/2016	2.13	%
Morgan Stanley Capital Services, LLC	300,000	4/5/2016	2.48	%
Credit Suisse International	500,000	4/15/2016	2.27	%
The Bank of New York Mellon	500,000	4/15/2016	2.24	%
JPMorgan Chase Bank, N.A.	500,000	5/16/2016	2.31	%
Goldman Sachs Bank USA	500,000	5/24/2016	2.34	%
Goldman Sachs Bank USA	250,000	6/15/2016	2.67	%
Wells Fargo Bank, N.A.	250,000	6/15/2016	2.67	%
JPMorgan Chase Bank, N.A.	500,000	6/24/2016	2.51	%
Citibank, N.A.	500,000	10/15/2016	1.93	%
Deutsche Bank AG	150,000	2/5/2018	2.90	%
ING Capital Markets LLC	350,000	2/24/2018	0.95	%
ING Capital Markets LLC	300,000	5/5/2018	0.79	%
UBS AG	500,000	5/24/2018	1.10	%
ING Capital Markets LLC	400,000	6/5/2018	0.87	%
The Royal Bank of Scotland Plc	500,000	9/5/2018	1.04	%
Citibank, N.A. CME Clearing House (1)	300,000	2/5/2021	2.50	%
The Royal Bank of Scotland Plc CME Clearing House (1)	300,000	2/5/2021	2.69	%
Wells Fargo Bank, N.A.	200,000	3/15/2021	3.14	%
Citibank, N.A.	200,000	5/25/2021	2.83	%
HSBC Bank USA, National Association	550,000	2/24/2022	2.45	%
HSBC Bank USA, National Association	250,000	6/5/2023	1.91	%
The Royal Bank of Scotland Plc	500,000	8/15/2023	1.98	%
Goldman Sachs Bank USA CME Clearing House	600,000	8/24/2023	2.88	%
UBS AG	250,000	11/15/2023	2.23	%
HSBC Bank USA, National Association	500,000	12/15/2023	2.20	%
Morgan Stanley Capital Services, LLC	100,000	4/2/2025	2.04	%
Total	10,350,000		2.10	%

(1) Forward start date of February 2016

At March 31, 2015, the Company's counterparties held \$82.2 million in cash margin deposits and approximately \$273.9 million in Agency RMBS as collateral against its interest rate swaps, CDS and currency forward contracts. In addition, several counterparties posted \$4.3 million of cash as collateral with the Company. Cash margin posted by the Company is classified as due from counterparties, and cash margin posted by counterparties that are restricted in use, if any, is classified as restricted cash. As of March 31, 2015 and December 31, 2014, the Company did not have any restricted cash. The Agency RMBS collateral posted by the Company is included in total mortgage-backed and credit risk transfer securities on the Company's condensed consolidated balance sheets. Cash collateral that is not restricted for use by the Company is included in cash and cash equivalents and the liability to return the collateral is included in collateral held payable on the condensed consolidated balance sheets. Non-cash collateral posted by counterparties to the Company would be recognized if any counterparty defaults or if the Company sold the pledged collateral. As of March 31, 2015 and December 31, 2014, the Company did not recognize any non-cash collateral held as collateral.

Table of Contents**Interest Rate Swaptions**

The Company has purchased interest rate swaptions to help mitigate the potential impact of increases or decreases in interest rates on the performance of a portion of the Company's investment portfolio (referred to as "convexity risk"). The interest rate swaptions provide the Company the option to enter into interest rate swap agreements for a predetermined notional amount, stated term and pay and receive interest rates in the future. The premium paid for interest rate swaptions is reported as an asset in the Company's condensed consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments, net in the Company's condensed consolidated statements of operations. If an interest rate swaption expires unexercised, the loss on the interest rate swaption would be equal to the premium paid. If the Company sells or exercises an interest rate swaption, the realized gain or loss on the interest rate swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid. The Company had \$4.7 million and \$15.1 million of realized loss for the interest rate swaptions that expired unexercised during the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015 and 2014, the Company had \$3.7 million and \$11.1 million of unrealized gain, respectively, which represents the change in fair value of the Company's interest rate swaptions that are recognized directly in earnings.

As of March 31, 2015, the Company had the following outstanding interest rate swaptions:

Interest Rate Swaptions	Option	Fair Value	Underlying Swap					
			Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive rate	Average Term (Years)	
Payer	< 6 Months	5,640	3	3.1	550,000	3.29	% 3M Libor	8.2
Total Payer		5,640	3	3.1	550,000	3.29	% 3M Libor	8.2
Receiver	> 6 Months	1,485	795	10.0	300,000	3M Libor	1.11 %	10.0
Total Receiver		1,485	795	10.0	300,000	3M Libor	1.11 %	10.0

TBAs, Futures and Currency Forward Contracts

The Company purchases or sells certain TBAs and U.S. Treasury futures contracts to help mitigate the potential impact of changes in interest rates on the performance of the Company's portfolio. Realized and unrealized gains and losses associated with the purchase or sales of the TBAs and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments, net in the Company's condensed consolidated statements of operations.

The Company uses currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates on the Company's investments denominated in foreign currencies. Realized and unrealized gains and losses associated with the purchases or sales of currency forward contracts are recognized in gain (loss) on derivative instruments, net in the Company's condensed consolidated statements of operations.

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The following table presents information with respect to the Company's derivative instruments:

\$ in thousands	Notional Amount as of January 1, 2015	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount as of March 31, 2015	Amount of Realized Gain (Loss), net on Derivative Instruments (excluding net interest paid or received) for the three months ended March 31, 2015
Interest Rate Swaptions	1,050,000	300,000	(500,000)	850,000	(4,688)
Interest Rate Swaps	10,550,000	100,000	(300,000)	10,350,000	(19,055)
Sale of TBAs	198,000	248,000	(446,000)	—	(2,292)
Futures Contracts	127,400	120,900	(248,300)	—	(943)
Currency Forward Contracts	35,688	30,708	(32,127)	34,269	875
Total	11,961,088	799,608	(1,526,427)	11,234,269	(26,103)

Tabular Disclosure of the Effect of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014.

\$ in thousands

Derivative Assets	Derivative Liabilities				
	As of March 31, 2015	As of December 31, 2014	As of March 31, 2015	As of December 31, 2014	
Balance Sheet	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value
Interest Rate Swap Asset	4,198	22,772	Interest Rate Swap Liability	290,852	253,468
CDS Contract	334	396	TBAs	—	558
Interest Rate Swaptions	798	322			
Futures Contracts	—	89			
Currency Forward Contracts	1,376	599			

Embedded derivatives associated with GSE CRTs are recorded within mortgage-backed and credit risk transfer securities, at fair value, on the consolidated balance sheets. The fair value of the embedded derivative associated with GSE CRTs is a net liability of \$5.5 million as of March 31, 2015 (December 31, 2014: \$21.5 million net liability).

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of the Company's derivative financial instruments on the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015

\$ in thousands

Derivative type for cash flow hedge	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain (loss) reclassified from accumulated OCI into income (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion)	Amount of gain (loss) recognized in income on derivative (ineffective portion)

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Interest Rate Swaps	—	Interest Expense, Repurchase Agreements	(19,145)	Gain (loss) on derivative instruments, net	—
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Three months ended March 31, 2014

\$ in thousands

Derivative type for cash flow hedge	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain (loss) reclassified from accumulated OCI into income (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion)	Amount of gain (loss) recognized in income on derivative (ineffective portion)
Interest Rate Swaps	—	Interest Expense, Repurchase Agreements	(21,296)	Gain (loss) on derivative instruments, net	—

\$ in thousands

Derivative not designated as hedging instrument	Location of unrealized gain (loss) recognized in income on derivative	Three Months Ended March 31, 2015 (As Restated)	Three Months Ended March 31, 2014 (As Restated)
CDS Contract	Realized and unrealized credit derivative income (loss), net	(62)	(47)
GSE CRT Embedded Derivatives	Realized and unrealized credit derivative income (loss), net	16,038	13,961
Total		15,976	13,914

The following table summarizes the effect of interest rate swaps, swaption contracts, TBAs, futures contracts and currency forwards reported in gain (loss) on derivative instruments, net on the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014:

\$ in thousands

Derivative not designated as hedging instrument	Three months ended March 31, 2015			
	Realized gain (loss) on settlement, termination, expiration or exercise, net	Contractual interest expense	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net
Interest Rate Swaps	(19,055)	(45,608)	(55,957)	(120,620)
Interest Rate Swaptions	(4,688)	—	3,679	(1,009)
TBAs	(2,292)	—	558	(1,734)
Futures Contracts	(943)	—	(90)	(1,033)
Currency Forward Contracts	875	—	776	1,651
Total	(26,103)	(45,608)	(51,034)	(122,745)

\$ in thousands

Derivative not designated as hedging instrument	Three months ended March 31, 2014			
	Realized gain (loss) on settlement, termination, expiration or exercise, net	Contractual interest expense	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net

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Interest Rate Swaps	—	(51,441) (90,192) (141,633)
Interest Rate Swaptions	(15,075) —	11,127	(3,948)
TBAs	—	—	703	703	
Futures Contracts	(3,749) —	(2,685) (6,434)
Total	(18,824) (51,441) (81,047) (151,312)

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Credit-risk-related Contingent Features

The Company has agreements with each of its bilateral derivative counterparties. Some of those agreements contain a provision whereby if the Company defaults on any of its indebtedness, including default whereby repayment of the indebtedness has not been accelerated by the lender, the Company could be declared in default on its derivative obligations.

At March 31, 2015, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk related to these agreements, was \$215.4 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$273.9 million of Agency RMBS and \$82.2 million of cash as of March 31, 2015. If the Company had breached any of these provisions at March 31, 2015, it could have been required to settle its obligations under the agreements at their termination value.

In addition, as of March 31, 2015, the Company has an agreement with a central clearing counterparty. The fair value of such derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk related to this agreement, was \$80.8 million.

The Company was in compliance with all of the financial provisions of these counterparty agreements as of March 31, 2015.

Note 9 – Offsetting Assets and Liabilities

Certain of the Company's repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff under master netting arrangements (or similar agreements) in the event of default or in the event of bankruptcy of either party to the transactions. Assets and liabilities subject to such arrangements are presented on a gross basis in the condensed consolidated balance sheets.

The following tables present information about the assets and liabilities that are subject to master netting agreements (or similar agreements) and can potentially be offset on the Company's condensed consolidated balance sheets at March 31, 2015 and December 31, 2014.

Offsetting of Derivative Assets

As of March 31, 2015

\$ in thousands Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments (1)	Collateral Received (4)	Net Amount
Derivatives	6,706	—	6,706	(3,171	) (3,535) —
Total	6,706	—	6,706	(3,171	) (3,535) —

Offsetting of Derivative Liabilities, Repurchase Agreements and Secured Loans

As of March 31, 2015

\$ in thousands	Gross	Gross	Net Amounts	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets	
				Financial	

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Description	Amounts of Recognized Liabilities	Amounts Offset in the Condensed Consolidated Balance Sheets	of Liabilities presented in the Condensed Consolidated Balance Sheets	Instruments (2)(3)(5)	Collateral Posted (2)(4)(5)	Net Amount
Derivatives	290,852	—	290,852	(208,855)	(80,414)	1,583
Repurchase Agreements	13,333,081	—	13,333,081	(13,333,081)	—	—
Secured Loans	1,550,000	—	1,550,000	(1,550,000)	—	—
Total	15,173,933	—	15,173,933	(15,091,936)	(80,414)	1,583

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As of December 31, 2014

\$ in thousands Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (1)	Collateral Received (4)	Net Amount
Derivatives	24,178	—	24,178	(5,277)	(18,901)	—
Total	24,178	—	24,178	(5,277)	(18,901)	—

Offsetting of Derivative Liabilities and Repurchase Agreements
As of December 31, 2014

\$ in thousands Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (2)(3)	Collateral Posted (2)(4)	Net Amount
Derivatives	254,026	—	254,026	(235,908)	(18,118)	—
Repurchase Agreements	13,622,677	—	13,622,677	(13,622,677)	—	—
Secured Loans	1,250,000	—	1,250,000	(1,250,000)	—	—
Total	15,126,703	—	15,126,703	(15,108,585)	(18,118)	—

(1) Amounts represent derivatives in an asset position which could potentially be offset against derivatives in a liability position at March 31, 2015 and December 31, 2014, subject to a netting arrangement.

(2) Amounts represent collateral pledged that is available to be offset against liability balances associated with repurchase agreements, secured loans and derivatives.

(3) The fair value of securities pledged against the Company's borrowing under repurchase agreements was \$14.8 billion and \$15.3 billion at March 31, 2015 and December 31, 2014, respectively, including securities held as collateral that are eliminated in consolidation of \$431.9 million and \$403.2 million, respectively at March 31, 2015 and December 31, 2014.

(4) Cash collateral received on the Company's derivatives was \$4.3 million and \$14.9 million at March 31, 2015 and December 31, 2014, respectively. The Company did not receive non-cash collateral at March 31, 2015. Non-cash collateral received on the Company's derivatives was \$10.8 million at December 31, 2014. Cash collateral posted by the Company on its derivatives was \$82.2 million and \$57.6 million at March 31, 2015 and December 31, 2014, respectively.

(5) The fair value of securities pledged against IAS Services LLC's borrowing under secured loans was \$1.9 billion and \$1.5 billion at March 31, 2015 and December 31, 2014, respectively.

Note 10 – Fair Value of Financial Instruments (As Restated)

A three-level valuation hierarchy exists for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels are defined as follows:

Level 1 Inputs – Quoted prices for identical instruments in active markets.

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Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs – Instruments with primarily unobservable value drivers.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis.

	March 31, 2015 (As Restated)			
	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total at Fair Value
Assets:				
Mortgage-backed and credit risk transfer securities ⁽¹⁾⁽²⁾	—	17,346,052	(5,457)	) 17,340,595
Derivative assets	—	6,372	334	6,706
Total assets	—	17,352,424	(5,123)	) 17,347,301
Liabilities:				
Derivative liabilities	—	290,852	—	290,852
Total liabilities	—	290,852	—	290,852

	December 31, 2014 (As Restated)			
	Fair Value Measurements Using:			
\$ in thousands	Level 1	Level 2	Level 3	Total at Fair Value
Assets:				
Mortgage-backed and credit risk transfer securities ⁽¹⁾⁽²⁾	—	17,270,390	(21,495)	) 17,248,895
Derivative assets	89	23,693	396	24,178
Total assets	89	17,294,083	(21,099)	) 17,273,073
Liabilities:				
Derivative liabilities	—	254,026	—	254,026
Total liabilities	—	254,026	—	254,026

(1) For more detail about the fair value of the Company's MBS and GSE CRTs, refer to Note 4 - "Mortgage-Backed and Credit Risk Transfer Securities."

(2) As discussed in Note 2 "Summary of Significant Accounting Policies", the Company's GSE CRTs are accounted for as hybrid financial instruments with an embedded derivative. The hybrid instruments contain debt host contracts classified as Level 2 and embedded derivatives classified as Level 3. As of March 31, 2015, the net embedded derivative liability position of \$5.5 million includes \$5.4 million of embedded derivatives in an asset position and \$10.8 million of embedded derivatives in a liability position. As of December 31, 2014, the net embedded derivative liability position of \$21.5 million includes \$3.1 million of embedded derivatives in an asset position and \$24.6 million of embedded derivatives in a liability position.

The following table shows a reconciliation of the beginning and ending fair value measurements of the Company's GSE CRT embedded derivatives which the Company has valued utilizing Level 3 inputs:

\$ in thousands	March 31, 2015 (As Restated)	December 31, 2014 (As Restated)
Beginning balance	(21,495)) —
Sales and settlements	792	—
Total net gains/(losses) included in net income:		
Realized gains/(losses), net	(792)) —
Unrealized gains/(losses), net	16,038	(21,495)

Ending balance	(5,457) (21,495)
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The following tables summarize significant unobservable inputs used in the fair value measurement of the Company's GSE CRT embedded derivatives:

\$ in thousands	Fair Value at March 31, 2015	Valuation Technique	Unobservable Input	Range	Weighted Average	
GSE CRT Embedded derivatives	(5,457	) Market Comparables	Prepayment Rate	5.52% - 18.57%	7.39	%
		Vendor Pricing	Default Rate	0.13% - 0.42%	0.19	%
\$ in thousands	Fair Value at December 31, 2014	Valuation Technique	Unobservable Input	Range	Weighted Average	
GSE CRT Embedded derivatives	(21,495	) Market Comparables	Prepayment Rate	4.46% - 8.98%	5.29	%
		Vendor Pricing	Default Rate	0.12% - 0.37%	0.18	%

These significant unobservable inputs change according to market conditions and security performance. Prepayment rate and default rate are used to estimate the maturity of GSE CRTs in order to identify GSE corporate debt with a similar maturity. Therefore, changes in prepayment rate and default rate do not have an explicit directional impact on the fair value measurement.

The following table shows a reconciliation of the beginning and ending fair value measurements of the Company's credit default swap ("CDS") contract, which the Company has valued utilizing Level 3 inputs:

\$ in thousands	March 31, 2015	December 31, 2014
Beginning balance	396	654
Unrealized gains/(losses), net	(62	) (258
Ending balance	334	396

The following table summarizes significant unobservable inputs used in the fair value measurement of the Company's CDS contract:

\$ in thousands	Fair Value at March 31, 2015	Valuation Technique	Unobservable Input	Range	Weighted Average	
CDS Contract	334	Discounted cash flow	Swap Rate		2.39	%
			Discount Rate		0.66	%
			Credit Spread		0.32	%
			Constant Prepayment Rate	1.0% - 20.0%	5.47	%
			Constant Default Rate	0.5% - 100.0%	4.14	%
			Loss Severity	2.02% - 66.0%	40.14	%
\$ in thousands	Fair Value at December 31, 2014	Valuation Technique	Unobservable Input	Range	Weighted Average	
CDS Contract	396	Discounted cash flow	Swap Rate		2.39	%
			Discount Rate		0.76	%
			Credit Spread		0.24	%
			Constant Prepayment Rate	1.0% - 20.0%	5.46	%
			Constant Default Rate	0.6% - 100.0%	4.15	%
			Loss Severity	1.1% - 62.3%	39.35	%

These significant unobservable inputs change according to market conditions and security performance expectations. Significant increases (decreases) in swap rate, discount rate, credit spread, constant prepayment rate,

constant default rate or loss severity in isolation would result in a lower (higher) fair value measurement. Generally, a change in the assumption used for the constant default rate would likely be accompanied by a directionally similar change in the assumptions used for swap rate, credit spread and loss severity and a directionally opposite change in the assumption used for discount rate

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and constant prepayment rate. If the inputs had not changed during the quarter, the fair value of the CDS contract would have been \$6,200 more than the actual fair value at March 31, 2015.

The following table presents the carrying value and estimated fair value of the Company's financial instruments that are not carried at fair value on the condensed consolidated balance sheets, at March 31, 2015 and December 31, 2014:

\$ in thousands	March 31, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets				
Residential loans, held-for-investment	3,597,147	3,622,776	3,365,003	3,399,964
Commercial loans, held-for-investment	146,211	148,026	145,756	147,497
Other investments	110,993	110,993	106,498	106,498
Total	3,854,351	3,881,795	3,617,257	3,653,959
Financial Liabilities				
Repurchase agreements	13,333,081	13,340,003	13,622,677	13,630,571
Secured loans	1,550,000	1,550,000	1,250,000	1,250,000
Asset-backed securities issued by securitization trusts	3,133,527	3,150,057	2,929,820	2,930,422
Exchangeable senior notes	400,000	385,000	400,000	379,500
Total	18,416,608	18,425,060	18,202,497	18,190,493

The following describes the Company's methods for estimating the fair value for financial instruments.

The fair value of residential loans held-for-investment is a Level 3 fair value measurement which is based on an expected present value technique. This method discounts future estimated cash flows using rates the Company determined best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality.

The fair value of commercial loans held-for-investment is a Level 3 fair value measurement. New commercial loans are carried at their unpaid principal balance until the end of the calendar year in which they were originated unless market factors indicate cost may not be a reliable indicator of fair value. Subsequent to the year of origination, commercial loan investments are valued on at least an annual basis by an independent third party valuation agent using a discounted cash flow technique.

The fair value of FHLBI stock, included in "Other investments," is a Level 3 fair value measurement. FHLBI stock may only be sold back to the FHLBI at its discretion at cost. As a result, the cost of the FHLBI stock approximates its fair value.

The fair value of investments in unconsolidated ventures, included in "Other investments," is a Level 3 fair value measurement. The fair value measurement is based on the net asset value per share of the Company's investments. The fair value of repurchase agreements is a Level 3 fair value measurement based on an expected present value technique. This method discounts future estimated cash flows using rates the Company determined best reflect current market interest rates that would be offered for repurchase agreements with similar characteristics and credit quality. The fair value of asset-backed securities issued by securitization trusts is a Level 3 fair value measurement based on valuations obtained from a third party pricing service. There is not an active trading market for many of the underlying asset-backed securities. Accordingly, these securities are valued by the third party pricing service by discounting future estimated cash flows using rates that best reflect current market interest rates that would be offered for securities with similar characteristics and credit quality.

The fair value of secured loans is a Level 3 fair value measurement. The secured loans have floating rates based on an index plus a spread. Accordingly, the interest rates on these secured loans are at market, and thus the carrying amount approximates fair value.

The fair value of the exchangeable senior notes issued is a Level 2 fair value measurement based on valuation obtained from a third-party pricing service.

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Note 11 – Related Party Transactions

The Company is externally managed and advised by Invesco Advisers, Inc. (the "Manager"), a wholly-owned subsidiary of Invesco Ltd. Under the terms of the management agreement, the Manager and its affiliates provide the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of the Manager or one of its affiliates. The Company does not have any employees. The Manager is not obligated to dedicate any of its employees exclusively to the Company, nor are the Manager or its employees obligated to dedicate any specific portion of its or their time to the Company's business. The Manager is at all times subject to the supervision and oversight of the Company's Board of Directors and has only such functions and authority as the Company delegates to it.

The Company has invested \$152.7 million and \$149.3 million as of March 31, 2015 and December 31, 2014, respectively, in money market or mutual funds managed by affiliates of the Company's Manager. The investments are reported as cash and cash equivalents on the Company's condensed consolidated balance sheets.

Management Fee

For the three months ended March 31, 2015, the Company incurred management fees of \$9.4 million (March 31, 2014: \$9.3 million), of which \$9.3 million (March 31, 2014: \$9.3 million) was accrued but has not been paid.

Expense Reimbursement

The Company is required to reimburse its Manager for Company operating expenses incurred by the Manager, including directors and officers insurance, accounting services, auditing and tax services, filing fees, and miscellaneous general and administrative costs. The Company's reimbursement obligation is not subject to any dollar limitation.

The following table summarizes the costs originally paid by the Manager, incurred on behalf of the Company for the three months ended March 31, 2015 and 2014.

\$ in thousands	Three Months Ended March 31, 2015	
	2015	2014
Incurring costs, prepaid or expensed	642	1,765
Total incurred costs, originally paid by the Manager	642	1,765

Termination Fee

A termination fee is due to the Manager upon termination of the management agreement by the Company. The termination fee is equal to three times the sum of the average annual management fee earned by the Manager during the 24-month period before termination, calculated as of the end of the most recently completed fiscal quarter.

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Note 12 – Stockholders' Equity

Securities Convertible into Shares of Common Stock

The non-controlling interest holder of the Operating Partnership units, a wholly-owned Invesco subsidiary, has the right to cause the Operating Partnership to redeem their operating partnership ("OP Units") for cash equal to the market value of an equivalent number of shares of common stock, or at the Company's option, the Company may purchase their OP Units by issuing one share of common stock for each OP Unit redeemed. The Company has also adopted an equity incentive plan which allows the Company to grant securities convertible into the Company's common stock to its non-executive directors and employees of the Company's Manager and its affiliates.

Common Stock

The Company has a dividend reinvestment and stock purchase plan (the "DRSPP") that allows participating stockholders to purchase shares of common stock directly from the Company. DRSPP participants may also automatically reinvest all or a portion of their dividends in exchange for additional shares of common stock.

During the three months ended March 31, 2015, the Company issued 4,444 shares of common stock at an average price of \$15.83 under the DRSPP. The Company received total proceeds of approximately \$70,000.

Preferred Stock

Holders of the Company's Series A Preferred Stock are entitled to receive dividends at an annual rate of 7.75% of the liquidation preference of \$25.00 per share or \$1.9375 per share per annum. The dividends are cumulative and payable quarterly in arrears.

Holders of the Company's Series B Preferred Stock are entitled to receive dividends at an annual rate of 7.75% of the liquidation preference of \$25.00 per share or \$1.9375 per share per annum until December 27, 2024. After December 27, 2024, holders are entitled to receive dividends at a floating rate equal to three-month LIBOR plus a spread of 5.18% of the \$25.00 liquidation preference per annum. Dividends are cumulative and payable quarterly in arrears, with the first dividend payment date on December 29, 2014.

The Company may elect to redeem shares of preferred stock at its option after July 26, 2017 (with respect to the Series A Preferred Stock) and after December 27, 2024 (with respect to the Series B Preferred Stock) for \$25.00 per share, plus any accumulated and unpaid dividends through the date of the redemption. These shares are not redeemable, convertible into or exchangeable for any other property or any other securities of the Company prior to those times, except under circumstances intended to preserve the Company's qualification as a REIT or upon the occurrence of a change in control.

Share Repurchase Program

During the three months ended March 31, 2015, the Company did not repurchase any shares of its common stock. As of March 31, 2015, the Company had authority to purchase 14,841,784 additional shares of its common stock under its share repurchase program. The share repurchase program has no stated expiration date.

Share-Based Compensation

The Company has currently reserved 1,000,000 shares of common stock for issuance to its independent directors and officers and employees of the Manager and its affiliates under the terms of its 2009 Equity Incentive Plan (the "Incentive Plan"). Unless terminated earlier, the Incentive Plan will terminate in 2019, but will continue to govern the unexpired awards.

The Company recognized compensation expense of approximately \$85,000 and \$52,000 related to the Company's non-executive directors for three months ended March 31, 2015 and 2014, respectively. During the three months ended March 31, 2015 and 2014, the Company issued 5,332 shares and 2,745 shares of stock, respectively, pursuant to the Incentive Plan to the Company's non-executive directors. The fair market value of the shares granted was determined by the closing stock market price on the date of the grant.

The Company recognized compensation expense of approximately \$70,000 and \$81,000 for the three months ended March 31, 2015 and 2014, respectively, related to awards to employees of the Manager and its affiliates which is reimbursed by the Manager under the management agreement. During March 2015, the Company issued 11,547 shares of common stock (net of tax withholding) to employees of the Manager and its affiliates in exchange for 17,783 restricted stock units that vested under the Incentive Plan. In addition, during the three months ended March 31, 2015,

the Company awarded 17,652 restricted stock units to employees of the Manager and its affiliates.

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Dividends

On March 17, 2015, we declared the following dividends:

• a dividend of \$0.45 per share of common stock to be paid on April 28, 2015 to stockholders of record as of the close of business on March 30, 2015;

• a dividend of \$0.4844 per share of Series A Preferred Stock to be paid on April 27, 2015 to stockholders of record as of the close of business on April 1, 2015; and

• a dividend of \$0.4844 per share of Series B Preferred Stock to be paid on June 29, 2015 to stockholders of record as of the close of business on June 5, 2015.

Note 13 – Earnings per Common Share (As Restated)

Earnings per share for the three months ended March 31, 2015 and 2014 is computed as follows:

\$ and share amounts in thousands	Three Months Ended	
	March 31, 2015 (As Restated)	2014 (As Restated)
Numerator (Income)		
Basic Earnings		
Net income (loss) available to common stockholders	(17,440)	(66,759)
Effect of dilutive securities:		
Income allocated to exchangeable senior notes	—	—
Loss allocated to non-controlling interest	(136)	(733)
Dilutive net income (loss) available to stockholders	(17,576)	(67,492)
Denominator (Weighted Average Shares)		
Basic Earnings:		
Shares available to common stockholders	123,118	123,125
Effect of dilutive securities:		
Restricted stock awards	—	—
OP units	1,425	1,425
Exchangeable senior notes	—	—
Dilutive Shares	124,543	124,550

The following potential common shares were excluded from diluted earnings per common share for the three months ended March 31, 2015 as the effect would be anti-dilutive: 16,835,720 for the exchangeable senior notes and 46,003 for restricted stock awards. The following potential common shares were excluded from diluted earnings per common share for the three months ended March 31, 2014 as the effect would be anti-dilutive: 16,835,720 for the exchangeable senior notes and 41,007 for restricted stock awards.

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Note 14 – Non-controlling Interest—Operating Partnership (As Restated)

Non-controlling interest represents the aggregate Operating Partnership Units in the Company's Operating Partnership held by a wholly-owned Invesco subsidiary. Income allocated to the non-controlling interest is based on the Unit Holders' ownership percentage of the Operating Partnership. The ownership percentage is determined by dividing the number of OP Units held by the Unit Holders by the total number of dilutive shares of common stock. The issuance of common stock ("Share" or "Shares") or OP Units changes the percentage ownership of both the Unit Holders and the holders of common stock. Since an OP unit is generally redeemable for cash or Shares at the option of the Company, it is deemed to be a Share equivalent. Therefore, such transactions are treated as capital transactions and result in an allocation between stockholders' equity and non-controlling interest in the accompanying condensed consolidated balance sheets. As of March 31, 2015 and December 31, 2014, non-controlling interest related to the outstanding 1,425,000 OP Units represented a 1.1% interest and 1.1% interest in the Operating Partnership, respectively. The following table presents the net income (loss) allocated and distributions paid to the Operating Partnership non-controlling interest for the three months ended March 31, 2015 and 2014.

	Three months ended	
	March 31,	
\$ in thousands	2015	2014
	(As	(As
	Restated)	Restated)
Net income (loss) allocated	(136	) (733
Distributions paid	641	713

As of March 31, 2015 and December 31, 2014, distributions payable to the non-controlling interest were approximately \$641,000 and \$713,000, respectively.

Note 15 – Commitments and Contingencies

Commitments and Contingencies

Commitments and contingencies may arise in the ordinary course of business.

Off Balance Sheet Commitments

As discussed in Note 6 - "Other Investments", the Company has invested in unconsolidated ventures that are sponsored by an affiliate of the Company's Manager. The unconsolidated ventures are structured as partnerships, and the Company invests in the partnerships as a limited partner. The entities are structured such that capital commitments are to be drawn down over the life of the partnership as investment opportunities are identified. As of March 31, 2015 and December 31, 2014, the Company's undrawn capital and purchase commitments were \$27.8 million and \$31.0 million, respectively.

As discussed in Note 5 - "Commercial Loans Held-for-Investment", the Company purchases and originates commercial loans. As of March 31, 2015 and December 31, 2014, the Company has unfunded commitments on commercial loans held-for-investment of \$1.6 million and \$5.0 million, respectively.

The Company has entered into agreements with financial institutions to guarantee certain obligations of its subsidiaries. The Company would be required to perform under these guarantees in the event of certain defaults. The Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Note 16 – Restatement of Previously Issued Financial Statements

In connection with the preparation of our consolidated financial statements for the fiscal quarter ended June 30, 2015, the Company determined it had been incorrectly applying the GAAP guidance in ASC 320 - Investments - Debt and Equity Securities, as the basis for recognition, measurement and presentation for its investments in GSE CRTs and Agency MBS IOs. Prior to the second quarter of 2015, the GSE CRTs and Agency MBS IOs were reported at fair value on the balance sheet based on valuations provided by a third party pricing service, changes in fair value were recorded as other comprehensive income in stockholders' equity and the interest income associated with the GSE CRTs was recorded as interest income.

The Company should have applied the guidance in ASC 815 - Derivatives and Hedging to account for the GSE CRTs and Agency MBS IOs. These securities meet the definition of a hybrid financial instrument and meet the criteria in ASC 815 requiring bifurcation of an embedded derivative from a host contract.

The Company has bifurcated the GSE CRT embedded derivative from its host contract and recorded changes in the fair value of the embedded derivative in the consolidated statement of operations. Changes in the fair value of the GSE CRT debt host contract continue to be recorded as other comprehensive income in stockholders' equity. The difference between the

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coupon rate on the GSE CRT and the coupon rate on the GSE CRT debt host contract is considered premium income associated with the embedded derivative and is recorded in realized and unrealized credit derivative income (loss), net in the Company's consolidated statement of operations. The Company has determined that the Agency MBS IOs embedded derivative cannot be reliably valued as a stand-alone instrument and therefore recorded the entire Agency MBS IOs change in fair value in the consolidated statement of operations in accordance with ASC 815. The Company determined these errors had a material effect on its previously issued financial statements.

The Company is restating its previously issued condensed consolidated balance sheets as of March 31, 2015 and 2014 and condensed consolidated statements of operations, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of equity and condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014, along with certain related notes (the "Restatement").

The tables below illustrate the impact of the Restatement on the Company's condensed financial statements, each as compared with the amounts presented in the original Quarterly Report on Form 10-Q previously filed with the Securities and Exchange Commission.

The following table represents a summary of the as previously reported balances, adjustments and restated balances on the condensed consolidated balance sheet by financial statement line item as of March 31, 2015:

In thousands	As of March 31, 2015		
	As Reported	Adjustment ⁽¹⁾	As Restated
Accumulated other comprehensive income	560,358	4,773	565,131
Retained earnings (distributions in excess of earnings)	(700,930)	(4,773)	(705,703)

⁽¹⁾ Includes \$5.0 million of unrealized loss resulting from GSE CRTs and \$0.2 million of unrealized gains resulting from Agency MBS IOs.

The following table represents a summary of the as previously reported balances, adjustments and restated balances on the condensed consolidated statement of operations by financial statement line item for the three months ended March 31, 2015:

In thousands	Three Months Ended March 31, 2015		
	As Reported	Adjustment	As Restated
Interest Income:			
Mortgage-backed and credit risk transfer securities	141,018	(5,753)	135,265
Other income (loss):			
Gain (loss) on investments, net	2,142	30	2,172
Realized and unrealized credit derivative income (loss), net	203	21,159	21,362
Net income (loss)	(27,296)	15,436	(11,860)
Net income (loss) attributable to non-controlling interest	(312)	176	(136)
Net income (loss) attributable to Invesco Mortgage Capital, Inc.	(26,984)	15,260	(11,724)
Net income (loss) attributable to common stockholders	(32,700)	15,260	(17,440)
Earnings per share:			
Basic	(0.27)	0.13	(0.14)
Diluted	(0.27)	0.13	(0.14)

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The following table represents a summary of the as previously reported balances, adjustments and restated balances on the condensed consolidated statement of comprehensive income by financial statement line item for the three months ended March 31, 2015:

In thousands	Three Months Ended March 31, 2015		
	As Reported	Adjustment	As Restated
Net income (loss)	(27,296)	15,436	(11,860)
Unrealized gain (loss) on mortgage-backed and credit risk transfer securities	140,598	(14,644)	125,954
Reclassification of unrealized (gain) loss on sale of mortgage-backed and credit risk transfer securities to gain (loss) on investments, net	(2,142)	(792)	(2,934)
Total Other comprehensive income (loss)	157,601	(15,436)	142,165
Comprehensive income	130,305	—	130,305
Comprehensive income attributable to non-controlling interest	(1,490)	—	(1,490)
Comprehensive income attributable to common stockholders	123,099	—	123,099

The following table represents a summary of the as previously reported balances, adjustments and restated balances on the condensed consolidated statement of equity by financial statement line item for the three months ended March 31, 2015:

In thousands	Three Months Ended March 31, 2015		
	As Reported	Adjustment	As Restated
Net income (loss)	(27,296)	15,436	(11,860)
Other comprehensive income (loss)	157,601	(15,436)	142,165

The following table represents a summary of the as previously reported balances and restated balances on the condensed consolidated statement of cash flows by financial statement line item for the three months ended March 31, 2015:

In thousands	Three Months Ended March 31, 2015		
	As Reported	Adjustment	As Restated
Cash Flows from Operating Activities			
Net income (loss)	(27,296)	15,436	(11,860)
Amortization of mortgage-backed and credit risk transfer securities premiums and (discounts), net	29,549	(160)	29,389
Unrealized (gain) loss on credit derivatives, net	62	(16,038)	(15,976)
(Gain) loss on sale of mortgage-backed securities and credit risk transfer securities, net	(2,142)	(30)	(2,172)
Realized (gain) loss on credit derivatives, net	—	792	792
Non-cash Investing and Financing Activities Information			
Net change in unrealized gain (loss) on mortgage-backed and credit risk transfer securities	138,456	(15,436)	123,020

Note 17 – Subsequent Events

The Company has reviewed subsequent events occurring through the date that these condensed consolidated financial statements were issued, and determined that no subsequent events occurred that would require accrual or additional

disclosure.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS. (Certain Sections Restated)

In this quarterly report on Form 10-Q/A, or this "Report," we refer to Invesco Mortgage Capital Inc. and its consolidated subsidiaries as "we," "us," "our Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, Invesco Advisers, Inc., as our "Manager," and we refer to the indirect parent company of our Manager, Invesco Ltd. together with its consolidated subsidiaries (which does not include us), as "Invesco." The following discussion should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to our condensed consolidated financial statements, which are included in Item 1 of this Report, as well as the information contained in our most recent Form 10-K/A filed with the Securities and Exchange Commission (the "SEC").

Explanatory Note

As discussed in the Explanatory Note to this Form 10-Q/A and Note 16 - "Restatement of Previously Issued Financial Statements", we restated our consolidated financial statements for the years ended December 31, 2014 and 2013 and quarterly financial information for the quarter ended March 31, 2013 and for all subsequent quarters through March 31, 2015 due to errors related to the accounting treatment of GSE CRTs and Agency MBS IOs. Prior period financial information in this Form 10-Q/A has been amended where necessary to reflect the restatement.

Forward-Looking Statements

We make forward-looking statements in this Report and other filings we make with the SEC within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our business, investment strategies, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may," "will," "could," "would," and any other similar expressions and future or conditional verbs such as "will," "may," "could," "should," and "would," and any other statement that necessarily depends on future events, we intend to identify forward-looking statements. Factors that could cause actual results to differ from those expressed in our forward-looking statements include, but are not limited to:

- our business and investment strategy;
- our investment portfolio;
- our projected operating results;
- general volatility of financial markets and effects of governmental responses, including actions and initiatives of the U.S. governmental agencies and changes to U.S. government policies, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), mortgage loan modification programs, actions and initiatives of foreign governmental agencies and central banks, and the completion of the Federal Reserve long-term asset purchases (quantitative easing or "QE"), and our ability to respond to and comply with such actions, initiatives and changes;
- the availability of financing sources, including our ability to obtain additional financing arrangements and the terms of such arrangements;
- financing and advance rates for our target assets;
- changes to our expected leverage;
- our expected investments;
- our expected book value per share of common stock;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- the adequacy of our cash flow from operations and borrowings to meet our short-term liquidity needs;
- our ability to maintain sufficient liquidity to meet any margin calls;
- changes in the credit rating of the U.S. government;

•changes in interest rates and interest rate spreads and the market value of our target assets;

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• changes in prepayment rates on our target assets;
• the impact of any deficiencies in foreclosure practices of third parties and related uncertainty in the timing of collateral disposition;
• our reliance on third parties in connection with services related to our target assets;
• effects of hedging instruments on our target assets;
• rates of default or decreased recovery rates on our target assets;
• modifications to whole loans or loans underlying securities;
• the degree to which our hedging strategies may or may not protect us from interest rate volatility;
• the degree to which derivative contracts expose us to contingent liabilities;
• counterparty defaults;
• compliance with financial covenants in our financing arrangements;
• changes in governmental regulations, tax law and rates, and similar matters and our ability to respond to such changes;
• our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes;
• our ability to maintain our exception from the definition of “investment company” under the Investment Company Act of 1940, as amended (the “1940 Act”);
• availability of investment opportunities in mortgage-related, real estate-related and other securities;
• availability of U.S. Government Agency guarantees with regard to payments of principal and interest on securities;
• the market price and trading volume of our capital stock;
• availability of qualified personnel of our Manager;
• the relationship with our Manager;
• estimates relating to taxable income and our ability to continue to make distributions to our stockholders in the future;
• estimates relating to fair value of our target assets and loan loss reserves;
• our understanding of our competition;
• changes to generally accepted accounting principles in the United States of America (“U.S. GAAP”);
• the impact of the Restatement and the adequacy of our disclosure controls and procedures and internal controls over financial reporting; and

• market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to our condensed consolidated financial statements, which are included in this Report.

Overview

We are a Maryland corporation primarily focused on investing in, financing and managing residential and commercial mortgage-backed securities (“MBS”) and mortgage loans. We are externally managed and advised by Invesco Advisers, Inc., our Manager, a registered investment adviser and an indirect, wholly-owned subsidiary of Invesco Ltd., a leading independent global investment management firm. We elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986, as amended (“Code”), commencing with our taxable

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year ended December 31, 2009. To maintain our REIT qualification, we are generally required to distribute at least 90% of our REIT taxable income to our stockholders annually. We operate our business in a manner that permits our exclusion from the definition of "Investment Company" under the 1940 Act.

Our objective is to provide attractive risk-adjusted returns to our investors, primarily through dividends and secondarily through capital appreciation. To achieve this objective, we primarily invest in the following:

Residential mortgage-backed securities ("RMBS") that are guaranteed by a U.S. government agency such as the Government National Mortgage Association ("Ginnie Mae") or a federally chartered corporation such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively "Agency RMBS");

RMBS that are not guaranteed by a U.S. government agency ("non-Agency RMBS");

Credit risk transfer securities that are unsecured obligations issued by government-sponsored enterprises ("GSE CRT");

Commercial mortgage-backed securities ("CMBS");

Residential and commercial mortgage loans; and

Other real estate-related financing arrangements.

We generally finance our investments through short- and long-term borrowings structured as repurchase agreements and secured loans. We finance our residential loans held-for-investment through asset-backed securities ("ABS") issued by consolidated securitization trusts. We have also financed investments through the issuances of debt and equity and may utilize other forms of financing in the future.

Capital Activities

On March 17, 2015, we declared the following dividends:

a dividend of \$0.45 per share of common stock to be paid on April 28, 2015 to stockholders of record as of the close of business on March 30, 2015;

a dividend of \$0.4844 per share of Series A Preferred Stock to be paid on April 27, 2015 to stockholders of record as of the close of business on April 1, 2015; and

a dividend of \$0.4844 per share of Series B Preferred Stock to be paid on June 29, 2015 to stockholders of record as of the close of business on June 5, 2015.

We did not repurchase any shares of our common stock during the three months ended March 31, 2015.

Factors Impacting Our Operating Results

Our operating results can be affected by a number of factors and primarily depend on the level of our net interest income and the market value of our assets. The market value of our assets can be impacted by asset spreads and the supply of, and demand for, target assets in which we invest. Our net interest income, which includes the amortization of purchase premiums, reclassification of amortization of net deferred losses on de-designated interest rate swaps to repurchase agreements interest expense and accretion of purchase discounts, varies primarily as a result of changes in market interest rates and prepayment speeds, as measured by the constant prepayment rate ("CPR") on our target assets. Interest rates and prepayment speeds vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty.

Market Conditions

Macroeconomic factors that affect our business include credit spread premiums, market interest rates, Federal Reserve policy initiatives, residential and commercial real estate prices, employment conditions and inflation. The first quarter of 2015 began with interest rates falling and implied interest rate volatility increasing. In that environment, Agency RMBS started the year with prices rising but significantly underperforming similar duration U.S. Treasury notes. The yield curve continued to flatten as short maturity interest rates moved somewhat lower but longer-term rates moved meaningfully lower for the first quarter of 2015.

Domestic economic conditions continue to improve. While revisions pared back the size of non-farm payrolls originally reported, the payroll reports released in January and February of 2015 showed large increases in new jobs. Payrolls averaged just under 200,000 jobs per month for the first quarter after nearly 325,000 jobs per month in the fourth quarter of 2014.

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Weather may have impacted employment in the first quarter. Apart from employment, most measures of domestic economic strength disappointed in the first quarter and economists' estimates of growth for 2015 were revised lower. Another significant driver of market conditions was the announcement of quantitative easing by the European central bank. Following that announcement, sovereign yields that had already been declining fell further and the U.S. dollar strengthened against the Euro. The low interest rate environment, coupled with declining energy prices, should be supportive for U.S. economic growth, as policy rates are much lower than that which would be historically indicated by unemployment and inflation indicators alone. However, high levels of indebtedness and the stronger dollar could create headwinds. Households are once again increasing their debt levels, albeit at a modest rate, which increases their ability to consume goods and services. Inflation data continues to indicate smaller increases than the Federal Reserve's 2% inflation target, with core personal consumption expenditures prices having increased 1.3% year-over-year through February 2015.

Global influences lead the list of factors that can explain the drop in market yields over the past quarter and year, namely central bank purchases of sovereign debt, weak growth and deflationary risks in Europe, declining growth in China, and growing concern over the economies of countries reliant on commodity exports, as well as tensions in the Middle East. Five year government bond yields in some European countries are negative and ten year yields are approaching zero. The interest rate environment has been supportive for Agency RMBS and we believe it will continue to be. Lower interest rates create prepayment concerns, but the prepayment option embedded in Agency RMBS is less onerous given continued tight residential mortgage loan underwriting standards and reasonably low interest rate volatility. We believe QE in Europe and Japan will create international demand for Agency RMBS due to the relatively attractive yield and the government guarantee. Further, Agency RMBS investors saw the market impact from Federal Reserve tapering of Agency RMBS purchases in the fourth quarter of 2014 and that program ended with little noticeable impact on Agency RMBS valuations. There has been adequate demand from investors and limited supply of new Agency RMBS to offset the decline in demand from the Federal Reserve. With respect to credit assets, CMBS yield spreads over comparable term interest rate swaps narrowed modestly over the quarter. Spreads in GSE CRTs issued by Fannie Mae and Freddie Mac narrowed considerably over the first quarter of 2015 after widening markedly during the second half of 2014.

The impact of regulatory initiatives on the economy may also affect our business and our financial results. The Dodd-Frank Act, enacted in July 2010, contains numerous provisions affecting the financial and mortgage industries, many of which may affect our cost of doing business, may limit our investment opportunities and may affect the competitive balance within our industry and the markets in which we invest. For example, the Ability-to-Repay ("ATR") rule requires lenders to make a reasonable, good-faith determination that residential borrowers have a reasonable ability to repay a mortgage loan. In addition to the ATR rule, the Consumer Financial Protection Bureau adopted a Qualified Mortgage ("QM") framework that provides certain legal protections to residential mortgage loan lenders, which include restrictions on loan features, points and fees and borrower debt-to-income ratios. While we are not directly subject to compliance with the implementation of rules regarding the origination of residential mortgage loans, the impact of these regulations and others could affect our ability to securitize or invest in newly originated loans in the future.

In addition, the regulatory landscape for our repurchase agreement counterparties continues to evolve following the adoption of new capital rules which generally affects the manner in which banks lend. Regulators are also focused on liquidity requirements which will likely impact how banks fund themselves. While we are not directly subject to compliance with the implementation of rules regarding financial institutions, the effect of these regulations and others could affect our ability to finance our assets in the future.

On September 2, 2014, the Federal Housing Finance Agency ("FHFA"), proposed to revise its regulations governing Federal Home Loan Bank membership to, among other things, exclude captive insurance companies. However, the proposed rules would permit existing captive insurers, such as our captive insurance company subsidiary IAS Services LLC, to remain members for a period of five years following the effective date of the final rules. In addition, the Federal Home Loan Bank of Indianapolis ("FHLBI") would be permitted to allow outstanding advances to IAS Services LLC that were made prior to the effective date of the final rules to honor contractual terms to maturity.

Therefore, under the proposed rules, we do not expect there would be any impact to our existing FHLBI borrowings. The rules are subject to change prior to their final adoption. However, if the FHFA's rules are adopted substantially as proposed, we do not expect that the rules would have a material effect on our sources or costs of funding or our results of operations. The date set for the end of the comment period was January 23, 2015. The vast majority of the comments were against adoption of the proposed rule. The FHFA has not yet made a formal statement as to their intentions with respect to the proposed rule.

Investment Activities

In the first quarter of 2015, our investment portfolio remained positioned to take advantage of compelling opportunities in both mortgage-backed and credit risk transfer securities and newly originated loans against a backdrop of improving housing and commercial real estate markets. We have over the last year and over the last quarter maintained a relatively equal allocation of our equity between residential credit, commercial credit and Agency RMBS.

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The table below shows the allocation of our equity as of March 31, 2015, December 31, 2014 and March 31, 2014:

\$ in thousands	As of				
	March 31, 2015		December 31, 2014		March 31, 2014
Agency RMBS	34	%	32	%	31
Residential Credit ⁽¹⁾	32	%	34	%	41
Commercial Credit ⁽²⁾	34	%	34	%	28
Total	100	%	100	%	100

(1) Non-Agency RMBS, GSE CRT and Residential Loans are considered residential credit.

(2) CMBS, Commercial Loans and Investments in unconsolidated ventures of \$41.2 million (which are included in Other Investments), are considered commercial credit.

The table below shows the breakdown of our investment portfolio as of March 31, 2015, December 31, 2014 and March 31, 2014:

\$ in thousands	As of		
	March 31, 2015	December 31, 2014	March 31, 2014
Agency RMBS:			
30 year fixed-rate, at fair value	4,623,456	4,790,293	6,427,383
15 year fixed-rate, at fair value	1,840,250	1,327,101	1,564,463
Hybrid ARM, at fair value	2,903,964	2,976,918	2,076,825
ARM, at fair value	463,342	546,782	358,691
Agency CMO, at fair value	443,249	450,895	467,229
Non-Agency RMBS, at fair value	2,947,675	3,061,647	3,591,920
GSE CRT, at fair value	661,767	625,424	350,021
CMBS, at fair value	3,456,892	3,469,835	2,698,658
Residential loans, at amortized cost	3,597,147	3,365,003	2,070,493
Commercial loans, at amortized cost	146,211	145,756	92,748
Total Investment portfolio	21,083,953	20,759,654	19,698,431

During the first quarter of 2015, we reinvested cash flows from our Agency RMBS portfolio into 15 year fixed-rate Agency RMBS. Over the past twelve months, we have further reduced our overall sensitivity to interest rates by selling Agency RMBS collateralized by 30 year fixed-rate RMBS and reinvesting proceeds into Agency RMBS backed by 15 year fixed-rate and Hybrid ARM collateral. We have continued to hold certain 30 year fixed-rate Agency RMBS that have relatively short durations because they are collateralized by higher coupons. We expect these securities to prepay relatively slowly based on their seasoning and collateral attributes. Our sales of 30 year fixed-rate Agency RMBS over the past twelve months were primarily in 3% and 3.5% coupons or relatively newer vintage that have not experienced a high prepayment environment. Therefore, the average coupon of our 30 year fixed-rate Agency RMBS continued to increase to 4.29% at March 31, 2015, compared to 4.12% at March 31, 2014. In addition, we hold 15 year fixed-rate Agency RMBS, Agency Hybrid ARM RMBS and Agency ARM RMBS that we believe have lower durations and better cash flow certainty relative to current 30 year fixed-rate Agency RMBS. Further, we own Agency collateralized mortgage obligations ("CMOs"), some of which are interest-only securities, to hedge the risk of higher interest rates.

Our portfolio of investments that have credit exposure include non-Agency RMBS, GSE CRTs, CMBS and residential and commercial real estate loans. We use our proprietary models to perform a detailed review of each investment which often includes loan level analysis of expected performance. We do not place any reliance on ratings by various agencies as we believe our models more accurately evaluate the performance based on our assumptions about market conditions and are updated more frequently than agency ratings. As shown in the table above, we have increased our total exposure to credit assets as we believe the improving economy will provide better risk-adjusted returns for this asset class while having lower interest rate exposure relative to Agency RMBS.

With respect to our non-Agency RMBS portfolio, we primarily invest in RMBS collateralized by prime and Alt-A loans. In addition, we have invested in re-securitizations of real estate mortgage investment conduit ("Re-REMIC") RMBS and reperforming mortgage loans that we believe provide attractive risk adjusted returns. We also invest in GSE CRTs. Based on

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our view of the improving housing market and relative value opportunities, we increased holdings in GSE CRTs over the past twelve months as paydowns from principal repayments and limited dispositions have reduced our non-Agency RMBS holdings. GSE CRTs have the added benefit of paying a floating rate coupon, which reduces our interest rate risk and our need to hedge interest rate risk.

Our CMBS portfolio generally consists of assets originated before 2007, assets originated after 2010 ("CMBS 2.0") and multi-family CMBS issued by Freddie Mac under their "K" program. Over the past twelve months we have primarily invested in CMBS 2.0. Since March 31, 2014, we grew our CMBS portfolio \$758.2 million and grew the allocation of our CMBS holdings in our MBS and GSE CRT portfolio to approximately 19.9% as of March 31, 2015 from approximately 15.4% as of March 31, 2014.

During the first quarter of 2015, we invested in and consolidated one additional residential loan securitization trust collateralized by prime jumbo loans that were generally originated in 2011 or later. We believe these loans have high credit quality based on their risk characteristics, including but not limited to high FICO scores, low historical delinquencies and low loan-to-value ratios based on current home values. We have invested in and consolidated 11 residential loan securitizations that hold \$3.6 billion of residential loans as of March 31, 2015. For further details on the residential loan portfolio, refer to Note 3 - "Variable Interest Entities" of our condensed consolidated financial statements.

We also originated and purchased investments in commercial real estate loans over the past twelve months. As of March 31, 2015, our commercial real estate loan portfolio includes a first mortgage loan and subordinate interests we purchased or originated. For further details on our commercial loan portfolio, see Note 5 - "Commercial Loans Held-for-Investment" of our condensed consolidated financial statements.

Portfolio Characteristics

The table below represents the vintage of our MBS and GSE CRT credit assets as of March 31, 2015 as a percentage of the fair value:

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Re-REMIC ⁽¹⁾	— %	— %	— %	— %	0.3 %	— %	0.6 %	3.8 %	17.6 %	7.9 %	0.6 %	1.6 %	— %	32.4 %
Prime	0.5 %	1.4 %	4.8 %	3.7 %	9.7 %	2.1 %	— %	— %	0.1 %	— %	7.0 %	2.2 %	— %	31.5 %
Alt-A	— %	0.6 %	8.7 %	6.0 %	7.6 %	— %	— %	— %	— %	— %	— %	— %	— %	22.9 %
Subprime/reperforming	— %	— %	— %	0.1 %	0.4 %	— %	— %	— %	— %	— %	1.8 %	10.9 %	— %	13.2 %
Total Non-Agency	0.5 %	2.0 %	13.5 %	9.8 %	18.0 %	2.1 %	0.6 %	3.8 %	17.7 %	7.9 %	9.4 %	14.7 %	— %	100.0 %
GSE CRT	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	39.3 %	56.4 %	4.3 %	100.0 %
CMBS	— %	— %	8.8 %	9.8 %	0.6 %	— %	— %	7.5 %	21.6 %	11.8 %	13.3 %	26.6 %	— %	100.0 %

For Re-REMICs, the table reflects the year in which the resecuritizations were issued. The vintage distribution of (1) the securities that collateralize the Company's Re-REMIC investments is 10.9% for 2005, 33.6% for 2006, 55.0% for 2007, 0.2% for 2009 and 0.3% for 2010.

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The tables below represent the geographic concentration of the underlying collateral for our MBS and GSE CRT credit assets as of March 31, 2015.

Non-Agency RMBS State	Percentage	GSE CRT State	Percentage	CMBS State	Percentage
California	42.6	% California	22.7	% California	16.1 %
Florida	6.9	% Texas	5.5	% New York	13.0 %
New York	6.8	% Virginia	4.5	% Texas	9.1 %
Virginia	3.8	% Illinois	4.0	% Florida	5.9 %
New Jersey	3.6	% New York	3.9	% Illinois	4.8 %
Maryland	3.6	% Massachusetts	3.7	% Pennsylvania	4.1 %
Washington	2.8	% Florida	3.4	% New Jersey	3.2 %
Illinois	2.7	% Colorado	3.3	% Virginia	2.8 %
Massachusetts	2.1	% Washington	3.3	% Ohio	2.7 %
Arizona	2.1	% New Jersey	3.2	% Maryland	2.6 %
Other	23.0	% Other	42.5	% Other	35.7 %
Total	100.0	%	100.0	% Total	100.0 %

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The following table displays certain characteristics of our residential loans held-for-investment at March 31, 2015 by year of origination.

\$ in thousands	2014	2013	2012	2011	2010	2009	2008	2007	Total	
Portfolio										
Characteristics:										
Number of Loans	760	2,788	765	99	30	6	17	16	4,481	
Current Principal Balance	573,464	2,160,438	665,613	103,886	30,021	2,754	16,515	13,727	3,566,418	
Net Weighted										
Average Coupon Rate	3.49	% 3.47	% 3.25	% 3.38	% 3.70	% 3.69	% 4.96	% 4.73	% 3.44	%
Weighted										
Average Maturity (years)	29.13	28.23	27.70	26.18						