AG Mortgage Investment Trust, Inc.
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2014

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 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

Maryland	**27-5254382**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

245 Park Avenue, 26th Floor New York, New York	**10167**
(Address of Principal Executive Offices)	(Zip Code)

(212) 692-2000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filed, 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 x Non-Accelerated filer ¨ Smaller reporting company ¨ (Do not check if a smaller reporting company)

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

As of July 24, 2014, there were 28,384,347 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.

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PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Real estate securities, at fair value:		
Agency - $2,066,197,076 and $2,242,322,869 pledged as collateral, respectively	$2,202,165,778	$ 2,423,002,768
Non-Agency - $1,196,523,428 and $844,217,568 pledged as collateral, respectively	1,203,480,872	844,217,568
ABS - $43,095,198 and $71,344,784 pledged as collateral, respectively	43,095,198	71,344,784
CMBS - $76,604,761 and $93,251,470 pledged as collateral, respectively	76,604,761	93,251,470
Residential mortgage loans, at fair value - $29,962,973 and $0 pledged as collateral, respectively	34,841,048	-
Commercial loans, at fair value	72,800,000	-
Investment in affiliates	9,232,541	16,411,314
Excess mortgage servicing rights, at fair value	730,146	-
Linked transactions, net, at fair value	33,355,968	49,501,897
Cash and cash equivalents	11,203,229	86,190,011
Restricted cash	20,639,369	3,575,006
Interest receivable	12,268,328	12,018,919
Receivable on unsettled trades - $5,174,990 and $0 pledged as collateral, respectively	5,188,733	-
Receivable under reverse repurchase agreements	44,050,000	27,475,000
Derivative assets, at fair value	20,046,840	55,060,075
Other assets	8,291,475	1,246,842
Due from broker	2,165,075	1,410,720
Total Assets	$3,800,159,361	$ 3,684,706,374
Liabilities		
Repurchase agreements	$2,975,811,348	$ 2,891,634,416
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	43,497,266	27,477,188
Interest payable	2,479,235	3,839,045
Derivative liabilities, at fair value	8,166,941	2,206,289

Dividend payable	17,027,642	17,020,893
Due to affiliates	4,362,027	4,645,297
Accrued expenses	1,679,980	1,395,183
Taxes payable	1,086,311	1,490,329
Due to broker	9,814,000	30,567,000
Total Liabilities	3,063,924,750	2,980,275,640
Stockholders' Equity		
Preferred stock - $0.01 par value; 50,000,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070,000 shares issued and outstanding ($51,750,000 aggregate liquidation preference)	49,920,772	49,920,772
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding ($115,000,000 aggregate liquidation preference)	111,293,233	111,293,233
Common stock, par value $0.01 per share; 450,000,000 shares of common stock authorized and 28,377,404 and 28,365,655 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	283,774	283,657
Additional paid-in capital	585,858,424	585,619,488
Retained earnings/(deficit)	(11,121,592)	(42,686,416)
Total Stockholders' Equity	736,234,611	704,430,734
Total Liabilities & Stockholders' Equity	$3,800,159,361	$ 3,684,706,374

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net Interest Income				
Interest income	$ 36,079,435	$ 42,267,747	$ 70,222,175	$ 80,885,463
Interest expense	6,783,768	7,289,211	12,930,355	14,165,173
	29,295,667	34,978,536	57,291,820	66,720,290
Other Income				
Net realized loss	(1,826,360)	(76,576,762)	(1,277,500)	(71,581,014)
Income/(loss) from linked transactions, net	3,409,366	(1,339,610)	7,536,107	4,838,278
Realized loss on periodic interest settlements of interest rate swaps, net	(5,773,644)	(6,809,777)	(12,081,501)	(12,082,120)
Unrealized gain/(loss) on real estate securities and loans, net	42,653,828	(83,093,338)	72,020,872	(100,804,719)
Unrealized gain/(loss) on derivative and other instruments, net	(23,917,820)	67,905,018	(43,098,535)	73,128,259
	14,545,370	(99,914,469)	23,099,443	(106,501,316)
Expenses				
Management fee to affiliate	2,507,487	2,813,003	5,008,012	5,672,343
Other operating expenses	2,739,225	2,686,584	5,382,906	4,960,954
Servicing fees	162,717	-	162,717	-
Equity based compensation to affiliate	73,586	17,350	154,659	131,878
Excise tax	375,000	518,859	875,000	1,018,859
	5,858,015	6,035,796	11,583,294	11,784,034
Income/(loss) before provision for income taxes and equity in earnings/(loss) from affiliate	37,983,022	(70,971,729)	68,807,969	(51,565,060)
Provision for income taxes	(92,795)	(23,510)	(92,795)	(2,655,779)
Equity in earnings/(loss) from affiliate	3,275,056	(240,050)	3,636,351	(243,641)
Net Income/(Loss)	41,165,283	(71,235,289)	72,351,525	(54,464,480)
Dividends on preferred stock	3,367,354	3,367,354	6,734,708	6,734,708

Net Income/(Loss) Available to Common Stockholders	$ 37,797,929	$ (74,602,643)	$ 65,616,817	$ (61,199,188)
Earnings/(Loss) Per Share of Common Stock				
Basic	$ 1.33	$ (2.66)	$ 2.31	$ (2.21)
Diluted	$ 1.33	$ (2.66)	$ 2.31	$ (2.21)
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	28,377,245	28,068,507	28,374,348	27,676,696
Diluted	28,380,458	28,068,507	28,375,675	27,676,696

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Unaudited)

	Common Stock		8.25 % Series A Cumulative Redeemable	8.00 % Seri B Cumulati Redeemabl
	Shares	Amount	Preferred Stock	Preferred Stock
Balance at January 1, 2013	26,961,936	$269,620	$49,920,772	$111,293,2
Net proceeds from issuance of common stock	1,381,739	13,817	-	-
Grant of restricted stock and amortization of equity based compensation	9,160	92	-	-
Common dividends declared	-	-	-	-
Preferred Series A dividends declared	-	-	-	-
Preferred Series B dividends declared	-	-	-	-
Net loss	-	-	-	-
Balance at June 30, 2013	28,352,835	$283,529	$49,920,772	$111,293,2
Balance at January 1, 2014	28,365,655	$283,657	$49,920,772	$111,293,2
Grant of restricted stock and amortization of equity based compensation	11,749	117	-	-
Common dividends declared	-	-	-	-
Preferred Series A dividends declared	-	-	-	-
Preferred Series B dividends declared	-	-	-	-
Net income	-	-	-	-
Balance at June 30, 2014	28,377,404	$283,774	$49,920,772	$111,293,2

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

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash Flows from Operating Activities		
Net income/(loss)	$ 72,351,525	$ (54,464,480)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Net realized loss	1,277,500	71,581,014
Net realized and unrealized (gains)/losses on securities underlying linked transactions	(1,984,448)	2,706,544
Net amortization of premium related to real estate securities	9,956,156	28,730,150
Unrealized (gains)/losses on real estate securities and loans, net	(72,020,872)	100,804,719
Unrealized losses on derivative and other instruments, net	43,098,535	(73,128,259)
Equity based compensation to affiliate	154,659	131,878
Equity based compensation expense	90,428	86,258
Income from investment in affiliates in excess of distributions received	(31,619)	-
Change in operating assets/liabilities:		
Interest receivable	(405,433)	(1,750,443)
Other assets	(413,065)	360,888
Due from broker	(754,355)	(3,082,574)
Interest payable	(1,607,597)	2,849,871
Due to affiliates	(283,270)	423,658
Accrued expenses	284,797	509,658
Taxes payable	(404,018)	1,924,638
Net cash provided by operating activities	49,308,923	77,683,520
Cash Flows from Investing Activities		
Purchase of real estate securities	(517,737,467)	(1,697,546,369)
Purchase of residential mortgage loans	(35,075,171)	-
Purchase of commercial loans	(72,123,364)	(30,017,825)
Investment in affiliates	(20,166,186)	(7,440,948)
Purchase of excess mortgage servicing rights	(730,146)	-
Purchase of securities underlying linked transactions	(26,934,398)	(213,985,589)
Proceeds from sale of real estate securities	349,925,637	1,432,787,283
Proceeds from sale of securities underlying linked transactions	9,678,945	-
Distribution received from investments in affiliates	27,364,027	-
Principal repayments on real estate securities	190,759,954	289,037,704
Principal repayments on residential mortgage loans	454,098	-
Principal repayments on securities underlying linked transactions	34,931,251	54,298,762
Receipt of premium for interest rate swaptions	433,750	-
Payment of premium for interest rate swaptions	(745,500)	-

Net payment made on reverse repurchase agreements	(16,584,132)	-
Net proceeds from sales of securities borrowed under reverse repurchase agreements	15,251,378	-
Net settlement of interest rate swaps	1,897,155	(4,600,942)
Net settlement of TBAs	(225,977)	(577,149)
Net settlement of IO Indexes	(437,861)	-
Cash flows from other investing activities	(5,240,175)	-
Restricted cash used in investment activities	(12,724,251)	(6,797,000)
Net cash used in investing activities	(78,028,433)	(184,842,073)
Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	-	33,169,832
Borrowings under repurchase agreements	10,974,971,334	14,009,772,199
Borrowings under repurchase agreements underlying linked transactions	981,707,722	2,213,040,474
Repayments of repurchase agreements	(10,890,794,402)	(14,099,547,827)
Repayments of repurchase agreements underlying linked transactions	(1,046,278,862)	(2,090,624,764)
Collateral received from (held by) derivative counterparty	(25,286,048)	8,043,068
Collateral received from repurchase counterparty	192,936	926,000
Dividends paid on common stock	(34,045,244)	(40,525,217)
Dividends paid on preferred stock	(6,734,708)	(6,734,708)
Net cash provided by/(used in) financing activities	(46,267,272)	27,519,057
Net change in cash and cash equivalents	(74,986,782)	(79,639,496)
Cash and cash equivalents, Beginning of Period	86,190,011	149,594,782
Cash and cash equivalents, End of Period	$ 11,203,229	$ 69,955,286
Supplemental disclosure of cash flow information:		
Cash paid for interest on repurchase agreements	$ 14,248,958	$ 14,060,754
Cash paid for income tax	$ 1,372,482	$ 1,750,187
Real estate securities recorded upon unlinking of Linked Transactions	$ 71,626,997	$ 13,192,824
Repurchase agreements recorded upon unlinking of Linked Transactions	$ 61,397,051	$ 11,562,000
Supplemental disclosure of non-cash financing activities:		
Common stock dividends declared but not paid	$ 17,027,642	$ 22,685,868

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

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2014

1. Organization

AG Mortgage Investment Trust, Inc. (the "Company") was incorporated in the state of Maryland on March 1, 2011. The Company is focused on investing in, acquiring and managing a diversified portfolio of residential mortgage-backed securities, or RMBS, issued or guaranteed by a government-sponsored enterprise such as Fannie Mae or Freddie Mac, or any agency of the U.S. Government such as Ginnie Mae (collectively, "Agency RMBS"), and other real estate-related securities and financial assets, including Non-Agency RMBS, ABS, CMBS and loans (as defined below).

Non-Agency RMBS represent fixed-and floating-rate residential RMBS issued by entities or organizations other than a U.S. government-sponsored enterprise or agency of the U.S. government, including investment grade (AAA through BBB) and non investment grade classes (BB and below). The mortgage loan collateral for residential Non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.

Asset Backed Securities ("ABS") are securitized investments similar to the aforementioned investments except the underlying assets are diverse, not only representing real estate related assets.

Commercial Mortgage Backed Securities ("CMBS") represent investments of fixed- and floating-rate CMBS, including investment grade (AAA through BBB) and non investment grade classes (BB and below). CMBS will be secured by, or evidence an ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.

Collectively, the Company refers to Agency RMBS, Non-Agency RMBS, ABS and CMBS asset types as "real estate securities."

Commercial loans are secured by an interest in commercial real estate and represent a contractual right to receive money on demand or on fixed or determinable dates. Residential mortgage loans refer to performing, re-performing and non-performing loans secured by a first lien mortgage on residential mortgaged property located in any of the 50 states of the United States or in the District of Columbia. The Company refers to its commercial and residential mortgage loans as "mortgage loans" or "loans."

The Company is externally managed by AG REIT Management, LLC (the “Manager”), a wholly-owned subsidiary of Angelo, Gordon & Co., L.P. (“Angelo, Gordon”), a privately-held, SEC-registered investment adviser. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to the Manager’s day-to-day duties and obligations arising under the management agreement.

The Company conducts its operations to qualify and be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”).

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain prior period amounts have been reclassified to conform to the current period’s presentation. In the opinion of management, all adjustments considered necessary for a fair presentation for the interim period of the Company’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year.

Previously the Company classified unrealized gains and losses on the unlinking of linked transactions in the “Net realized loss” line item, however the Company now includes such gains and losses in the “Income/(loss) from linked transactions, net” line item as the Company believes this presentation is most consistent with the accounting for other components of net income on linked transactions captured within that line.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2014

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. As of June 30, 2014 and December 31, 2013, the Company had no cash equivalents. The Company places its cash with high credit quality institutions to minimize credit risk exposure. Any cash held by the Company as collateral would be included in a due to broker line item on the consolidated balance sheet and in cash flows from financing activities on the consolidated statement of cash flows.

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives and repurchase agreements. Restricted cash is carried at cost, which approximates fair value.

Offering costs

The Company incurred costs in connection with common stock offerings and issuances of preferred stock. The offering costs were paid out of the proceeds of the respective offerings. Offering costs in connection with common stock offerings have been accounted for as a reduction of additional paid-in-capital and offering costs in connection with preferred stock offerings have been accounted for as a reduction of their respective gross proceeds.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Earnings per share

In accordance with the provisions of Accounting Standards Codification ("ASC") 260, "Earnings per Share," the Company calculates basic income per share by dividing net income available to common stockholders for the period by weighted-average shares of the Company's common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options, warrants and unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

Valuation of financial instruments

The fair value of the financial instruments that the Company records at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Transfers between levels are assumed to occur at the beginning of the reporting period.

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320. The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Real estate securities are recorded at fair market value on the consolidated balance sheet and the periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate

securities and loans, net."

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2014

These investments generally meet the requirements to be classified as available for sale under ASC 320-10-25, "Debt and Equity Securities," which requires the securities to be carried at fair value on the consolidated balance sheet with changes in fair value recorded to other comprehensive income, a component of Stockholders' Equity. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner.

The Company evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

When a real estate security is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e. a decision has been made as of the reporting date) or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the investment security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. Additionally, for securities accounted for under ASC 325-40, "Beneficial Interests in Securitized Financial Assets," an OTTI is deemed to have occurred when there is an adverse change in the expected cash flows to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a "market participant" would use and are discounted at a rate equal to the current yield used to accrete interest income. Any resulting OTTI adjustments are reflected in the "Net realized loss" line item on the consolidated statement of operations.

The determination as to whether an OTTI exists is subjective, given that such determination is based on information available at the time of assessment as well as the Company's estimate of the future performance and cash flow projections for the individual security. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

Increases in interest income may be recognized on a security on which the Company previously recorded an OTTI if the performance of such security subsequently improves.

Securities in an unrealized loss position at June 30, 2014 are not considered other than temporarily impaired as the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the amortized cost of the investment, and the Company is not required to sell the security for regulatory or other reasons. See Note 3 for a summary of OTTI recorded.

Sales of securities

Sales of securities are driven by the Manager’s portfolio management process. The Manager seeks to mitigate risks including those associated with prepayments, amongst others, and will opportunistically rotate the portfolio into securities with more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes.

Realized gains or losses on sales of securities, loans and derivatives, inclusive of securities accounted for as a component of linked transactions are included in the “Net realized loss” line item on the consolidated statement of operations. The cost of positions sold is calculated using a first in, first out, or FIFO, basis. Realized gains and losses are recorded in earnings at the time of disposition.

Accounting for mortgage loans

Investments in mortgage loans are recorded in accordance with ASC 310-10. The Company has chosen to make a fair value election pursuant to ASC 825 for its mortgage loan portfolio. Loans are recorded at fair market value on the consolidated balance sheet and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations as a component of “Unrealized gain/(loss) on real estate securities and loans, net.”

The Company amortizes or accretes any premium or discount over the life of the related loan utilizing the effective interest method. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated and recorded accordingly. Income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual

interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2014

When the Company purchases mortgage loans with evidence of credit deterioration since origination and it determines that it is probable it will not collect all contractual cash flows on those loans, it will apply the guidance found in ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” The Company has chosen to make a fair value election pursuant to ASC 825 for its mortgage loan portfolio. Loans are recorded at fair market value on the consolidated balance sheet and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations as a component of “Unrealized gain/(loss) on real estate securities and loans, net.”

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for loans accounted for under ASC 310-30. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of principal and interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes prospectively through an adjustment of the loan’s yield over its remaining life. The Company will adjust the amount of accretable yield by reclassification from the nonaccretable difference. The adjustment is accounted for as a change in estimate in conformity with ASC 250 with the amount of periodic accretion adjusted over the remaining life of the loan. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, are recognized as impairment.

Investment in affiliates

The Company’s unconsolidated ownership interests in affiliates are generally accounted for using the equity method. The underlying entities have chosen to make a fair value election pursuant to ASC 825; as such the Company will treat its investment in affiliates consistently with this election. The investment in affiliates is recorded at fair market value on the consolidated balance sheet and periodic changes in fair market value will be recorded in current period earnings on the consolidated statement of operation as a component of “Equity in earnings/(loss) from affiliate.” Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

Investment consolidation

For each investment made, the Company evaluates the underlying entity that issued the securities acquired or to which the Company makes a loan to determine the appropriate accounting. A similar analysis will be performed for each entity with which the Company enters into an agreement for management, servicing or related services. In performing the analysis, the Company will refer to guidance in ASC 810-10, “Consolidation.” In situations where the Company is the transferor of financial assets, the Company will refer to the guidance in ASC 860-10, “Transfers and Servicing.”

In variable interest entities (“VIEs”), an entity is subject to consolidation under ASC 810-10 if the equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity’s activities or are not exposed to the entity’s losses or entitled to its residual returns. VIEs within the scope of ASC 810-10 are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analyses. Further, ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. In accordance with ASC 810-10, all transferees, including variable interest entities, must be evaluated for consolidation. If the Company were to treat securitizations as sales in the future, the Company will analyze the transactions under the guidelines of ASC 810-10 for consolidation.

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The Company may periodically enter into transactions in which it sells assets. Upon a transfer of financial assets, the Company will sometimes retain or acquire senior or subordinated interests in the related assets. Pursuant to ASC 860-10, a determination must be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. The financial components approach under ASC 860-10 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

Under ASC 860-10, after a transfer of financial assets that meets the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transferred control—an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold and derecognizes liabilities when extinguished. The transferor would then determine the gain or loss on sale of financial assets by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. When a transfer of financial assets does not qualify for sale accounting, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral.

From time to time, the Company may securitize mortgage loans it holds if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a "sale" and the loans will be removed from the balance sheet or as a "financing" and will be classified as "real estate securities" on the consolidated balance sheet, depending upon the structure of the securitization transaction. ASC 860-10 is a complex standard that may require the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."

Interest income recognition

Interest income on the Company's real estate securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all securities accounted for under the fair value option (ASC 825). As such, premiums and discounts are amortized or accreted into interest income over the lives of the securities in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs," ASC 320-10, "Investments—Debt and Equity Securities" or ASC 325-40, "Beneficial Interests in Securitized Financial Assets," as applicable. Total interest income is recorded in the "Interest income" line item on the consolidated statement of operations.

On at least a quarterly basis for securities accounted for under ASC 320-10 and ASC 310-20 (generally Agency RMBS), prepayments of the underlying collateral must be estimated, which directly affect the speed at which the Company amortizes such securities. If actual and anticipated cash flows differ from previous estimates, the Company recognizes a "catch-up" adjustment in the current period to the amortization of premiums for the impact of the cumulative change in the effective yield through the reporting date.

Similarly, the Company also reassesses the cash flows on at least a quarterly basis for securities accounted for under ASC 325-40 (generally Non-Agency RMBS, ABS, CMBS and interest only securities). In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies. These include the rate and timing of principal and interest receipts, (including assumptions of prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be judgmentally estimated. Differences between previously estimated cash flows and current actual and anticipated cash flows are recognized prospectively through an adjustment of the yield over the remaining life of the security based on the current amortized cost of the investment as adjusted for credit impairment, if any.

Interest income on the Company's loan portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such loans. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all loans accounted for under the fair value option (ASC 825). Any amortization will be reflected as an adjustment to interest income in the consolidated statement of operations.

For investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30. For purposes of income recognition, the Company aggregates loans that have common risk characteristics into pools and use a composite interest rate and expectation of cash flows expected to be collected for the pool. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

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The Company's accrual of interest, discount and premium for U.S. federal and other tax purposes differs from the financial accounting treatment of these items as described above.

Repurchase agreements

The Company finances the acquisition of certain assets within its portfolio through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at primarily their contractual amounts, including accrued interest, as specified in the respective agreements. The carrying amount of the Company's repurchase agreements approximates fair value as the debt is short-term in nature.

The Company pledges certain securities or loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities or loans pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged assets, lenders may require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of June 30, 2014 and December 31, 2013, the Company has met all margin call requirements.

In instances where the Company acquires assets through repurchase agreements with the same counterparty from whom the assets were purchased, the Company evaluates such transactions in accordance with ASC 860-10. This standard requires the initial transfer of a financial asset and repurchase financing that are entered into contemporaneously with, or in contemplation of, one another to be considered linked unless all of the criteria found in ASC 860-10 are met at the inception of the transaction. If the transaction meets all of the conditions, the initial transfer shall be accounted for separately from the repurchase financing, and the Company will record the assets and the related financing on a gross basis on its balance sheet with the corresponding interest income and interest expense recorded on a gross basis in the consolidated statement of operations. If the transaction is determined to be linked, the Company will record the initial transfer and repurchase financing on a net basis and record a forward commitment to purchase assets as a derivative instrument with changes in market value being recorded on the consolidated statement of operations. Such forward commitments are recorded at fair value with subsequent changes in fair value recognized in income. The Company refers to these transactions as Linked Transactions. The Company records interest income, interest expense, unrealized gains and losses and realized gains and losses related to unlinking of linked transactions in the "Income/(loss) from linked transactions, net" line item on the consolidated statement of operations. When or if a

transaction is no longer considered to be linked, the real estate asset and related repurchase financing will be reported on a gross basis. The unlinking of a transaction causes a realized event in which the fair value of the real estate asset as of the date of unlinking will become the cost basis of the real estate asset. The difference between the fair value on the unlinking date and the existing cost basis of the security will be the realized gain or loss. Recognition of effective yield for such security will be calculated prospectively using the new cost basis.

Accounting for derivative financial instruments

The Company may enter into derivative contracts, including interest rate swaps and interest rate caps, amongst others, as a means of mitigating its interest rate risk. The Company uses interest rate derivative instruments to mitigate interest rate risk rather than to enhance returns. The Company accounts for derivative financial instruments in accordance with ASC 815-10, “Derivatives and Hedging.” ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either other comprehensive income in stockholders’ equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of June 30, 2014 and December 31, 2013, the Company did not have any interest rate derivatives designated as hedges. All derivatives have been recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis.

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To-be-announced securities

A to-be-announced security ("TBA") is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into or received from the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. The Company may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a pair off), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a dollar roll. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to Agency RMBS for settlement in the current month. This difference, or discount, is referred to as the price drop. The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as dollar roll income/loss. Consequently, forward purchases of agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. Dollar roll income is recognized in the consolidated statement of operations in the line item "Unrealized gain/(loss) on derivative and other instruments, net."

TBAs are exempt from ASC 815 and are accounted for under ASC 320 if there is no other way to purchase or sell that security, if delivery or receipt of that security and settlement will occur within the shortest period possible for that type of security and if it is probable at inception and throughout the term of the individual contract that physical delivery or receipt of the security will occur (referred to as the "regular-way" exception). Unrealized gains and losses associated with TBA contracts not subject to the regular-way exception or not designated as hedging instruments are recognized in the consolidated statement of operations in the line item "Unrealized gain/(loss) on derivative and other instruments, net."

Short positions in U.S. Treasury securities through reverse repurchase agreements

The Company may sell short U.S. Treasury securities contracts to help mitigate the potential impact of changes in interest rates. The Company may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheet based on the value of the underlying borrowed securities as of the reporting date. The Company establishes haircuts to ensure the market value of the

underlying assets remains sufficient to protect the Company in the event of default by the counterparty. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in "Net realized loss," and "Unrealized gain/(loss) on derivative and other instruments, net," respectively, on our consolidated statement of operations.

Manager compensation

The management agreement provides for payment to the Manager of a management fee. The management fee is accrued and expensed during the period for which it is calculated and earned. For a more detailed discussion on the fees payable under the management agreement, see Note 10.

Income taxes

The Company conducts its operations to qualify and be taxed as a REIT. Accordingly, the Company will generally not be subject to federal or state corporate income tax to the extent that the Company makes qualifying distributions to its stockholders, and provided that it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company's taxable income as opposed to net income reported on the Company's GAAP financial statements. Taxable income, generally, will differ from net income reported on the financial statements because the determination of taxable income is based on tax provisions and not financial accounting principles.

The Company has elected to treat certain subsidiaries as taxable REIT subsidiaries ("TRSs") and may elect to treat other subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business.

While a domestic TRS will generate net income, a domestic TRS can declare dividends to the Company which will be included in the Company's taxable income and necessitate a distribution to stockholders. Conversely, if the Company retains earnings at the domestic TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state and local corporate income taxes.

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The Company elected to treat one of its consolidated subsidiaries as a foreign TRS and, accordingly, taxable income generated by this foreign TRS may not be subject to local income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed.

The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. The Company believes that it will operate in a manner that will allow it to qualify for taxation as a REIT. As a result of the Company's expected REIT qualification, it does not generally expect to pay federal or state corporate income tax. Many of the REIT requirements, however, are highly technical and complex. If the Company were to fail to meet the REIT requirements, it would be subject to federal income taxes and applicable state and local taxes.

As a REIT, if the Company fails to distribute in any calendar year at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its net capital gain income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a nondeductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company evaluates uncertain income tax positions, if any, in accordance with ASC Topic 740, "Income Taxes". The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 9 for further details.

Stock-based compensation

The Company applies the provisions of ASC 718, "Compensation—Stock Compensation" with regard to its equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans. ASC 718 requires that compensation cost relating to stock-based payment transactions be recognized in financial statements. Compensation cost is measured based on the fair value of the equity or liability instruments issued.

Compensation cost related to restricted common shares issued to the Company’s directors is measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. Compensation cost related to restricted common shares issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. The Company has elected to use the straight-line method to amortize compensation expense for the restricted common shares granted to the Manager.

Recent accounting pronouncements

In April 2013, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.” The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. Although “major” is not defined, the standard provides examples of when a disposal qualifies as a discontinued operation. A business or nonprofit activity that upon acquisition qualifies as held for sale will also be a discontinued operation. The standard no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity’s ongoing operations, or (ii) there is significant continuing involvement with a component after its disposal. The standard introduces several new disclosures, including a requirement to present in the consolidated statement of cash flows or disclose in a note either (i) total operating and investing cash flows for discontinued operations, or (ii) depreciation, amortization, capital expenditures, and significant operating and investing noncash items related to discontinued operations. An entity must also reclassify the assets and liabilities of a discontinued operation that are classified as held for sale or disposed of in the current period for the comparative periods presented in the balance sheets. The Company has chosen to early adopt this standard in the quarter ended March 31, 2014. The adoption of this update did not have a material effect on the Company’s consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company’s financial position or results of operations.

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In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing: Repurchase-to-Maturity Transaction, Repurchase Financings, and Disclosures" ("ASU 2014-11"). This guidance requires repurchase-to-maturity transactions to be accounted for as secured borrowings as if the transferor retains effective control, even though the transferred financial assets are not returned to the transferor at settlement. ASU 2014-11 also eliminates existing guidance for repurchase financings and requires instead that entities consider the initial transfer and the related repurchase agreement separately when applying the derecognition requirements of ASC 860-10. New disclosures will be required for (1) certain transactions accounted for as secured borrowings and (2) transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. This guidance will take effect for periods beginning after December 15, 2014, and early adoption is prohibited. Certain disclosures under this guidance do not take effect until the first period beginning after March 15, 2015. The Company is currently assessing the impact of this guidance.

3. Real Estate Securities

The following tables present the current principal balance, premium or discount, amortized cost, gross unrealized gain, gross unrealized loss, fair market value, weighted average coupon rate and weighted average effective yield of the Company's real estate securities portfolio at June 30, 2014 and December 31, 2013. The Company's Agency RMBS are mortgage pass-through certificates or collateralized mortgage obligations representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae or Freddie Mac. The Non-Agency RMBS, ABS and CMBS portfolios are primarily not issued or guaranteed by Fannie Mae, Freddie Mac or any agency of the U.S. Government and are therefore subject to credit risk. The principal and interest payments on Agency RMBS securities have an explicit guarantee by either an agency of the U.S. government or a U.S government-sponsored enterprise. Real estate securities that are accounted for as a component of linked transactions are not reflected in the tables set forth in this note. See Note 7 for further details on linked transactions.

The following table details the Company's real estate securities portfolio as of June 30, 2014:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average	
				Gains	Losses		Coupon (2)	Yie

Agency RMBS:								
15 Year Fixed Rate	$261,446,920	$6,845,999	$268,292,919	$5,619,636	$-	$273,912,555	3.21%	2.5
20 Year Fixed Rate	135,691,261	6,678,901	142,370,162	1,907,681	(660,305)	143,617,538	3.73%	2.8
30 Year Fixed Rate	1,037,960,571	56,197,634	1,094,158,205	11,998,688	(4,387,016)	1,101,769,877	4.03%	3.2
Fixed Rate CMO	94,181,120	966,388	95,147,508	327,001	-	95,474,509	3.00%	2.8
ARM	447,082,303	(980,036)	446,102,267	5,152,510	(560,129)	450,694,648	2.42%	2.8
Interest Only	833,160,858	(697,736,706)	135,424,152	6,129,278	(4,856,779)	136,696,651	4.58%	8.0
Credit Investments:								
Non-Agency RMBS	1,357,908,573	(181,201,638)	1,176,706,935	29,666,804	(2,892,867)	1,203,480,872	3.95%	5.5
ABS	43,677,531	(730,327)	42,947,204	419,233	(271,239)	43,095,198	4.11%	5.7
CMBS	67,564,379	(948,028)	66,616,351	3,359,030	-	69,975,381	5.15%	6.5
Interest Only	52,357,700	(46,104,251)	6,253,449	375,931	-	6,629,380	1.92%	5.7
Total	$4,331,031,216	$(857,012,064)	$3,474,019,152	$64,955,792	$(13,628,335)	$3,525,346,609	3.85%	4.1

(1) We have chosen to make a fair value election pursuant to ASC 825 for our real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains/(losses).

(2) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

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The following table details the Company's real estate securities portfolio as of December 31, 2013:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average	
				Gains	Losses		Coupon	Yie
Agency RMBS:								
15 Year Fixed Rate	$435,843,408	$12,909,886	$448,753,294	$1,509,418	$(2,662,880)	$447,599,832	3.13%	2.5
20 Year Fixed Rate	142,296,219	7,316,644	149,612,863	610,806	(3,166,423)	147,057,246	3.73%	2.8
30 Year Fixed Rate	1,191,781,474	68,531,950	1,260,313,424	60,020	(30,868,697)	1,229,504,747	4.03%	3.2
ARM	466,047,819	(1,583,428)	464,464,391	187,111	(2,864,107)	461,787,395	2.43%	2.7
Interest Only	736,263,003	(601,525,564)	134,737,439	5,083,736	(2,767,627)	137,053,548	4.92%	6.4
Credit Investments:								
Non-Agency RMBS	962,852,550	(132,283,547)	830,569,003	20,615,586	(6,967,021)	844,217,568	4.19%	5.7
ABS	71,326,847	(315,657)	71,011,190	333,594	-	71,344,784	3.82%	4.0
CMBS	88,828,774	(2,269,882)	86,558,892	1,270,629	(902,786)	86,926,735	5.16%	6.5
Interest Only	52,357,700	(45,794,824)	6,562,876	-	(238,141)	6,324,735	1.85%	5.7
Total	$4,147,597,794	$(695,014,422)	$3,452,583,372	$29,670,900	$(50,437,682)	$3,431,816,590	3.94%	3.9

(1) We have chosen to make a fair value election pursuant to ASC 825 for our real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains/(losses).

The following table presents the gross unrealized losses, and estimated fair value of the Company's real estate securities by length of time that such securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013.

	Less than 12 months		Greater than 12 months	
As of	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014	$319,789,674	$(2,847,206)	$512,114,179	$(10,781,129)
December 31, 2013	2,330,415,740	(43,557,831)	112,253,956	(6,879,851)

As described in Note 2, the Company evaluates securities for OTTI on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.”

For the three months ended June 30, 2014 the Company recognized $0.7 million of OTTI on certain securities, which is included in the “Net realized loss” line item on the consolidated statement of operations. The Company recorded the $0.7 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. For the six months ended June 30, 2014 the Company recognized $1.3 million of OTTI on certain securities, due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts, which is included in the “Net realized loss” line item on the consolidated statement of operations. At June 30, 2013 the Company identified certain securities it intended to sell and as a result, the Company recognized an OTTI charge of $41.3 million, which is included in “Net realized loss”. For the three and six months ended June 30, 2013, the Company recognized a $0.8 million and $1.9 million OTTI charge, respectively, on certain securities.

The decline in value of the remaining real estate securities is solely due to market conditions and not the quality of the assets. The real estate securities in unrealized loss positions are not considered other than temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments and the Company is not required to sell for regulatory or other reasons.

All of the principal and interest payments on the Agency RMBS have an explicit guarantee by either an agency of the U.S. government or a U.S. government-sponsored enterprise.

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The following table details weighted average life by Agency RMBS, Agency Interest-Only ("IO") and Credit Investments as of June 30, 2014:

	Agency RMBS (1)			Agency IO			Credit Investments (2)	
(3)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amort
ear	$-	$-	-	$-	$-	-	$15,176,504	$15,013
d less rs	335,873,438	329,716,495	3.08 %	87,907,747	86,857,936	4.39 %	495,907,862	482,33
nd less s	1,712,057,726	1,698,804,631	3.55 %	48,788,904	48,566,216	5.03 %	735,085,027	719,69
	17,537,963	17,549,935	4.80 %	-	-	-	77,011,438	75,484
	$2,065,469,127	$2,046,071,061	3.49 %	$136,696,651	$135,424,152	4.58 %	$1,323,180,831	$1,292,

(1) For purposes of this table, Agency RMBS represent securities backed by Fixed Rate 15 Year, Fixed Rate 20 Year, Fixed Rate 30 Year mortgages, ARMS and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments represent Non-Agency RMBS, ABS, CMBS and Agency Interest Only securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(4) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table details weighted average life by Agency RMBS, Agency IO and Credit Investments as of December 31, 2013:

	Agency RMBS (1)			Agency IO			Credit Investments (2)	
verage Life (3)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost
equal to 1 year	$-	$-	-	$5,406,120	$4,739,053	-	$5,227,857	$5,355,113
one year and less l to five years	292,921,980	292,010,291	3.12%	109,110,653	107,278,916	5.11%	367,316,237	359,557,1
five years and less l to ten years	1,514,649,739	1,534,246,672	3.50%	22,536,775	22,719,470	4.48%	513,581,646	504,612,8
ten years	478,377,501	496,887,009	3.73%	-	-	-	122,688,082	125,176,8
	$2,285,949,220	$2,323,143,972	3.50%	$137,053,548	$134,737,439	4.92%	$1,008,813,822	$994,701,9

(1) For purposes of this table, Agency RMBS held as of December 31, 2013 represent securities backed by Fixed Rate 15 Year, Fixed Rate 20 Year, Fixed Rate 30 Year mortgages, ARMS and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments held as of December 31, 2013 represent Non-Agency RMBS, ABS, CMBS and Agency Interest Only securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

For the three months ended June 30, 2014, the Company sold 8 securities for total proceeds of $167.6 million, with an additional $5.2 million of proceeds on one unsettled security sale as of quarter end, recording realized gains of $1.3 million and realized losses of $3.3 million, respectively. For the six months ended June 30, 2014, the Company sold 19 securities for total proceeds of $349.9 million, with additional proceeds on the aforementioned unsettled security sale as of June 30, 2014, recording realized gains of $2.0 million and realized losses of $4.0 million, inclusive of related tax provisions.

For the three and six months ended June 30, 2014, the Company sold 12 securities held within affiliated entities for total gross proceeds of $31.0 million, recording realized gains of $3.6 million.

For the three months ended June 30, 2013, the Company sold 41 securities for total proceeds of $887.4 million, with an additional $449.1 million of proceeds on 16 unsettled security sales as of quarter end, recording realized gains of $4.6 million and realized losses of $30.5 million, respectively. For the six months ended June 30, 2013, the Company sold 62 securities for total proceeds of $1.3 billion, with additional proceeds on aforementioned unsettled security sales as of June 30, 2013, recording realized gains of $12.8 million and realized losses of $34.2 million, inclusive of related tax provisions. During the six months ended June 30, 2013, the Company received $96.3 million for the sale of three securities that were unsettled as of December 31, 2012.

See Notes 4 and 7 for amounts realized on sales of loans and the settlement of certain derivatives, respectively.

The Company invests in credit sensitive commercial real estate assets through affiliated entities, and applies the equity method of accounting for such investments. As of June 30, 2014, these investments have a fair market value of $9.4 million and a weighted average yield of 14.38%. As of June 30, 2013, the investments had a fair market value of $7.1 million and a weighted average yield of 12.30%. The Company has presented these investments separately on the consolidated balance sheet as part of the “Investment in affiliates” line item, and consolidated statement of operations as a component of “Equity in earnings/(loss) from affiliate.”

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4. Loans

Residential Mortgage Loans

On February 28, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of $59.0 million and $34.9 million, respectively, which was financed by drawing $19.0 million on its repurchase facility. See Note 6 for further detail on the Company's loan repurchase facility. The Company refers to this loan pool acquisition as Pool A.

The table below details certain information regarding the Company's residential mortgage loan portfolio as of June 30, 2014:

				Gross Unrealized (1)			Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life
Pool A (2)	$ 58,103,006	$(22,662,642)	$ 35,440,364	$-	$(599,316)	$34,841,048	5.09%	8.51%	5.72

(1) We have chosen to make a fair value election pursuant to ASC 825 for our loan portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Pool A is comprised of re-performing and non-performing loans with unpaid principal balances of $33.4 million and $24.7 million, respectively.

The Company did not hold any residential mortgage loans as of December 31, 2013.

As of June 30, 2014, the mortgage loan portfolio consisted of mortgage loans on residential real estate located throughout the U.S. The following is a summary of certain concentrations of credit risk in the mortgage loan portfolio:

Concentration of Credit Risk	June 30, 2014		December 31, 2013
Percentage of fair value of mortgage loans with unpaid principal balance to current property value in excess of 100%	100	%	-
Percentage of fair value of mortgage loans secured by properties in the following states:			
Representing 5% or more of fair value:			
New York	28	%	-
Massachusetts	7	%	-
New Jersey	6	%	-

The Company records interest income on a level-yield basis. The accretable discount is determined by the excess of the Company's estimate of undiscounted principal, interest, and other cash flows expected to be collected over its initial investment in the mortgage loan. The following is a summary of the changes in the accretable portion of the discount for Pool A for the three and six months ended June 30, 2014 and June 30, 2013:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Beginning Balance	$16,915,318	$ -	$-	$ -
Additions	-	-	17,159,216	-
Accretion	(43,987)	-	(287,885)	-
Reclassifications from/(to) non-accretable difference	-	-	-	-
Disposals	(414,764)	-	(414,764)	-
Ending Balance	$16,456,567	$ -	$16,456,567	$ -

Commercial Loans

The following tables present the current principal balance, premium or discount, amortized cost, gross unrealized gain, gross unrealized loss, fair market value, coupon rate and effective yield of the Company's commercial loan portfolio at June 30, 2014. The Company did not hold any commercial loans as of December 31, 2013.

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The following table details the Company's commercial loan portfolio as of June 30, 2014:

				Gross Unrealized (1)			Weighted Average		
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life
Commerical Loans	$72,800,000	$(619,524)	$72,180,476	$619,524	$ -	$72,800,000	6.65%	8.36%	1.98

During the year ended December 31, 2013, the Company received $37.0 million of proceeds from sale and pay-off of certain commercial loans, recording realized gains of $0.1 million and realized losses of $0.2 million. The Company did not have any commercial loan sales during the six months ended June 30, 2014.

5. Fair Value Measurements

As described in Note 2, the fair value of financial instruments that are recorded at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Values for the Company’s securities, derivatives and loan portfolios are based upon prices obtained from third party pricing services, which are indicative of market activity. The evaluation methodology of the Company’s third-party pricing services incorporates commonly used market pricing methods, including a spread measurement to various indices such as the one-year constant maturity treasury and LIBOR, which are observable inputs. The evaluation also considers the underlying characteristics of each investment, which are also observable inputs, including: coupon; maturity date; loan age; reset date; collateral type; periodic and life cap; geography; and prepayment speeds. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. As part of the Company’s risk management process, the Company reviews and analyzes all prices obtained by comparing prices to recently completed transactions involving the same or similar investments on or near the reporting date. If, in the opinion of the Manager, one or more prices reported to the Company are not reliable or unavailable, the Manager reviews the fair value based on characteristics of the investment it receives from the issuer and available market information.

In valuing its derivatives, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company’s derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd Frank Act”). For swaps cleared under the Dodd Frank Act, a Central Clearing Counterparty (“CCP”) now stands between the Company and its over-the-counter derivative counterparties. In order to access clearing, the Company has entered into clearing agreements with FCMs. The Company records its derivative asset and liability positions on a gross basis.

The fair value of the Company's mortgage loans considers data such as loan origination information, additional updated borrower information, loan servicing data, as available, forward interest rates, general economic conditions, home price index forecasts and valuations of the underlying properties. The variables considered most significant to the determination of the fair value of the Company's mortgage loans include market-implied discount rates, projections of default rates, delinquency rates, reperformance rates, loss severity (considering mortgage insurance) and prepayment rates. The Company uses loan level data and macro-economic inputs to generate loss adjusted cash flows and other information in determining the fair value of its mortgage loans. Because of the inherent uncertainty of such valuation, the fair values established for mortgage loans held by the Company may differ from the fair values that would have been established if a ready market existed for these mortgage loans. Accordingly, mortgage loans are classified as Level 3 in the fair value hierarchy.

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The Manager may also engage specialized third party valuation service providers to assess and corroborate the valuation of a selection of investments in the Company's loan portfolio on a periodic basis. These specialized third party valuation service providers conduct independent valuation analyses based on a review of source documents, available market data, and comparable investments. The analyses provided by valuation service providers are reviewed and considered by the Manager.

The securities underlying the Company's linked transactions are valued using similar techniques to those used for the Company's securities portfolio. The value of the underlying security is then netted against the carrying amount (which approximates fair value) of the repurchase agreement at the valuation date. Additionally, TBA instruments are similar in form to the Company's Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2014:

	Fair Value at June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
15 Year Fixed Rate	$-	$273,912,555	$-	$273,912,555
20 Year Fixed Rate	-	143,617,538	-	143,617,538
30 Year Fixed Rate	-	1,101,769,877	-	1,101,769,877
Fixed Rate CMO	-	95,474,509	-	95,474,509
ARM	-	450,694,648	-	450,694,648
Interest Only	-	136,696,651	-	136,696,651
Credit Investments:				
Non-Agency RMBS	-	655,143,834	548,337,038	1,203,480,872
ABS	-	-	43,095,198	43,095,198
CMBS	-	50,685,476	19,289,905	69,975,381
Interest Only	-	-	6,629,380	6,629,380
Residential mortgage loans	-	-	34,841,048	34,841,048
Commercial loans	-	-	72,800,000	72,800,000
Excess mortgage servicing rights	-	-	730,146	730,146
Linked transactions	-	24,808,343	8,547,625	33,355,968

Derivative assets	-	20,046,840	-	20,046,840
Total Assets Carried at Fair Value	$-	$2,952,850,271	$734,270,340	$3,687,120,611
Liabilities:				
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	$(43,497,266)	$-	$-	$(43,497,266)
Derivative liabilities	-	(8,166,941)	-	(8,166,941)
Total Liabilities Carried at Fair Value	$(43,497,266)	$(8,166,941)	$-	$(51,664,207)

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The following table presents the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2013.

	Fair Value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
15 Year Fixed Rate	$-	$447,599,832	$-	$447,599,832
20 Year Fixed Rate	-	147,057,246	-	147,057,246
30 Year Fixed Rate	-	1,229,504,747	-	1,229,504,747
ARM	-	461,787,395	-	461,787,395
Interest Only	-	137,053,548	-	137,053,548
Credit Investments:				
Non-Agency RMBS	-	534,377,006	309,840,562	844,217,568
ABS	-	-	71,344,784	71,344,784
CMBS	-	62,954,692	23,972,043	86,926,735
Interest Only	-	-	6,324,735	6,324,735
Commercial loans	-	-	-	-
Linked transactions	-	34,778,728	14,723,169	49,501,897
Derivative assets	-	55,060,075	-	55,060,075
Total Assets Carried at Fair Value	$-	$3,110,173,269	$426,205,293	$3,536,378,562
Liabilities:				
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	$(27,477,188)	$-	$-	$(27,477,188)
Derivative liabilities	-	(2,206,289)	-	(2,206,289)
Total Liabilities Carried at Fair Value	$(27,477,188)	$(2,206,289)	$-	$(29,683,477)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and six months ended June 30, 2014 and June 30, 2013.

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The following tables present additional information about the Company's investments which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

Three Months Ended

June 30, 2014

	Non-Agency RMBS	ABS	CMBS	Interest Only	Residential Mortgage Loans	Co Lo
Beginning balance	$381,244,949	$73,661,029	$37,924,945	$6,398,258	$34,939,773	$1
Transfers (1):						
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Purchases	173,507,091	6,562,500	-	-	-	6
Reclassification of security type (2)	19,245,007	(6,562,500)	(12,683,116)	-	-	-
Proceeds from sales	(4,985,789)	(23,791,829)	(5,674,728)	-	-	-
Proceeds from settlement	(24,887,481)	(6,679,339)	(357,588)	-	(454,098)	-
Total net gains/(losses) (3)						
Included in net income	4,213,261	(94,663)	80,392	231,122	355,373	6
Included in other comprehensive income (loss)	-	-	-	-	-	-
Ending Balance	$548,337,038	$43,095,198	$19,289,905	$6,629,380	$34,841,048	$7
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2014 (4)	$3,974,028	$(235,466)	$(754,949)	$231,122	$416,220	$6

(1) Transfers are assumed to occur at the beginning of the period.

(2) Represents an accounting reclassification between a linked transaction and a real estate security.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$1,230,198
Unrealized gain/(loss) on real estate securities and loans, net	4,778,701
Net realized loss	649,784
Total	$6,658,683

(4) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$1,283,351
Unrealized gain/(loss) on real estate securities and loans, net	4,273,955
Total	$5,557,306

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Three Months Ended

June 30, 2013

	Non-Agency RMBS	ABS	CMBS	Interest Only	Commercial Loans	Linked Transactions
Beginning balance	$192,389,167	$18,490,547	$34,346,520	$6,906,230	$30,000,000	$8,143,675
Transfers (1):						
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Purchases	74,890,704	100,000,000	-	-	-	-
Reclassification of security type (2)	-	-	-	-	-	-
Proceeds from sales	(38,343,305)	(13,019,738)	(10,041,297)	-	-	-
Proceeds from settlement	(9,330,747)	(5,242,820)	-	-	-	(1,193,816)
Total net gains/ (losses) (3)						
Included in net income	(2,102,623)	(2,311,882)	(1,525,493)	(314,204)	-	(860,776)
Included in other comprehensive income (loss)	-	-	-	-	-	-
Ending Balance	$217,503,196	$97,916,107	$22,779,730	$6,592,026	$30,000,000	$6,089,083
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2013 (4)	$(2,493,386)	$(2,127,642)	$(1,525,493)	$(314,205)	$-	$(643,474)

(1) Transfers are assumed to occur at the beginning of the period.

(2) Represents an accounting reclassification between a linked transaction and a real estate security.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$(903,380)
Unrealized gain/(loss) on real estate securities and loans, net	(6,467,442)
Interest income	(86,792)
Net realized loss	342,636
Total	$(7,114,978)

(4) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$(643,474)
Unrealized gain/(loss) on real estate securities and loans, net	(6,260,085)
Interest income	(200,641)
Total	$(7,104,200)

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Six Months Ended

June 30, 2014

	Non-Agency RMBS	ABS	CMBS	Interest Only	Resi Mort Loan
Beginning balance	$309,840,562	$71,344,784	$23,972,043	$6,324,735	$-
Transfers (1):					
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
Purchases	249,366,020	9,584,500	-	-	35,
Reclassification of security type (2)	26,752,862	-	-	-	-
Proceeds from sales	(15,765,033)	(23,791,829)	(5,674,728)	-	-
Proceeds from settlement	(29,006,717)	(14,245,380)	(564,395)		(45
Total net gains/(losses) (3)					
Included in net income	7,149,344	203,123	1,556,985	304,645	219
Included in other comprehensive income (loss)	-	-	-	-	-
Ending Balance	$548,337,038	$43,095,198	$19,289,905	$6,629,380	$34,
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2014 (4)	$6,946,307	$62,320	$721,644	$304,645	$280

(1) Transfers are assumed to occur at the beginning of the period.

(2) Represents an accounting reclassification between a linked transaction and a real estate security.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$1,658,629
Unrealized gain/(loss) on real estate securities and loans, net	9,768,366
Net realized loss	380,873
Total	$11,807,868

(4) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$1,656,144
Unrealized gain/(loss) on real estate securities and loans, net	9,030,905
Total	$10,687,049

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Six Months Ended

June 30, 2013

	Non-Agency RMBS	ABS	CMBS	Interest Only	Commercial Loans	Linked Transactions
Beginning balance	$255,043,557	$33,937,097	$34,066,710	$-	$-	$6,425,683
Transfers (1):						
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Purchases	97,745,011	127,993,404	-	7,048,720	30,017,825	2,658,169
Reclassification of security type (2)	-	-	-	-	-	-
Proceeds from sales	(127,311,547)	(41,105,832)	(10,041,297)	-	-	-
Proceeds from settlement	(12,387,311)	(20,588,748)	(58,631)	-	-	(2,395,359)
Total net gains/ (losses) (3)						
Included in net income	4,413,486	(2,319,814)	(1,187,052)	(456,694)	(17,825)	(599,410)
Included in other comprehensive income (loss)	-	-	-	-	-	-
Ending Balance	$217,503,196	$97,916,107	$22,779,730	$6,592,026	$30,000,000	$6,089,083
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2013 (4)	$(950,266)	$(2,105,734)	$(823,367)	$(260,925)	$-	$(689,478)

(1) Transfers are assumed to occur at the beginning of the period.

(2) Represents an accounting reclassification between a linked transaction and a real estate security.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$(642,014)

Unrealized gain/(loss) on real estate securities and loans, net	(4,183,907)
Interest income	437,467
Net realized loss	4,221,145
Total	$(167,309)

(4) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Income/(loss) from linked transactions, net	$(689,478)
Unrealized gain/(loss) on real estate securities and loans, net	(3,711,886)
Interest income	(428,406)
Total	$(4,829,770)

The Company did not have any transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy during the three and six months ended June 30, 2014 and June 30, 2013.

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The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of investments for which the Company has utilized Level 3 inputs to determine fair value:

Asset Class	Fair Value at June 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	2.96% - 13.96% (4.76%)
Non Agency RMBS	$548,337,038	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 12.00% (4.29%)
			Projected Collateral Losses	0.00% - 33.00% (9.04%)
			Projected Collateral Severities	0.00% - 80.00% (55.14%)
ABS	$43,095,198	Discounted Cash Flow	Yield	5.00% - 8.23% (5.78%)
			Yield	5.06% - 6.19% (5.66%)
CMBS	$19,289,905	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	5.72% - 5.73% (5.72%)
Interest Only	$6,629,380	Discounted Cash Flow	Projected Collateral Prepayments	100.00% - 100.00% (100.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
Residential Mortgage Loans	$34,841,048	Market Comparable	Yield	8.51% - 8.51% (8.51%)
Commercial Loans	$72,800,000	Market Comparable	Yield	6.25% - 14.93% (8.36%)
Excess Mortgage Servicing Rights	$730,146	Discounted Cash Flow	Yield	6.06% - 6.17% (6.15%)
			Yield	4.41% - 6.22% (5.24%)
Linked Transactions*	$8,547,625	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 12.00% (3.70%)
			Projected Collateral Losses	0.00% - 18.00% (7.53%)
			Projected Collateral Severities	0.00% - 80.00% (33.64%)

*Linked Transactions are comprised of unobservable inputs from Non-Agency RMBS and CMBS.

Asset Class	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	3.35% - 13.99% (5.13%)
Non Agency RMBS	$309,840,562	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 12.00% (3.51%)
			Projected Collateral Losses	0.00% - 30.00% (7.93%)
			Projected Collateral Severities	0.00% - 80.00% (60.40%)
ABS	$71,344,784	Discounted Cash Flow	Yield	3.78% - 5.39% (4.07%)
			Yield	4.88% - 5.75% (5.51%)
CMBS	$23,972,043	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	5.70% - 5.72% (5.71%)
Interest Only	$6,324,735	Discounted Cash Flow	Projected Collateral Prepayments	100.00% - 100.00% (100.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	3.85% - 9.01% (4.71%)
Linked Transactions*	$14,723,169	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 12.00% (2.43%)
			Projected Collateral Losses	0.00% - 30.00% (12.83%)
			Projected Collateral Severities	0.00% - 80.00% (41.37%)

*Linked Transactions are comprised of unobservable inputs from Non-Agency RMBS and CMBS investments.

As further described above, values for the Company’s securities portfolio are based upon prices obtained from third party pricing services. Broker quotations may also be used. The significant unobservable inputs used in the fair value measurement of the Company’s Non-Agency RMBS and CMBS investments classified as a component of Linked Transactions are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Also as described above, valuation of the Company’s loan portfolio is determined by the Manager using third-party pricing services where available, specialized third party valuation service providers, or model-based pricing. The evaluation considers the underlying characteristics of each loan, which are observable inputs, including: coupon; maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. These valuations also require significant judgments, which include assumptions regarding capitalization rates, reperformance rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently estimated. If applicable, analyses provided

by valuation service providers are reviewed and considered by the Manager.

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6. Repurchase Agreements

The Company pledges certain real estate securities and loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a “haircut.” Repurchase agreements entered into by the Company are accounted for as financings and require the repurchase of the transferred assets at the end of each agreement’s term. The carrying amount of the Company’s repurchase agreements approximates fair value as the debt is short-term in nature. The Company maintains the beneficial interest in the specific assets pledged during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the repurchase agreement at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. In response to declines in fair value of pledged assets due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically require the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. Under the terms of the Company’s master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

The following table presents certain information regarding the Company’s repurchase agreements secured by real estate securities as of June 30, 2014:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate		Weighted Average Haircut	
30 days or less	$1,739,406,333	0.89	%	11.86	%
31-60 days	417,768,429	0.74	%	7.71	%
61-90 days	286,954,061	0.40	%	6.47	%
Greater than 90 days	513,238,297	1.70	%	18.10	%
Total / Weighted Average	$2,957,367,120	0.96	%	11.84	%

The following table presents certain information regarding the Company's repurchase agreements secured by real estate securities as of December 31, 2013:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate		Weighted Average Haircut	
30 days or less	$1,357,768,314	0.85	%	7.97	%
31-60 days	903,866,190	0.54	%	4.46	%
61-90 days	250,387,000	0.49	%	5.65	%
Greater than 90 days	379,612,912	1.53	%	16.37	%
Total / Weighted Average	$2,891,634,416	0.81	%	7.77	%

The following table presents certain information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of June 30, 2014:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate		Weighted Average Funding Cost		Weighted Average Haircut	
30 days or less	$-	-		-		-	
31-60 days	-	-		-		-	
61-90 days	-	-		-		-	
Greater than 90 days	18,444,228	3.25	%	3.60	%	38.44	%
Total / Weighted Average	$18,444,228	3.25	%	3.60	%	38.44	%

The Company did not hold any residential mortgage loans or related repurchase agreements as of December 31, 2013.

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Although repurchase agreements are committed borrowings until maturity, the lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets resulting from changes in market conditions or factor changes would require the Company to provide additional collateral or cash to fund margin calls. The following table presents information with respect to the Company's posting of collateral under repurchase agreements at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Repurchase agreements secured by Agency RMBS	$1,922,604,000	$ 2,104,691,819
Fair Value of Agency RMBS pledged as collateral under repurchase agreements	2,059,500,429	2,235,331,133
Repurchase agreements secured by Non-Agency RMBS, ABS and CMBS	1,034,763,120	786,942,597
Fair Value of Non-Agency RMBS, ABS and CMBS pledged as collateral under repurchase agreements	1,321,398,377	1,008,813,822
Repurchase agreements secured by Residential Mortgage Loans	18,444,228	-
Fair Value of Residential Mortgage Loans pledged as collateral under repurchase agreements	29,962,973	-
Cash pledged (i.e., restricted cash) under repurchase agreements	769,111	962,047

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheet as of June 30, 2014:

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	$2,975,811,348	$ -	$ 2,975,811,348	$2,975,811,348	$ -	$ -

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheet as of December 31, 2013:

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	$2,891,634,416	$ -	$ 2,891,634,416	$2,891,634,416	$ -	$ -

The Company seeks to transact with several different counterparties in order to reduce the exposure to any single counterparty. The Company has entered into master repurchase agreements ("MRAs") with 33 and 30 counterparties, under which it had outstanding debt with 21 and 24 counterparties at June 30, 2014 and December 31, 2013, respectively, on a GAAP basis.

At June 30, 2014 the following table reflects amounts at risk under its repurchase agreements greater than 5% of the Company's equity with any counterparty, excluding linked transactions.

Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Credit Suisse Securities, LLC	$73,681,836	163	10.0	%
Merrill Lynch, Pierce, Fenner & Smith Incorporated	59,619,835	43	8.1	%
JP Morgan Securities, LLC	51,155,034	260	6.9	%
Wells Fargo Bank. N.A.	50,303,308	220	6.8	%
The Royal Bank of Scotland, PLC	46,790,205	134	6.4	%
RBC Capital Markets, LLC	39,998,878	43	5.4	%

In addition to the amounts at risk in the table above, at June 30, 2014, the Company had repurchase agreements with Credit Suisse, Wells Fargo and JP Morgan determined to be linked. The amounts at risk including linked transactions are $83.4 million, $56.4 million and $52.1 million, respectively, with weighted average maturities of 155, 181 and 258 days, respectively, representing approximately 11.3%, 7.7% and 7.1% of stockholders' equity, respectively.

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At December 31, 2013, the following table reflects amounts at risk under the Company's repurchase agreements greater than 5% of its equity with any counterparty, excluding linked transactions.

Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Credit Suisse Securities, LLC	$62,749,069	35	8.9	%
Merrill Lynch, Pierce, Fenner & Smith Incorporated	51,047,394	34	7.2	%
Wells Fargo Bank, N.A	39,399,377	101	5.6	%

In addition to the amount at risk in the table above, at December 31, 2013, the Company had repurchase agreements with Credit Suisse determined to be linked. The amount at risk including linked transactions to Credit Suisse is $72.1 million, with a weighted average maturity of 30 days, representing approximately 10.2% of stockholders' equity.

In April 2014, the Company, AG MIT LLC and AG MIT CMO, LLC, each a direct, wholly-owned subsidiary of the Company, entered into a Second Amended and Restated Master Repurchase and Securities Contract (the "Second Renewal Agreement") with Wells Fargo Bank, National Association to finance AG MIT's or AG MIT CMO's acquisition of certain consumer asset-backed securities and commercial mortgage-backed securities as well as residential, non-Agency Securities. The Second Renewal Agreement amended similar repurchase agreements entered into by the Company and AG MIT with Wells Fargo Bank, National Association, in 2012 and 2013. Each transaction under the Second Renewal Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The Second Renewal Agreement increased the aggregate maximum borrowing capacity to $165 million, and extended the maturity date to April 13, 2015. It contains representations, warranties, covenants, events of default and indemnities that are substantially identical to those in the previous repurchase agreements and are customary for agreements of this type. The Second Renewal Agreement also contains amended financial covenants that require, as of the last business day of each quarter and on any funding date, the Company to maintain (i) its Total Indebtedness to its Adjusted Tangible Net Worth (as such terms are defined in the Second Renewal Agreement) at a ratio less than the Leverage Ratio; (ii) an Adjusted Tangible Net Worth of not less than $430 million; and (iii) at all times, liquidity of not less than $30 million and unrestricted cash of not less than $5 million. As of June 30, 2014, the Company had $103.4 million of debt outstanding under this facility.

On February 18, 2014, AG MIT WFB1 2014 LLC, ("AG MIT WFB1"), a direct, wholly-owned subsidiary of the Company, entered into a Master Repurchase Agreement and Securities Contract, dated as of February 11, 2014 and effective as of February 18, 2014, (the "WFB1 Repurchase Agreement") with Wells Fargo Bank, National Association,

(“Wells Fargo”) to finance the acquisition of certain beneficial interests in trusts owning participation interests in one or more pools of residential mortgage loans. Each transaction under the WFB1 Repurchase Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The WFB1 Repurchase Agreement provides for a funding period ending February 10, 2015 and a facility termination date of February 9, 2016. The maximum aggregate borrowing capacity available under the WFB1 Repurchase Agreement is $100 million. At the request of the Company, Wells Fargo may grant a one year extension of the facility termination date. As of June 30, 2014, the Company had $18.4 million of debt outstanding under the WFB1 Repurchase Agreement.

The WFB1 Repurchase Agreement contains representations, warranties, covenants, events of default and indemnities that are customary for agreements of this type. The WFB1 Repurchase Agreement also contains financial covenants that require, as of the last business day of each

quarter and on any funding date, the Company and AG MIT WFB1 to maintain (i) their Total Indebtedness to their Adjusted Tangible Net Worth at a ratio less than the Leverage Ratio; (ii) an Adjusted Tangible Net Worth of not less than $ 430 million; and (iii) at all times, Liquidity of not less than $30 million and unrestricted cash of not less than $5 million.

The Company’s master repurchase agreements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each MRA, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

As discussed in Note 2, for any transactions determined to be linked, the initial transfer and repurchase financing will be recorded as a forward commitment to purchase assets. At June 30, 2014 and December 31, 2013, the Company had repurchase agreements of $158.3 million and $222.8 million, respectively, that were accounted for as linked. These linked repurchase agreements are not included in the above tables. See Note 7 for details.