AG Mortgage Investment Trust, Inc.
Form 10-Q
November 05, 2013

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 September 30, 2013

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 November 1, 2013, there were 28,378,219 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.
TABLE OF CONTENTS

		Page
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	1
	Consolidated Balance Sheets	1
	Consolidated Statement of Operations	2
	Consolidated Statement of Stockholders' Equity	3
	Consolidated Statement of Cash Flows	4
	Notes to Consolidated Financial Statements (unaudited)	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	37
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	53
Item 4.	Controls and Procedures	56
PART II.	**OTHER INFORMATION**	57
Item 1.	Legal Proceedings	57
Item 1A.	Risk Factors	57
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3.	Defaults Upon Senior Securities	58
Item 4.	Mine Safety Disclosures	58
Item 5.	Other Information	58
Item 6.	Exhibits	58

PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	September 30, 2013		December 31, 2012	
Assets				
Real estate securities, at fair value:				
Agency - $2,459,557,624 and $3,536,876,135 pledged as collateral, respectively	$	2,747,032,252	$	3,785,867,151
Non-Agency - $620,674,314 and $529,455,020 pledged as collateral, respectively		630,034,943		568,858,645
ABS - $87,730,723 and $33,937,097 pledged as collateral, respectively		99,344,323		33,937,097
CMBS - $64,669,711 and $148,307,262 pledged as collateral, respectively		64,669,711		148,365,887
Commercial loans receivable, at fair value		30,000,000		2,500,000
Investment in affiliates		16,114,596		-
Linked transactions, net, at fair value		51,085,912		45,122,824
Cash and cash equivalents		35,089,032		149,594,782
Restricted cash		15,431,616		9,130,000
Interest receivable		12,673,519		14,242,453
Receivable on unsettled trades - $99,664,974 and $0 pledged as collateral, respectively		106,233,394		96,310,999
Receivable under reverse repurchase agreements		50,125,000		-
Derivative assets, at fair value		31,970,483		-
Other assets		853,542		454,069
Due from broker		1,383,818		884,605
Total Assets	$	3,892,042,141	$	4,855,268,512
Liabilities				
Repurchase agreements	$	2,965,095,409	$	3,911,419,818
Obligation to return securities borrowed under reverse repurchase agreements, at fair value		50,025,781		-
Payable on unsettled trades		120,099,264		84,658,035
Interest payable		2,837,294		3,204,205
Derivative liabilities, at fair value		3,477,340		36,375,947
Dividend payable		17,017,528		18,540,667
Due to affiliates		4,168,756		3,910,065
Accrued expenses		1,100,043		806,853
Taxes payable		1,373,083		1,731,141
Due to broker		19,022,027		-
Total Liabilities		3,184,216,525		4,060,646,731
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		49,920,772		49,920,772

preference) at September 30, 2013 and December 31, 2012				
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding ($115,000,000 aggregate liquidation preference) at September 30, 2013 and December 31, 2012		111,293,233		111,293,233
Common stock, par value $0.01 per share; 450,000,000 shares of common stock authorized and 28,360,046 and 26,961,936 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		283,601		269,620
Additional paid-in capital		585,511,504		552,067,681
Retained earnings (deficit)		(39,183,494)		81,070,475
		707,825,616		794,621,781
Total Liabilities & Equity	$	3,892,042,141	$	4,855,268,512

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

1

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Net Interest Income								
Interest income	$	33,278,284	$	28,285,116	$	114,163,747	$	60,164,752
Interest expense		5,584,419		4,228,610		19,749,592		8,506,041
		27,693,865		24,056,506		94,414,155		51,658,711
Other Income								
Net realized gain/(loss)		(45,247,890)		4,105,323		(116,489,235)		14,087,123
Gain on linked transactions, net		2,060,270		6,688,111		6,558,879		13,492,268
Realized loss on periodic interest settlements of interest rate swaps, net		(9,123,233)		(2,471,590)		(21,205,353)		(6,061,954)
Unrealized gain/(loss) on real estate securities and loans, net		40,136,126		45,917,570		(60,668,593)		78,755,229
Unrealized gain/(loss) on derivative and other instruments, net		(5,779,945)		(13,371,486)		67,348,314		(26,793,133)
		(17,954,672)		40,867,928		(124,455,988)		73,479,533
Expenses								
Management fee to affiliate		2,523,547		1,657,701		8,195,890		3,903,378
Other operating expenses		2,819,431		1,653,547		7,780,385		3,227,786
Equity based compensation to affiliate		55,105		120,612		186,983		312,712
Excise tax		373,083		272,195		1,391,942		605,773
		5,771,166		3,704,055		17,555,200		8,049,649
Income/(loss) before provision for income taxes and equity in earnings from affiliate		3,968,027		61,220,379		(47,597,033)		117,088,595
Provision for income taxes		(122,979)		-		(2,778,758)		-
Equity in earnings from affiliate		2,155,471		-		1,911,830		-
Net Income/(Loss)		6,000,519		61,220,379		(48,463,961)		117,088,595
Dividends on preferred stock		3,367,354		790,100		10,102,062		790,100
Net Income/(Loss) Available to Common Stockholders	$	2,633,165	$	60,430,279	$	(58,566,023)	$	116,298,495
Earnings/(Loss) Per Share of Common Stock								
Basic	$	0.09	$	3.13	$	(2.10)	$	7.07
Diluted	$	0.09	$	3.10	$	(2.10)	$	7.07
Weighted Average Number of Shares of Common Stock Outstanding								

Basic	28,359,937	19,336,154	27,906,946	16,439,100
Diluted	28,359,943	19,462,984	27,906,946	16,449,450
Dividends Declared per Share of Common Stock	$ 0.60	$ 0.77	$ 2.20	$ 2.17

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

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock		8.25 % Series A Cumulative Redeemable Preferred Stock	8.00 % Series B Cumulative Redeemable Preferred Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Total
	Shares	Amount					
Balance at January 1, 2012	10,009,958	$100,100	$-	$-	$198,228,694	$7,955,126	$206,283,920
Net proceeds from issuance of common stock	12,857,056	128,570	-	-	259,574,984	-	259,703,554
Net proceeds from issuance of preferred stock	-	-	49,919,633	111,302,268	-	-	161,221,901
Grant of restricted stock and amortization of equity based compensation	16,466	165	-	-	368,715	-	368,880
Common dividends declared	-	-	-	-	-	(39,666,700)	(39,666,700)
Preferred Series A dividends declared	-	-	-	-	-	(521,847)	(521,847)
Preferred Series B dividends declared	-	-	-	-	-	-	-
Net income	-	-	-	-	-	117,088,595	117,088,595
Balance at September 30, 2012	22,883,480	$228,835	$49,919,633	$111,302,268	$458,172,393	$84,855,174	$704,478,303
Balance at January 1, 2013	26,961,936	$269,620	$49,920,772	$111,293,233	$552,067,681	$81,070,475	$794,621,781
Net proceeds from issuance of common stock	1,381,739	13,817	-	-	33,162,471	-	33,176,288
	16,371	164	-	-	281,352	-	281,516

Grant of restricted stock and amortization of equity based compensation							
Common dividends declared	-	-	-	-	-	(61,687,946)	(61,687,946)
Preferred Series A dividends declared	-	-	-	-	-	(3,202,062)	(3,202,062)
Preferred Series B dividends declared	-	-	-	-	-	(6,900,000)	(6,900,000)
Net loss	-	-	-	-	-	(48,463,961)	(48,463,961)
Balance at September 30, 2013	28,360,046	$283,601	$49,920,772	$111,293,233	$585,511,504	$(39,183,494)	$707,825,616

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

3

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash Flows from Operating Activities		
Net income/(loss)	$ (48,463,961)	$ 117,088,595
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Net realized (gain)/loss	116,489,235	(14,087,123)
Net amortization of premium related to real estate securities	36,501,617	25,957,829
Unrealized (gains) from equity method investments	(1,286,037)	-
Unrealized (gains)/losses on linked transactions, net	3,898,885	(6,630,834)
Unrealized (gains)/losses on derivative and other instruments, net	(67,348,314)	26,793,133
Unrealized (gains)/losses on real estate securities and loans, net	60,668,593	(78,755,229)
Equity based compensation to affiliate	186,983	312,712
Equity based compensation expense	132,103	121,442
Change in operating assets/liabilities:		
Interest receivable	1,884,612	(11,644,920)
Other assets	(399,473)	(739,389)
Due from affiliates	-	104,994
Due from broker	(499,213)	-
Interest payable	3,080,028	1,925,763
Due to affiliates	258,691	1,712,360
Accrued expenses	293,190	644,013
Due to broker	-	(379,914)
Taxes payable	(358,058)	-
Net cash provided by operating activities	105,038,881	62,423,432
Cash Flows from Investing Activities		
Purchase of real estate securities	(2,679,895,866)	(3,837,629,974)
Purchase of securities underlying linked transactions	(218,804,843)	(485,212,383)
Investment in affiliates	(14,357,976)	-
Proceeds from sale of real estate securities	3,143,631,407	733,698,851
Proceeds from sale of securities underlying linked transactions	131,400,523	19,540,469
Principal repayments on real estate securities	417,502,447	195,364,056
Principal repayments on securities underlying linked transactions	68,647,086	38,127,461
Net payments made on reverse repurchase agreements	(50,133,363)	-
Net proceeds from sales of securities borrowed under reverse repurchase agreements	49,024,920	-
Purchase of commercial loans	(30,017,825)	-
Net settlement of interest rate swaps	(9,346,968)	(332,127)
Net settlement of TBAs	(374,861)	1,363,750
Restricted cash provided by (used in) investment activities	(3,908,000)	1,451,001
Net cash provided by (used in) investing activities	803,366,681	(3,333,628,896)
Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	33,176,288	259,664,211
Net proceeds from issuance of preferred stock	-	161,128,492

Borrowings under repurchase agreements		20,325,114,240		15,936,148,227
Borrowings under repurchase agreements underlying linked transactions		2,899,553,903		1,753,757,081
Repayments of repurchase agreements		(21,271,438,649)		(13,243,069,017)
Repayments of repurchase agreements underlying linked transactions		(2,952,632,359)		(1,518,618,310)
Collateral received from (held by) derivative counterparty		15,211,121		(2,100,000)
Collateral received from (held by) repurchase counterparty		1,417,291		(1,443,993)
Dividends paid on common stock		(63,211,085)		(29,093,703)
Dividends paid on preferred stock		(10,102,062)		(521,847)
Net cash provided by (used in) financing activities		(1,022,911,312)		3,315,851,141
Net change in cash and cash equivalents		(114,505,750)		44,645,677
Cash and cash equivalents, Beginning of Period		149,594,782		35,851,249
Cash and cash equivalents, End of Period	$	35,089,032	$	80,496,926
Supplemental disclosure of cash flow information:				
Cash paid for interest on repurchase agreements	$	19,994,933	$	9,198,068
Cash paid for income tax	$	4,528,945	$	-
Real estate securities recorded upon unlinking of Linked Transactions	$	43,415,283	$	170,956,115
Repurchase agreements recorded upon unlinking of Linked Transactions	$	35,674,382	$	139,532,632
Supplemental disclosure of non-cash financing activities:				
Common stock dividends declared but not paid	$	17,017,528	$	17,584,168

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

4

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

1. Organization

AG Mortgage Investment Trust, Inc. (the "Company") was organized 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 assets types as real estate securities.

Commercial Loans Receivable ("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.

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.

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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. We classify highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. We place our cash and cash equivalents 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, interest rate swaps 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/(Loss) per share

In accordance with the provisions of Accounting Standards Codification (“ASC”) 260, “Earnings per Share,” the Company calculates basic income/(loss) per share by dividing net income/(loss) available to common stockholders for the period by weighted-average shares of the Company’s common stock outstanding for that period. Diluted income/(loss) 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 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."

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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 charged 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 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.

We evaluate securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. 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 an investment security is impaired, an OTTI is considered to have occurred if (i) we intend 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 we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell the security or if it is more likely than not that we 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. 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 gain/(loss) line item on the consolidated statement of operations.

Increases in interest income may be recognized on a security that an OTTI charge was taken, if the performance of such security subsequently improves. 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.

Securities in an unrealized loss position at September 30, 2013 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 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 charges 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 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 and derivatives, inclusive of linked transactions are included in the net realized gain/(loss) line item on the consolidated statement of operations. The cost of positions sold is calculated using a FIFO basis. Realized gains and losses are recorded in earnings at the time of disposition.

Accounting for loans

Investments in mortgage loans are recorded in accordance with ASC 310. The Company has chosen to make a fair value election pursuant to ASC 825 for its 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."

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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.

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 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. All VIEs in which the Company has participated are non-recourse to the Company.

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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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 will flow though 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 we amortize such securities. If actual and anticipated cash flows differ from previous estimates, we recognize 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, we also reassess 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 statements 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, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." 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 (loans) 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 adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

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 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 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 securities, 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 September 30, 2013 and December 31, 2012, the Company has met all margin call requirements.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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 in the statements 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. When or if a transaction is no longer considered to be linked, the real estate security 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 security as of the date of unlinking will become the cost basis of the real estate security. 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, as a means of mitigating its interest rate risk. The Company uses interest rate derivative instruments primarily 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 September 30, 2013 and December 31, 2012, 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.

When derivative contracts are executed with the same counterparty for bilateral collateral arrangements, or the same Central Clearing Counterparty (“CCP”) and Futures Commission Merchants (“FCM”) under central clearing, the value of the derivative contracts is reported on a net-by-counterparty or net by CCP/FCM basis, as applicable on the balance sheet, where a legal right of off-set exists under an enforceable netting agreement. As a result, the net exposure to counterparties or CCP/FCM is reported as either an asset or liability on the consolidated balance sheet.

To-be-announced securities

A to-be-announced security (“TBA”) is a futures 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. 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. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in "net realized gain/(loss)", and "unrealized gain/(loss) on derivative and other instruments, net", respectively, on our consolidated statements of operations.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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 under GAAP in the 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 AG MIT II, LLC, AG MITT RMAT 2013, LLC and AG MITT RMAT 2013 II, LLC as taxable REIT subsidiaries, ("TRS") and may elect to treat other subsidiaries at 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 TRS will generate net income, a 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 we retain earnings at the TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. A TRS is subject to federal, state and local corporate income taxes.

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. During the three and nine months ended September 30, 2013 the Company recognized an income tax provision of $0.1 million and $2.8 million, respectively, related to the income and sale of investments held within AG MITT RMAT 2013, LLC and AG MITT RMAT 2013 II, LLC.

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 capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 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. The 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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Recent accounting pronouncements

In December 2011, the FASB issued Accounting Standards Updated 2011-11, "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11). ASU 2011-11 amends Topic 210 to require additional disclosure information about offsetting and related arrangements. Entities will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of US GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). The guidance is effective for periods beginning on or after January 1, 2013, and interim periods within those annual periods.

In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" (ASU 2013 -1). ASU 2013-1 addresses implementation issues about ASU 2011-11 and applies to derivatives accounted for in accordance with ASC 815-10, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20 "Balance Sheet Offsetting" or ASC 815 or subject to an enforceable master netting arrangement or similar agreement. The guidance was effective January 1, 2013 and was applied retrospectively. This guidance does not amend the circumstances in which the Company offsets its derivative positions. As a result, the guidance does not have a material effect on the Company's financial statements.

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 effective yield of the Company's real estate securities portfolio at September 30, 2013 and December 31, 2012. 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.

The following table details the real estate securities portfolio as of September 30, 2013:

				Gross Unrealized (1)			Weighted Avera	
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (2)	Yield
Agency RMBS:								
15 Year Fixed Rate	$581,988,428	$17,501,848	$599,490,276	$6,713,307	$(401,924)	$605,801,659	3.13%	2.49%
20 Year Fixed Rate	321,962,591	8,400,055	330,362,646	1,146,805	(1,960,675)	329,548,776	3.36%	2.61%

30 Year Fixed Rate	1,121,864,732	64,647,503	1,186,512,235	2,501,531	(13,804,211)	1,175,209,555	4.01%	3.24%
ARM	505,107,796	(2,166,104)	502,941,692	2,184,823	(1,165,382)	503,961,133	2.40%	2.85%
Interest Only	723,052,361	(587,290,862)	135,761,499	4,089,505	(7,339,875)	132,511,129	4.87%	6.46%
Credit Investments:								
Non-Agency RMBS	734,330,229	(116,094,638)	618,235,591	18,964,449	(7,165,097)	630,034,943	3.79%	5.86%
ABS	100,516,816	(390,000)	100,126,816	3,600	(786,093)	99,344,323	3.80%	3.91%
CMBS	59,600,315	(1,431,259)	58,169,056	640,499	(636,265)	58,173,290	4.98%	6.08%
Interest Only	52,357,700	(45,647,365)	6,710,335	-	(213,914)	6,496,421	1.92%	6.20%
Total	$4,200,780,968	$(662,470,822)	$3,538,310,146	$36,244,519	$(33,473,436)	$3,541,081,229	3.74%	3.65%

(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) Principal only securities with a zero coupon rate are excluded from this calculation.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table details the real estate securities portfolio as of December 31, 2012:

				Gross Unrealized (1)			Weighted Ave	
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (2)	Yield
Agency RMBS:								
15 Year Fixed Rate	$1,177,320,487	$46,922,089	$1,224,242,576	$24,223,576	$(255,956)	$1,248,210,196	2.97%	2.08
20 Year Fixed Rate	137,858,353	6,696,803	144,555,156	3,569,538	-	148,124,694	3.68%	2.78
30 Year Fixed Rate	1,998,807,425	116,173,790	2,114,981,215	32,180,328	(3,423,448)	2,143,738,095	3.63%	2.75
ARM	36,228,319	1,584,714	37,813,033	362,721	-	38,175,754	2.96%	2.34
Interest Only	972,543,812	(763,342,056)	209,201,756	5,162,683	(6,746,027)	207,618,412	6.00%	7.00
Credit Investments:								
Non-Agency RMBS	634,277,808	(87,414,086)	546,863,722	6,704,413	(1,396,738)	552,171,397	4.65%	5.44
ABS	33,620,881	(36,289)	33,584,592	352,505	-	33,937,097	5.34%	5.44
CMBS	96,536,946	(2,094,604)	94,442,342	2,956,780	(82,588)	97,316,534	5.51%	6.36
Interest Only	640,867,674	(572,685,926)	68,181,748	1,338,054	(1,783,201)	67,736,601	2.13%	5.50
Total	$5,728,061,705	$(1,254,195,565)	$4,473,866,140	$76,850,598	$(13,687,958)	$4,537,028,780	3.92%	3.22

(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 with a zero coupon rate are excluded from this calculation.

As described in Note 2, we evaluate securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. 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 an investment 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. 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 gain/(loss) line item on the consolidated statement of operations.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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 September 30, 2013 and December 31, 2012.

	Less than 12 months		Greater than 12 months	
As of	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013	$ 1,433,208,629	$ (26,017,110)	$ 126,040,631	$ (7,456,326)
December 31, 2012	777,773,600	(11,267,980)	4,872,469	(2,419,978)

For the three months ended September 30, 2013 the Company recognized an OTTI charge of $7.9 million, which is included in net realized gain/(loss) line item on the consolidated statement of operations. Of this amount, $6.7 million was recognized on certain securities in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down to fair value as of the reporting date. Additionally, the Company recorded $1.2 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 nine months ended September 30, 2013, the Company recognized an OTTI charge of $51.1 million, which is included in net realized gain/(loss). Of this amount, $48.0 million was the result of certain securities in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down to fair value as of the reporting date. Additionally, the Company recorded $3.1 million of OTTI as a result of an adverse change in cash flows on certain securities.

No OTTI was recorded for the three and nine months ended September 30, 2012. The decline in value of the remaining real estate securities is solely due to market conditions and not the quality of the assets. The remaining investments 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.

The following table details weighted average life by Agency RMBS, Agency Interest-Only ("IO") and Other Securities as of September 30, 2013:

	Agency RMBS			Agency IO			Other Securities (1)		
ted Average Life (2)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	W A C
han or equal to 1 year	$-	$-	-	$6,864,808	$6,966,019	4.50%	$50,106,408	$50,260,798	3
r than one year and an or equal to five	371,707,085	366,135,897	3.06%	99,938,503	102,293,744	5.01%	371,561,679	364,096,337	3
r than five years and an or equal to ten	1,908,110,089	1,913,113,696	3.44%	25,707,818	26,501,736	4.39%	347,024,604	343,923,426	4
r than ten years	334,703,949	340,057,256	3.58%	-	-	-	25,356,286	24,961,237	5
	$2,614,521,123	$2,619,306,849	3.41%	$132,511,129	$135,761,499	4.87%	$794,048,977	$783,241,798	3

(1) For purposes of this table, Other Securities represents the following Credit Investments held as of September 30, 2013, Non-Agency RMBS, ABS, CMBS and Interest Only.
(2) 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.

14

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table details weighted average life by Agency RMBS, Agency IO and Other Securities as of December 31, 2012:

	Agency RMBS			Agency IO			Other Securities (	
Weighted Average Life (2)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	A C
Less than or equal to 1 year	$-	$-	-	$-	$-	-	$3,748,025	$3
Greater than one year and less than or equal to five years	868,542,200	846,760,882	2.97%	166,406,425	165,968,688	6.03%	374,224,663	3
Greater than five years and less than or equal to ten years	2,458,784,128	2,424,996,350	3.58%	41,211,988	43,233,067	5.91%	354,247,135	3
Greater than ten years	250,922,410	249,834,748	3.13%	-	-	-	18,941,806	1
Total	$3,578,248,738	$3,521,591,980	3.40%	$207,618,413	$209,201,755	6.00%	$751,161,629	$7

(1) For purposes of this table, Other Securities represents the following Credit Investments held as of December 31, 2012, Non-Agency RMBS, ABS, CMBS and Interest Only.
(2) 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.
(3) Equity residual investments with a zero coupon rate are excluded from this calculation.

During the three months ended September 30, 2013, the Company sold 90 securities for total proceeds of $1.6 billion, with an additional $106.2 million of proceeds on three unsettled security sales as of quarter end, recording realized gains of $4.3 million and realized losses of $39.2 million, respectively. For the nine months ended September 30, 2013, the Company sold 155 securities, inclusive of unsettled security sales, for proceeds of $3.0 billion received by the Company and $106.2 million receivable on unsettled security sales as of September 30, 2013. The Company recorded realized gains of $17.1 million and realized losses of $73.4 million, inclusive of related tax provisions. During the nine months ended September 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.

During the three months ended September 30, 2012, the Company sold four securities for total proceeds of $284.1 million, with an additional $11.1 million of proceeds on one unsettled security sale as of quarter end, recording realized gains of $2.0 million and realized losses of $0.1 million. For the nine months ended September 30, 2012, the Company sold twenty-four securities for total proceeds of $733.7 million, inclusive of the one unsettled security sale mentioned above as of September 30, 2012, recording realized gains of $11.3 million and realized losses of $1.8 million. See Note 7 for amounts realized on settlement of certain derivatives.

During the nine months ended September 30, 2013, the Company invested in credit sensitive commercial real estate assets through affiliated entities, and applies the equity method of accounting for such investments. As of September 30, 2013, the investments have a fair market value of $16.1 million and a weighted average yield of 12.43%. The Company has presented this investment separately on the consolidated balance sheet in the “Investment in affiliates” line item, and statement of operations as a component of “Equity in earnings from affiliate.”

4. 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 loan portfolio at September 30, 2013 and December 31, 2012.

The following table details the loan portfolio as of September 30, 2013:

				Gross Unrealized (1)			Weighted Average		
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life
Commerical Loans	$30,000,000	$176,568	$30,176,568	$-	$(176,568)	$30,000,000	9.00 %	9.87 %	2.81

(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).

The following table details the loan portfolio as of December 31, 2012:

				Gross Unrealized (1)			Weighted Average		
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life
Commerical Loans	$ 2,500,000	$ -	$ 2,500,000	$ -	$ -	$ 2,500,000	9.63 %	9.63 %	3.51

(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).

15

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

During the nine months ended September 30, 2013, the Company sold one loan for total proceeds of $2.6 million, recording realized gains of $0.1 million and no realized losses. The Company did not have any loans during the nine months ended September 30, 2012.

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 its derivatives subject to bilateral collateral arrangements, the Company has netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by the International Swap and Derivatives Association ("ISDA"). For swaps cleared under the Dodd Frank Act, a 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 is permitted to net all exposure with a common CCP and FCM. Consequently, no credit valuation adjustment was made in determining the fair value of the Company's derivatives.

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.

16

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2013:

	Fair Value at September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
15 Year Fixed Rate	$ -	$ 605,801,659	$ -	$ 605,801,659
20 Year Fixed Rate	-	329,548,776	-	329,548,776
30 Year Fixed Rate	-	1,175,209,555	-	1,175,209,555
ARM	-	503,961,133	-	503,961,133
Interest Only	-	132,511,129	-	132,511,129
Credit Investments:				-
Non-Agency RMBS	-	460,961,995	169,072,948	630,034,943
ABS	-	-	99,344,323	99,344,323
CMBS	-	30,829,391	27,343,899	58,173,290
Interest Only	-	-	6,496,421	6,496,421
Commercial loans	-	-	30,000,000	30,000,000
Linked transactions	-	43,974,159	7,111,753	51,085,912
Derivative assets		31,970,483	-	31,970,483
Total Assets Carried at Fair Value	$ -	$ 3,314,768,280	$ 339,369,344	$ 3,654,137,624
Liabilities:				
Obligation to return securities borrowed under reverse repurchase agreements	$ (50,025,781)	$ -	$ -	$ (50,025,781)
Derivative liabilities	-	(3,477,340)	-	(3,477,340)
Total Liabilities Carried at Fair Value	$ (50,025,781)	$ (3,477,340)	$ -	$ (53,503,121)

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2012:

	Fair Value at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
15 Year Fixed Rate	$ -	$ 1,248,210,196	$ -	$ 1,248,210,196
20 Year Fixed Rate	-	148,124,694	-	148,124,694
30 Year Fixed Rate	-	2,143,738,095	-	2,143,738,095
ARM	-	38,175,754	-	38,175,754
Interest Only	-	207,618,412	-	207,618,412
Credit Investments:				
Non-Agency RMBS	-	297,127,840	255,043,557	552,171,397

ABS		-		-		33,937,097		33,937,097
CMBS		-		63,249,824		34,066,710		97,316,534
Interest Only		-		67,736,601		-		67,736,601
Commercial Mortgage Loans		-		2,500,000		-		2,500,000
Linked transactions		-		38,617,525		6,505,299		45,122,824
Total Assets Carried at Fair Value	$	-	$	4,255,098,941	$	329,552,663	$	4,584,651,604
Liabilities:								
Derivative liabilities	$	-	$	(36,375,947)	$	-	$	(36,375,947)
Total Liabilities Carried at Fair Value	$	-	$	(36,375,947)	$	-	$	(36,375,947)

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 nine months ended September 30, 2013 and September 30, 2012.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

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
September 30, 2013

	Non-Agency RMBS	ABS	CMBS	Interest Only	Commercial Loans	Linked Transactions
Beginning balance	$ 217,503,196	$ 97,916,107	$ 22,779,730	$ 6,592,026	$ 30,000,000	$ 6,089,083
Transfers (1):						
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Purchases	14,967,242	11,610,000	4,462,500	-	-	2,674,853
Reclassification of security type (2)	-	-	-	-	-	-
Proceeds from sales	(57,972,354)	-	-	-	-	(567,000)
Proceeds from settlement	(2,427,774)	(11,487,436)	-	-	-	(1,116,717)
Total net gains/(losses) (3)						
Included in net income	(2,997,362)	1,305,652	101,669	(95,605)	-	31,534
Included in other comprehensive income (loss)	-	-	-	-	-	-
Ending Balance	$ 169,072,948	$ 99,344,323	$ 27,343,899	$ 6,496,421	$ 30,000,000	$ 7,111,753
Change in unrealized appreciation/depreciation for level 3 assets still held as of September 30, 2013 (4)	$ (1,972,852)	$ 1,305,652	$ 93,343	$ 47,010	$ -	$ 50,778

(1) Transfers are assumed to occur at the beginning of the period.
(2) Represents an accounting reclassification from a linked transaction to a real estate security due to event occuring which breaks the link.
(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Gain on linked transactions, net	$152,946
Unrealized gain/(loss) on real estate securities and loans, net	(530,032)
Interest income	37,573
Net realized gain/(loss)	(1,314,599)
Total	$(1,654,112)

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

Gain on linked transactions, net	$50,778
	(526,847)

Unrealized gain/(loss) on real estate securities and loans, net	
Total	$(476,069)

18

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Three Months Ended
September 30, 2012

	Non-Agency RMBS	ABS	CMBS	Linked Transactions
Beginning balance	$ 54,922,912	$ 13,509,441	$ 7,509,275	$ 15,107,657
Transfers (1):				
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Purchases	36,414,561	17,824,181	22,441,133	19,459,549
Reclassification of security type (2)	71,069,657		45,265,490	(23,016,762)
Proceeds from sales	-	-	-	(2,004,063)
Proceeds from settlement	(7,752,426)	-	(6,296,687)	(1,349,363)
Total net gains/ (losses) (3)				
Included in net income	(57,427)	2,479	1,003,769	196,656
Included in other comprehensive income (loss)	-	-	-	-
Ending Balance	$ 154,597,277	$ 31,336,101	$ 69,922,980	$ 8,393,674
Change in unrealized appreciation/depreciation for level 3 assets still held as of September 30, 2012 (4)	$ (57,427)	$ 2,479	$ 1,003,769	$ 192,593

(1) Transfers are assumed to occur at the beginning of the period.
(2) Represents an accounting reclassification from a linked transaction to a real estate security due to event occuring which breaks the link.
(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Gain on linked transactions, net	$196,656
Unrealized gain/(loss) on real estate securities and loans, net	952,706
Interest income	(3,885)
Total	$1,145,477

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

Gain on linked transactions, net	$192,593
Unrealized gain/(loss) on real estate securities and loans, net	952,706
Interest income	(3,885)
Total	$1,141,414

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Nine Months Ended
September 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	112,712,253	139,603,404	4,462,500	7,048,720	30,017,825	5,333,022
Reclassification of security type (2)	-	-	-	-	-	-
Proceeds from sales	(185,283,901)	(41,105,832)	(10,041,297)	-	-	(567,000)
Proceeds from settlement	(14,815,085)	(32,076,184)	(58,631)	-	-	(3,512,076)
Total net gains/(losses) (3)						
Included in net income	1,416,124	(1,014,162)	(1,085,383)	(552,299)	(17,825)	(567,876)
Included in other comprehensive income (loss)	-	-	-	-	-	-
Ending Balance	$ 169,072,948	$ 99,344,323	$ 27,343,899	$ 6,496,421	$ 30,000,000	$ 7,111,753
Change in unrealized appreciation/depreciation for level 3 assets still held as of September 30, 2013 (4)	$ (1,206,175)	$ (782,493)	$ (730,024)	$ (213,915)	$ (17,825)	$ (664,102)

(1) Transfers are assumed to occur at the beginning of the period.
(2) Represents an accounting reclassification from a linked transaction to a real estate security due to event occuring which breaks the link.
(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Gain on linked transactions, net	$(489,068)
Unrealized gain/(loss) on real estate securities and loans, net	(4,713,939)
Interest income	475,040
Net realized gain/ (loss)	2,906,546
Total	$(1,821,421)

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

Gain on linked transactions, net	$(664,102)
Unrealized gain/(loss) on real estate securities and loans, net	(2,950,432)
Total	$(3,614,534)

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Nine Months Ended
September 30, 2012

	Non-Agency RMBS	ABS	CMBS	Linked Transactions
Beginning balance	$ 28,407,005	$ 4,526,620	$ -	$ 5,277,317
Transfers (1):				
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-		-
Purchases	74,924,292	41,328,345	32,166,758	86,418,809
Reclassification of security type (2)	71,069,657	-	45,265,490	(23,016,762)
Proceeds from sales	-	-	-	(2,004,063)
Proceeds from settlement	(19,766,596)	(15,092,531)	(8,553,875)	(59,858,923)
Total net gains/ (losses) (3)				
Included in net income	(37,081)	573,667	1,044,607	1,577,296
Included in other comprehensive income (loss)	-	-	-	-
Ending Balance	$ 154,597,277	$ 31,336,101	$ 69,922,980	$ 8,393,674
			-	
Change in unrealized appreciation/depreciation for level 3 assets still held as of September 30, 2012 (4)	$ (37,080)	$ 12,660	$ 1,044,608	$ 397,873

(1) Transfers are assumed to occur at the beginning of the period.
(2) Represents an accounting reclassification from a linked transaction to a real estate security due to event occuring which breaks the link.
(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Gain on linked transactions, net	$1,577,296
Unrealized gain/(loss) on real estate securities and loans, net	1,622,980
Interest income	(41,787)
Total	$3,158,489

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

Gain on linked transactions, net	$397,873
Unrealized gain/(loss) on real estate securities and loans, net	1,066,657
Interest income	(46,470)
Total	$1,418,060

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 nine months ended September 30, 2013 and September 30, 2012.

21

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following tablespresent 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 September 30, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	3.35% - 7.90% (4.97%)
Non Agency RMBS	$ 169,072,948	Discounted Cash Flow	Projected Collateral Prepayments	3.50% - 6.00% (4.13%)
			Projected Collateral Losses	0.50% - 9.00% (1.78%)
			Projected Collateral Severities	20.00% - 80.00% (67.03%)
ABS	$ 99,344,323	Discounted Cash Flow	Yield	3.69% - 5.40% (3.91%)
			Yield	4.00% - 7.62% (5.55%)
CMBS	$ 27,343,899	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	6.16% - 6.21% (6.20%)
Interes t Only	$ 6,496,421	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%)
Commercial Loans	$ 30,000,000	Discounted Cash Flow	Yield	9.87% - 9.87% (9.87%)
			Yield	4.95% - 7.62% (5.81%)
			Projected Collateral Prepayments	0.00% - 5.00% (1.17%)
Linked Trans actions *	$ 7,111,753	Discounted Cash Flow	Projected Collateral Losses	0.00% - 5.00% (1.17%)
			Projected Collateral Severities	0.00% - 70.00% (16.36%)

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

Asset Class	Fair Value at December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	4.43% - 9.60% (5.90
Non-Agency RMBS	$ 255,043,557	Discounted Cash Flow	Projected Collateral Prepayments	1.00% - 9.00% (4.41
			Projected Collateral Losses	0.20% - 16.00% (2.03
			Projected Collateral Severities	40.00% - 75.00% (55.2
			Yield	4.66% - 7.05% (5.77
ABS	$ 33,937,097	Discounted Cash Flow	Projected Collateral Prepayments	20.00% - 100.00% (59.7

			Projected Collateral Losses	0.00% - 0.00%	(0.00%
			Projected Collateral Severities	0.00% - 0.00%	(0.00%
			Yield	2.23% - 5.76%	(5.05%
CMBS	$ 34,066,710	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	4.14% - 10.93%	(5.59%
Linked Transactions*	$ 6,505,299	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 25.00%	(0.94%
			Projected Collateral Losses	0.00% - 35.00%	(16.25
			Projected Collateral Severities	0.00% - 65.00%	(34.32

*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 securities 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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Also as described above, valuation of the Company's loan portfolio is determined by the Manager using third-party pricing services where available, and specialized third party valuation service providers. 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, 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. Analyses provided by valuation service providers are reviewed and considered by the Manager.

6. Repurchase Agreements

The Company pledges certain real estate securities 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 securities at the end of each agreement's term, typically 30 to 90 days. 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 securities 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 securities 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 as of September 30, 2013:

Repurchase Agreements Maturing Within:	Balance		Weighted Average Rate		Weighted Average Haircut	
30 days or less	$	1,331,373,000	0.84	%	11.53	%
31-60 days		858,497,000	0.46	%	6.39	%
61-90 days		206,089,000	0.42	%	7.63	%
Greater than 90 days		569,136,409	0.77	%	4.36	%
Total / Weighted Average	$	2,965,095,409	0.69	%	8.40	%

The following table presents certain information regarding the Company's repurchase agreements as of December 31, 2012:

Repurchase Agreements	Weighted	Weighted Average

Maturing Within:	Balance	Average Rate	Haircut
30 days or less	$ 2,242,856,547	0.71 %	7.28 %
31-60 days	783,969,000	0.52 %	4.04 %
61-90 days	547,416,000	0.57 %	3.49 %
Greater than 90 days	337,178,271	1.30 %	11.95 %
Total / Weighted Average	$ 3,911,419,818	0.70 %	6.50 %

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 at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Repurchase agreements secured by Agency RMBS	$ 2,373,094,000	$ 3,346,676,000
Fair Value of Agency RMBS pledged as collateral under repurchase agreements	2,551,904,769	3,489,393,062
Repurchase agreements secured by Non-Agency RMBS, ABS and CMBS	592,001,409	564,743,818
Fair Value of Non-Agency RMBS, ABS and CMBS pledged as collateral under repurchase agreements	773,074,747	711,699,379
Net cash pledged (i.e., restricted cash) under repurchase agreements	82,709	1,500,000

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents both gross information and net information about repurchase agreements eligible for offset in the statement of financial position as of September 30, 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	2,965,095,409	-	2,965,095,409	2,965,095,409	-	-

The following table presents both gross information and net information about repurchase agreements eligible for offset in the statement of financial position as of December 31, 2012:

				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	$ 3,911,419,818	$ -	$ 3,911,419,818	$ 3,911,419,818	$ -	$ -

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 30 counterparties, under which it had outstanding debt with 28 and 29 counterparties at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012, the Company did not have greater than 10% of stockholders' equity at risk with any individual counterparty.

On April 9, 2012, AG MIT, LLC ("AG MIT"), a direct, wholly-owned subsidiary of the Company, entered into a Master Repurchase and Securities Contract (the "Repurchase Agreement") with Wells Fargo Bank, National Association to finance the Company's acquisition of certain residential, Non-Agency RMBSs. Effective April 12, 2013, AG MIT entered into an Amended and Restated Master Repurchase and Securities Contract (the "Renewal Agreement") to the Repurchase Agreement dated as of April 9, 2012. The Renewal Agreement was entered into for multiple purposes, including the amendment of the Repurchase Agreement to finance AG MIT's acquisition of not only residential, non-Agency Securities, but also certain consumer asset-backed securities and commercial mortgage-backed securities. Each transaction under the Renewal Agreement will also have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The Renewal Agreement increases the aggregate maximum borrowing capacity of the Repurchase Agreement from $75 million to $125 million and extends the maturity date from April 8, 2013 to April 11, 2014. The Renewal Agreement also includes the same provisions in the Repurchase Agreement permitting the maturity date to be extended for an additional 90 days.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The Renewal Agreement contains representations, warranties, covenants, events of default and indemnities that are substantially identical to those in the Repurchase Agreement and are customary for agreements of this type. The 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 and AG MIT 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.

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 September 30, 2013 and December 31, 2012, the Company had repurchase agreements of $229.3 million and $282.3 million, respectively, that were accounted for as linked. These linked repurchase agreements are not included in the above tables. See Note 7 for details.

7. Derivatives

The Company's derivatives currently include interest rate swaps (“swaps”), to-be-announced forward contracts on specified Agency pools (“TBAs”), and linked transactions. Derivatives have not been designated as hedging instruments. The Company has also entered into non-derivative instruments to manage interest rate risk, including Agency IO securities and short positions in U.S. Treasury securities.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents the fair value of the Company's derivative instruments and their balance sheet location at September 30, 2013 and December 31, 2012.

Derivative Instrument	Designation	Balance Sheet Location	September 30, 2013		December 31, 2012	
Interest rate swaps, at fair value	Non-Hedge	Derivative liabilities, at fair value	$	(1,856,442)	$	(36,238,250)
Interest rate swaps, at fair value	Non-Hedge	Derivative assets, at fair value		31,686,108		-
TBAs	Non-Hedge	Derivative liabilities, at fair value		(1,620,898)		(137,697)
TBAs	Non-Hedge	Derivative assets, at fair value		284,375		-
Linked transactions, at fair value	Non-Hedge	Linked transactions, net, at fair value		51,085,912		45,122,824

The following table summarizes information related to derivatives:

	September 30, 2013		December 31, 2012	
Non-hedge derivatives				
Notional amount of Interest Rate Swap Agreements (1)	$	2,643,000,000	$	2,166,025,000
Net notional amount of TBAs		25,000,000		40,000,000
Notional amount of Linked Transactions (2)		311,676,369		349,775,342

(1) Includes forward starting swaps with a notional of $25.0 million and $100.0 million as of September 30, 2013 and December 31, 2012, respectively.
(2) Represents the current face of the securities comprising linked transactions.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table summarizes gains/(losses) related to derivatives:

	Income Statement Location	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Non-hedge derivatives gain/(loss):					
Interest rate swaps	Unrealized gain/(loss) on derivative and other instruments, net	$ (5,700,547)	$ (13,734,963)	$ 69,649,295	$ (26,251,451)
Interest rate swaps	Net realized gain/(loss)	(2,207,074)	(65,012)	(9,294,517)	(332,127)
TBAs	Unrealized gain/(loss) on derivative and other instruments, net	1,022,755	363,477	(1,198,828)	(541,682)
TBAs	Net realized gain/(loss)	153,578	(353,516)	(423,571)	1,363,750
Linked transactions	Gain on linked transactions, net	2,060,270	6,688,111	6,558,879	13,492,268
Linked transactions	Net realized gain/(loss)	(2,580,055)	2,611,936	(4,262,338)	3,605,358

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents both gross information and net information about derivative and other instruments eligible for offset in the statement of financial position as of September 30, 2013:

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Statement of Financial Position	Financial Instruments (Posted)	Cash Collateral (Posted)/Received	Net Amount
Linked Transactions (1)	$ 279,655,499	$ (229,265,000)	$ 50,390,499	$ 50,390,499	$ -	$ -
Receivable Under Reverse Repurchase Agreements	$ 50,125,000	$ -	$ 50,125,000	$ 50,025,781	$ -	$ 99,219
Derivative Assets (2)						
Interest Rate Swaps	$ 43,102,018	$ (3,143,638)	$ 39,958,380	$ -	$ 16,290,000	$ 23,668,380
TBAs	284,375	-	284,375	-	280,000	4,375
Total Derivative Assets	$ 43,386,393	$ (3,143,638)	$ 40,242,755	$ -	$ 16,570,000	$ 23,672,755
Derivative Liabilities (3)						
Interest Rate Swaps	$ (1,610,997)	$ 861,650	$ (749,347)	$ -	$ (749,347)	$ -
TBAs	(3,529,882)	1,908,984	(1,620,898)	(1,620,898)	-	-
Total Derivative Liabilities	$ (5,140,879)	$ 2,770,634	$ (2,370,245)	$ (1,620,898)	$ (749,347)	$ -

(1) Included in Linked Transactions on the consolidated balance sheet is security fair market value of $279,655,499, repurchase agreements of $(229,265,000) and net accrued interest of $695,413 for a total of $51,085,912.
(2) Included in Derivative Assets on the consolidated balance sheet is $40,242,755 less accrued interest of $(8,272,272) for a total of $31,970,483.
(3) Included in Derivative Liabilities on the consolidated balance sheet is $(2,370,245) plus accrued interest of $(1,107,095) for a total of $(3,477,340).

The following table presents both gross information and net information about derivative instruments eligible for offset in the statement of financial position as of December 31, 2012:

	Gross Amounts Not Offset in the Statement of Financial Position	
Description		Net Amount

	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)	
Linked Transactions (1)	$ 326,589,623	$ (282,343,454)	$ 44,246,169	$ -	$ -	$ -
Derivative Liabilities (2)						
Interest Rate Swaps	$ (30,698,913)	$ 258,652	$ (30,440,261)	$ (30,440,261)	$ -	$ -
TBAs	(137,696)	-	$ (137,696)	-	-	-
Total Derivative Liabilities	$ (30,836,609)	$ 258,652	$ (30,577,957)	$ (30,440,261)	$ -	$ -

(1) Included in Linked Transactions on the consolidated balance sheet is security fair market value of $326,589,623, repurchase agreements of $(282,343,454) and net accrued interest of $876,655 for a total of $45,122,824.
(2) Included in Derivative Liabilities on the consolidated balance sheet is $(30,577,957) less accrued interest of $(5,797,990) for a total of $(36,375,947).

Interest Rate Swaps

To help mitigate exposure to higher short-term interest rates, the Company uses currently-paying and forward-starting, one- and three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement establishes a relatively stable fixed rate on related borrowings because the variable-rate payments received on the swap agreements largely offset interest accruing on the related borrowings, leaving the fixed-rate payments to be paid on the swap agreements as the Company's effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents information about the Company's interest rate swaps as of September 30, 2013:

Maturity		Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2016	$	180,000,000	0.90	%	0.26	%	2.71
2017		335,000,000	1.05	%	0.26	%	3.95
2018		818,000,000	1.28	%	0.26	%	4.67
2019		350,000,000	1.38	%	0.26	%	5.80
2020		665,000,000	1.70	%	0.26	%	6.56
2022		50,000,000	1.69	%	0.26	%	8.93
2023	*	245,000,000	2.37	%	0.26	%	9.71
Total/Wtd Avg	$	2,643,000,000	1.45	%	0.26	%	5.62

* This figure includes a forward starting swap with a total notional of $25.0 million and a start date of October 1, 2013. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of September 30, 2013.

The following table presents information about the Company's interest rate swaps as of December 31, 2012:

Maturity		Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2014	$	204,500,000	1.00	%	0.33	%	1.54
2015		364,025,000	1.08	%	0.30	%	2.42
2016		367,500,000	1.08	%	0.30	%	3.36
2017		410,000,000	1.02	%	0.31	%	4.70
2018	*	320,000,000	1.31	%	0.31	%	5.56
2019	*	450,000,000	1.39	%	0.31	%	6.56
2022		50,000,000	1.69	%	0.31	%	9.68
Total/Wtd Avg	$	2,166,025,000	1.17	%	0.31	%	4.42

* These figures include forward starting swaps with a total notional of $100.0 million and a weighted average start date of April 2, 2013. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of December 31, 2012.

TBAs

The Company has entered into TBA positions to facilitate the future purchase or sale of specified Agency RMBS. Pursuant to these TBAs, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received would not be identified until shortly, generally two days, before the TBA settlement date. The Company records TBA purchases and sales on the trade date and presents the purchase or sale net of the corresponding payable or receivable until the settlement date of the transaction. Contracts for the purchase or sale of specified Agency RMBS are accounted for as derivatives if the delivery of the specified Agency security and settlement extends beyond the shortest period possible for that type of security.

29

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents information about the Company's TBAs for the three and nine months ended September 30, 2013 and September 30, 2012:

For the Three Months Ended September 30, 2013

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Receivable from Broker	Derivative Asset	Derivative Liability
TBAs	$(150,000,000)	$623,000,000	$(498,000,000)	$(25,000,000)	$(24,431,640)	$23,095,117	$284,375	$(1,620,898)

For the Three Months Ended September 30, 2012

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Payable to Broker	Derivative Asset	Derivative Liability
TBAs	$ -	$ 275,000,000	$ (275,000,000)	$ -	$ -	$ 363,477	$ 2,936,328	$ (2,572,851)

For the Nine Months Ended September 30, 2013

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Receivable from Broker	Derivative Asset	Derivative Liability
TBAs	$40,000,000	$1,543,000,000	$(1,608,000,000)	$(25,000,000)	$(24,431,640)	$23,095,117	$284,375	$(1,620,898)

For the Nine Months Ended September 30, 2012

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Payable to Broker	Derivative Asset	Derivative Liability
TBAs	$ 100,000,000	$ 495,000,000	$ (595,000,000)	$ -	$ -	$ 363,477	$ 2,936,328	$ (2,572,851)

Linked Transactions

As discussed in Note 2, when the initial transfer of a financial asset and repurchase financing are entered into contemporaneously with, or in contemplation of, one another, the transaction will be considered linked unless all of the criteria found in ASC 860-10 are met at the inception of the transaction. If the transaction is determined to be linked, we 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. When, or if a transaction is longer considered linked, the security and related repurchase agreement will be recorded on a gross basis. The fair value of linked transactions reflects the value of the underlying security's fair market value netted with the respective linked repurchase agreement borrowings and net accrued interest. Certain of our Linked Transactions became unlinked during the periods presented. For the three and nine months ended September 30, 2013 Non-Agency RMBS with security fair values of $30.2 million and $43.4 million, respectively, and the related repurchase agreement borrowings of $24.1 million and $35.7 million, respectively, were unlinked, and the Company recorded net realized losses of $0.4 million and $0.1 million, respectively, from the unlinking of the Linked Transactions, respectively. For the three months ended September 30, 2012, Non-Agency RMBS and CMBS with a fair value of $118.8 million and $45.3 million, respectively, and related repurchase agreement borrowings secured by Non-Agency RMBS and CMBS of $97.2 million and $37.1 million, respectively, were unlinked. For the nine months ended September 30, 2012, Non-Agency RMBS and CMBS with a fair value of $125.7 million and $45.3 million, respectively, and related repurchase agreement borrowings secured by Non-Agency

RMBS and CMBS of $102.4 million and $37.1 million, respectively, were unlinked. For the three and nine months ended September 30, 2012, the Company had net realized gains of $2.6 million from the unlinking of Linked Transactions.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

The following table presents certain information related to the securities accounted for as a part of linked transactions for the three and nine months ended September 30, 2013:

					For the Three Months Ended September 30, 2013				For
Instrument	Current Face	Amortized Cost	Fair Value	Net Accrued Interest	Net Interest Income	Unrealized Gain/(Loss)	Net Realized Gain/(Loss)	Amount Included in Statement of Operations	Net Inte Inco
Non-Agency RMBS	$287,806,369	$253,545,104	$258,164,346	$657,323	$2,750,860	$(1,095,697)	$(2,458,643)	$(803,480)	$9,9
CMBS	23,870,000	21,871,211	21,491,153	38,090	162,082	243,025	(121,412)	283,695	48
Total	$311,676,369	$275,416,315	$279,655,499	$695,413	$2,912,942	$(852,672)	$(2,580,055)	$(519,785)	$10

The following table presents certain information related to the securities accounted for as a part of linked transactions for the three and nine months ended September 30, 2012:

					For the Three Months Ended September 30, 2012				For th
Instrument	Current Face	Amortized Cost	Fair Value	Net Accrued Interest	Net Interest Income	Unrealized Gain	Net Realized Gain	Amount Included in Statement of Operations	Net Intere Incon
Non-Agency RMBS	$399,457,214	$367,050,519	$371,859,013	$1,118,677	$2,709,109	$3,129,536	$950,769	$6,789,414	$5,97
ABS	-	-	-	-	-	-	-	-	230
CMBS	-	-	-	-	208,153	641,313	1,661,167	2,510,633	660
Total	$399,457,214	$367,050,519	$371,859,013	$1,118,677	$2,917,262	$3,770,849	$2,611,936	$9,300,047	$6,86

The following table presents certain information related to the repurchase agreements accounted for as a part of linked transactions as of September 30, 2013:

Instrument	Repurchase Agreement	Weighted Average Interest Rate	Weighted Average Years to Maturity
Non-Agency RMBS	$ 213,681,000	1.91 %	0.07
CMBS	15,584,000	1.34 %	0.06
	$ 229,265,000	1.87 %	0.07

The following table presents certain information related to the repurchase agreements accounted for as a part of linked transactions as of September 30, 2012:

Instrument	Repurchase Agreement	Weighted Average Interest Rate	Weighted Average Years to Maturity
Non-Agency RMBS	$ 274,292,769	1.82 %	0.05
	$ 274,292,769	1.82 %	0.05

At September 30, 2013, the Company had real estate securities with a fair value of $7.3 million pledged as collateral against its derivatives and had $19.0 million of net cash received as collateral against its derivatives. The Company pledged assets accounted for within linked transactions with a fair value of $279.7 million as collateral against the related linked repurchase agreements. At September 30, 2012, the Company had real estate securities with a fair value of $46.5 million and restricted cash of $2.6 million pledged as collateral against its derivatives. The Company also pledged assets accounted for within linked transactions with a fair value of $371.9 million as collateral against the related linked repurchase agreements. The Company reduces credit risk on the majority of its derivative instruments by entering into agreements that permit the closeout and netting of transactions with the same counterparty or CCP/FCM upon occurrence of certain events.

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

The Company has also sold short U.S. Treasury securities contracts to help mitigate the potential impact of changes in interest rates. As of September 30, 2013 the Company had obligations to return U.S. Treasury securities borrowed under reverse repurchase agreements accounted for as securities borrowing transactions with a fair value and notional amount of $50.0 million. This liability is presented as “Obligation to return securities borrowed under reverse repurchase agreements, at fair value” on the consolidated balance sheet. As of September 30, 2013, the U.S. Treasury securities had a weighted average maturity of 7.6 years. The borrowed securities were collateralized by cash loaned under reverse repurchase agreements of $50.1 million, which is presented as “Receivable under reverse repurchase agreements” on the consolidated balance sheet. As of September 30, 2013, the reverse repurchase agreements had a weighted average maturity of October 4, 2013. Changes in fair value of the borrowed securities are recorded in “Unrealized gain/(loss) on derivative and other instruments, net” line item in our consolidated statements of operations. During the three months ended September 30, 2013, the Company recorded unrealized losses of $1.1 million on the borrowed securities. Realized gains and losses are recorded on the “Net realized gain/(loss) line item in our consolidated statements of operations. During the three months ended September 30, 2013, the Company recorded $0.0 million of realized gains. The Company had no short positions in U.S. Treasury securities as of December 31, 2012.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

8. Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net income/(loss) available to common stockholders for the period by the weighted- average shares of the Company’s common stock outstanding for that period that participate in dividends. Diluted EPS 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.

As of September 30, 2013 and September 30, 2012, the Company’s outstanding warrants and unvested shares of restricted common stock were as follows:

	September 30, 2013	September 30, 2012
Warrants	1,007,500	2,366,500
Restricted stock granted to the Manager	13,418	26,834
Restricted stock granted to the independent directors	2,500	4,000

Each warrant entitles the holder to purchase half a share of the Company’s common stock at a fixed price upon exercise of the warrant.During the three and nine months ended September 30, 2013, the Company excluded the effects of such from the computation of diluted earnings per share because their effect would be anti-dilutive. During the three and nine months ended September 30, 2012, the average market value per share of the Company's common stock was above the exercise price of the warrants, and therefore the warrants were included in the Company’s diluted weighted average shares outstanding in accordance with ASC 260. Shares of restricted stock held by the Manager and independent directors accrue dividends, but are not paid until vested and are therefore not considered to be participating shares. The dilutive effects of these shares are only included in diluted weighted average shares outstanding.

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and nine months ended September 30, 2013 and September 30, 2012:

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Numerator:								
Net income/(loss) available to common stockholders for basic and diluted earnings per share	$	2,633,165	$	60,430,279	$	(58,566,023)	$	116,298,495
Denominator:								
Basic weighted average common shares outstanding		28,359,937		19,336,154		27,906,946		16,439,100
Dilutive effect of manager and director restricted stock and warrants		6		126,830		-		10,350
Dilutive weighted average common shares outstanding		28,359,943		19,462,984		27,906,946		16,449,450
	$	0.09	$	3.13	$	(2.10)	$	7.07

Basic Earnings/(Loss) Per Share of Common Stock:				
Diluted Earnings/(Loss) Per Share of Common Stock:	$ 0.09	$ 3.10	$ (2.10)	$ 7.07

Excluded from the computation of diluted earnings per share because their effect would be anti-dilutive were both Manager and director restricted stock and warrants of 61,215 for the nine months ended September 30, 2013.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

9. Income Taxes

As a REIT, the Company is not subject to Federal income tax to the extent that it makes qualifying distributions to its stockholders, and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. Most states recognize REIT status as well.

The Company files tax returns in several U.S jurisdictions. There are no ongoing U.S. federal, state and local tax examinations.

The Company has elected to treat AG MIT II, LLC, AG MITT RMAT 2013, LLC and AG MITT RMAT 2013 II, LLC as 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. A TRS is subject to federal, state and local corporate income taxes. During the three and nine months ended September 30, 2013 the Company recognized an income tax provision of $0.1 million and $2.8 million related to the income and sale of investments held within AG MITT RMAT 2013, LLC and AG MITT RMAT 2013 II, LLC.

Cash distributions declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a distribution is designated by the Company as a capital gain dividend. Distributions in excess of the Company’s current and accumulated earnings and profits will be characterized as return of capital or capital gains.

Based on the Company’s analysis of any potential uncertain income tax positions, the Company concluded it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of September 30, 2013 and December 31, 2012. The Company’s federal income tax return for the 2012 and 2011 tax years are open to examination by the Internal Revenue Service. In the event that the Company incurs income tax related interest and penalties, its policy is to classify them as a component of provision for income taxes.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

10. Related Party Transactions

The Company has entered into a management agreement with the Manager, which provides for an initial term through June 30, 2014, and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, which became effective July 6, 2011 (upon the consummation of the Company's IPO), the Manager provides the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of Angelo, Gordon. The Company does not have any employees. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility its day-to-day duties and obligations arising under the Company's management agreement.

Management fee

The Manager is entitled to a management fee equal to 1.50% per annum, calculated and paid quarterly, of the Company's Stockholders' Equity. For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus the Company's retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that the Company pays for repurchases of its common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in the Company's financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements.

For the three and nine months ended September 30, 2013, the Company incurred management fees of approximately $2.5 million and $8.2 million, respectively. For the three and nine months ended September 30, 2012, the Company incurred management fees of approximately $1.7 million and $3.9 million, respectively.

Termination fee

The termination fee, payable for the Company's termination of the management agreement without cause or the Manager's termination of the management agreement upon a default in the performance of any material term of the management agreement, will be equal to three times the average annual management fee during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. As of September 30, 2013 and December 31, 2012, no event of termination of the management agreement had occurred.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

Expense reimbursement

The Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation. The Company will not reimburse the Manager for the salaries and other compensation of its personnel except that the Company will be responsible for expenses incurred by the Manager in employing the Company's chief financial officer, general counsel and other employees as further described below.

The Company will reimburse the Manager or its affiliates for the allocable share of the compensation, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits paid to (i) the Company's chief financial officer based on the percentage of his time spent on Company affairs, (ii) the Company's general counsel based on the percentage of his time spent on the Company's affairs, and (iii) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment personnel of the Manager and its affiliates who spend all or a portion of their time managing the Company's affairs based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, they will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business. For the three and nine months ended September 30, 2013, the Company has expensed into Other operating expenses $1.6 million and $4.4 million, respectively, of reimbursable expenses payable to the Manager. The Manager did not waive any expense reimbursements for the three and nine months ended September 30, 2013. The Manager waived its right to receive expense reimbursement of $0.9 million and $1.8 million of expense reimbursement for the three and nine months ended September 30, 2012, respectively.

Restricted stock grants

On July 6, 2011 (the date of consummation of the IPO), the Company entered into (i) a restricted stock award agreement with the Manager under the Manager Equity Incentive Plan, pursuant to which the Manager received 40,250 shares of the Company's common stock, which vest ratably on a quarterly basis over a three-year period that began on October 1, 2011 and (ii) restricted stock award agreements with the Company's four initial independent directors under the Equity Incentive Plan, pursuant to which each of the four initial independent directors received 1,500 shares of the Company's common stock that vest in equal installments over three years on each annual anniversary of the grant date. Following the election of the fifth independent director at the 2013 Annual Meeting of Stockholders, 500 shares of the Company's common stock were granted on September 1, 2013 to the fifth independent director under the Equity Incentive Plan. These shares will vest on July 6, 2014.

Pursuant to the Manager Equity Incentive Plan and the Equity Incentive Plan, 277,500 shares of common stock are available to be awarded. Awards under the equity incentive plans are forfeitable until they become vested. An award will become vested only if the vesting conditions set forth in the award agreement (as determined by the board of directors or the compensation committee, as applicable) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goal, or a combination of both. The board of directors or the compensation committee, as applicable, also has authority to provide for accelerated vesting upon the occurrence of certain events.

The Company also pays a $60,000 annual base director's fee to each independent director. With respect to the fifth independent director elected at the 2013 Annual Meeting of Stockholders, the annual base director's fee for 2013 will be prorated for the period of May 1, 2013 to December 31, 2013. Base director's fees are paid 50% in cash and 50% in

restricted common stock. The number of shares of restricted common stock to be issued each quarter to each independent director is determined based on the fair market value of the Company's common stock equal to the closing price thereof on the New York Stock Exchange on the last business day of each fiscal quarter. To the extent that any fractional shares would otherwise be issuable and payable to each independent director, a cash payment is made to each independent director in lieu of any fractional shares. All directors' fees are paid pro rata (and restricted stock grants determined) on a quarterly basis in arrears, and shares issued are fully vested and non-forfeitable. These shares may not be sold or transferred during the time of service as an independent member of the Company's board.

11. Equity

On January 24, 2012, the Company completed a follow-on offering of 5,000,000 shares of its common stock and subsequently issued an additional 750,000 shares of common stock pursuant to the underwriters' over-allotment option at a price of $19.00 per share, for aggregate gross proceeds of approximately $109.3 million. Net proceeds to the Company from the offering were approximately $104.0 million, net of issuance costs of approximately $5.3 million.

On July 13, 2012, the Company filed a shelf registration statement on Form S-3 with the SEC, offering up to $1.0 billion of capital stock. The registration statement was declared effective on July 20, 2012. At September 30, 2013, approximately $549.5 million of our capital stock was available for issuance under the registration statement.

On August 3, 2012, the Company completed a public offering of 1,800,000 shares of 8.25% Series A Cumulative Redeemable Preferred Stock and subsequently issued an additional 270,000 shares pursuant to the underwriters' over-allotment option with a liquidation preference of $25.00 per share. The Company received total gross proceeds of approximately $51.8 million. Net proceeds to the Company from the offering were approximately $49.9 million, net of underwriting discounts, commissions and expenses. The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Under certain circumstances upon a change of control, the Series A Preferred Stock is convertible to shares of the common stock. Holders of Series A Preferred Stock have no voting rights, except under limited conditions, and holders are entitled to receive cumulative cash dividends at a rate of 8.25% per annum of the $25.00 per share liquidation preference before holders of the common stock are entitled to receive any dividends. Shares of the Series A Preferred Stock are redeemable at $25.00 per share plus accumulated and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on August 3, 2017, or earlier under certain circumstances intended to preserve the Company's qualification as a REIT for Federal income tax purposes. Dividends are payable quarterly in arrears on the 17th day of each March, June, September and December. As of September 30, 2013, the Company had declared all required quarterly dividends on the Series A Preferred Stock.

On August 15, 2012, the Company completed a public offering of 6,000,000 shares of its common stock and simultaneously issued an additional 900,000 shares pursuant to the underwriters' over-allotment option at a price of $23.29 per share. The Company received total gross proceeds of approximately $160.7 million. Net proceeds to the Company from the offering were approximately $152.7 million, net of underwriting discounts, commissions and expenses.

On September 6, 2012, the Company entered into an equity distribution agreement with each of Mitsubishi UFJ Securities (USA), Inc., JMP Securities LLC and Brinson Patrick Securities Corporation (the "Sales Agents"), which the Company refers to as the Equity Distribution Agreements, pursuant to which the Company may sell up to 3,000,000 shares of common stock from time to time through the Sales Agents, as defined in Rule 415 under the Securities Act of 1933. As of September 30, 2013, the Company had sold 1,254,854 shares of common stock through the Sales Agents for net proceeds of approximately $31.3 million.

On September 27, 2012, the Company completed a public offering of 4,000,000 shares of 8.00% Series B Cumulative Redeemable Preferred Stock and issued an additional 600,000 shares pursuant to the underwriters' over-allotment

option with a liquidation preference of $25.00 per share. The Company received total gross proceeds of approximately $115.0 million. Net proceeds to the Company from the offering were approximately $111.3 million, net of underwriting discounts, commissions and expenses. The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Under certain circumstances upon a change of control, the Series B Preferred Stock is convertible to shares of the common stock. Holders of Series B Preferred Stock have no voting rights, except under limited conditions, and holders are entitled to receive cumulative cash dividends at a rate of 8.00% per annum of the $25.00 per share liquidation preference before holders of the common stock are entitled to receive any dividends. Shares of the Series B Preferred Stock are redeemable at $25.00 per share plus accumulated and unpaid dividends (whether or not declared) exclusively at the Company’s option commencing on September 27, 2017, or earlier under certain circumstances intended to preserve the Company’s qualification as a REIT for Federal income tax purposes. Dividends are payable quarterly in arrears on the 17th day of each March, June, September and December. As of September 30, 2013, the Company had declared all required quarterly dividends on the Series B Preferred Stock.

On December 26, 2012, the Company completed a public offering of 3,750,000 shares of its common stock at a price of $24.33 per share. The Company received total gross proceeds of approximately $91.2 million. Net proceeds to the Company from the offering were approximately $87.5 million, net of underwriting discounts, commissions and expenses.

For the nine months ended September 30, 2013, warrants were exercised by the cashless exercise option, which resulted in the issuance of 20,101 shares of common stock. No proceeds were received in connection with the exercise of the cashless option. For the nine months ended September 30, 2013, warrants were exercised by the cash exercise option, which resulted in the issuance of 196,250 shares of common stock for proceeds to the Company of $4.0 million. No warrants were exercised during the three months ended September 30, 2013. For the three and nine months ended September 30, 2012, warrants were exercised by the cashless exercise option, which resulted in the issuance of 38,307 shares of common stock. No proceeds were received in connection with the exercise of the cashless option. For the three and nine months ended September 30, 2012, warrants were exercised by the cash exercise option, which resulted in the issuance of 163,749 shares of common stock for proceeds to the Company of $3.4 million.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
September 30, 2013

During the quarter ended September 30, 2013, the Company declared a quarterly dividend to common stockholders totaling $17.0 million, or $0.60 per share, which was paid on October 28, 2013. For the nine months ended September 30, 2013, the Company declared dividends to common stockholders of $61.7 million or $2.20 per share. During the quarter ended September 30, 2012, the Company declared a quarterly dividend to common stockholders totaling $17.6 million, or $0.77 per share, which was paid on October 26, 2012. For the nine months ended September 30, 2012, the Company declared dividends to common stockholders of $39.7 million, or $2.17 per share.

During the three months ended September 30, 2013, the board of directors declared a quarterly distribution to the holders of the Series A Preferred Stock and Series B Preferred Stock of $0.51563 per share and $0.50 per share, respectively. The distributions were paid on September 17, 2013 to stockholders of record as of August 30, 2013. During the nine months ended September 30, 2013, the board of directors declared distributions to the holders of the Series A Preferred Stock and Series B Preferred Stock of $1.54689 per share and $1.50 per share, respectively. During the three months ended September 30, 2012, the board of directors declared a distribution to the holders of the Series A Preferred Stock of $0.2521 per share for the partial quarterly period that began on the initial issuance date of the Series A Preferred Stock and ended on September 16, 2012. The distribution was paid on September 17, 2012 to stockholders of record as of August 31, 2012.

12. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any significant contingencies at September 30, 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this quarterly report on Form 10-Q, or this "report," we refer to AG Mortgage Investment Trust, Inc. as "we," "us," the "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, AG REIT Management, LLC, as our "Manager," and we refer to the indirect parent company of our Manager, Angelo, Gordon & Co., L.P., as "Angelo, Gordon."

The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements, which are included in Item 1 of this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Forward-Looking Statements

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans, objectives, the composition of our portfolio, actions by governmental entities, including the Federal Reserve, and the potential effects of proposed legislation on us. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-lo statements.

These forward-looking statements are based upon information presently available to our management and are inherently subjective, uncertain and subject to change. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks identified under the captions "Risk Factors," "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2012 (Commission File No. 001-35151), and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (Commission File No. 001-35151), which are available on the Securities and Exchange Commission's website at www.sec.gov. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

All written or oral forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate, except as may otherwise be required by law.

Overview

We are a Maryland corporation focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to our target assets. We are externally managed by our Manager, a wholly-owned subsidiary of Angelo, Gordon. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility for its Manager's day-to-day duties and obligations arising under our management agreement.

We are currently invested substantially in residential mortgage-backed securities, or RMBS, for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally-chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage

Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities. We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities and collateralized mortgage obligations (“CMOs”). We expect our portfolio, over time, will include a more significant portion of RMBS that are not issued or guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or Non-Agency RMBS. Our Non-Agency RMBS investments may include fixed- and floating- rate securities, including investment grade and non-investment grade. We have invested in other target assets, including asset backed securities, or ABS, and commercial mortgage-backed securities, or CMBS, which, together with Agency RMBS and Non-Agency RMBS, we collectively refer to as real estate securities. We have also invested in commercial mortgage loans. We have the discretion to invest in other target assets such as residential mortgage loans, other real estate structured finance products, other real estate-related loans and securities and direct or indirect interests in real estate. Non-Agency RMBS, ABS, CMBS and residential and commercial loans are referred to as our credit portfolio, and residential and commercial mortgage loans are collectively referred to as loans.

We conduct our operations to qualify and be taxed as a REIT for U.S. federal income tax purposes. Accordingly, we generally will not be subject to federal income tax on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act.

Market and interest rate trends

In September 2012, the U.S. Federal Reserve announced a third round of quantitative easing, known as QE3, pursuant to which it would purchase additional Agency RMBS at a pace of $40 billion per month until further notice. The Federal Reserve also announced that it would maintain its policy of reinvesting principal payments from its existing holdings of Agency RMBS into new such purchases until the employment rate, among other economic indicators, showed signs of improvement. The Federal Reserve further stated that it would maintain the target range for the Federal Funds Rate between zero and 0.25% through at least mid-2015, which is six months longer than previously announced.

The Federal Reserve Open Market Committee (the "FOMC") meeting minutes released on April 10, 2013 revealed that the FOMC had begun considering when the Federal Reserve should begin tapering the pace of Agency RMBS purchases set in September 2012. The FOMC meeting minutes released on May 22, 2013 announced that the Federal Reserve was considering beginning to taper such purchase as early as June 2013. In minutes released on June 25, 2013, the FOMC stated that the Federal Reserve would begin to scale back Agency RMBS purchases later in 2013 and that such purchases would cease entirely when the unemployment rate reached 7%.

The market reaction to the tapering of QE3 occurring earlier than expected was extremely negative. The rate on ten-year Treasury notes moved sharply higher during the second quarter of 2013. After hitting an intra-quarter low of 1.63% in early May, the market sold off significantly, reaching a high above 2.60% before closing the quarter at 2.49%. During the course of these events, Agency RMBS underperformed dramatically. The fear of the largest buyer in the market curtailing its participation and support triggered many market participants selling Agency RMBS. REIT managers also sold assets as durations extended and the mortgage basis widened. The 30-year mortgage rate mirrored the move in the markets, rising from 3.57% at the end of the first quarter to 4.46% as of the end of June. Liquidity in the Agency RMBS market suffered as sellers were plentiful but few market participants elected to add risk during this period. Fixed income benchmark indices also suffered during the months of May and June, triggering redemptions out of many indexed mutual funds. Treasury yields and mortgage rates continued their steady rise higher in July, August and the first half of September as the market attempted to price in the full impact of tapering, with ten-year notes closing just below 3% on September 5, 2013. When the September 18, 2013 FOMC statement failed to deliver the widely anticipated taper, yields immediately dropped and ten-year notes closed the day at 2.69% versus 2.85% the prior day. The Agency RMBS basis also tightened on this news, as the Federal Reserve would maintain the pace of its monthly purchases despite overall declining origination volumes in the market. On October 30, 2013, the FOMC announced that it would continue reinvesting principal payments from its holdings of agency debt and Agency RMBS into Agency RMBS and U.S. Treasury securities at the current pace indefinitely. The FOMC believes that these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help control the rate of inflation. The October 30, 2013 announcement provided no additional guidance as to when tapering might begin.

The significant move in benchmark rates during the second quarter had triggered an overall weakening of the fixed income credit markets. Liquidity evaporated across many segments of the broader mortgage-backed securities market. Over the course of the third quarter many sectors that had experienced second quarter sell-offs were able to retrace a portion of their price declines, especially after the FOMC statement in September. The ABX 2006-2 AAA index traded below $68.00 intra-quarter to close at $72.00 at the end of the third quarter 2013. Likewise, the CMBS Series 3 AJ index traded as low as $69.04 during the quarter to then close the month of September at $71.875. Asset valuations have been lifted while the Federal Reserve has elected to postpone the onset of tapering. While the consensus forecast has moved to a March onset for taper, we believe this postponement also creates the potential for further bouts of limited liquidity and volatility. Looking ahead, market participants will continue to debate the precise timing and magnitude of taper and therefore scrutinize every data release in an attempt to determine its impact on the Federal Reserve's view of overall economic conditions.

The Federal Reserve's forward guidance also indicates that the timing of the initial increase in the Fed Funds rate is likely to occur at a later date than the market previously anticipated. The market has also had to contend with non-taper related events including the debt ceiling, the federal budget negotiations and the shifting composition of the FOMC in 2014. Although at present the consensus view is that the FOMC will likely announce tapering no earlier than the end of the first quarter of 2014, prior to that time we may position the portfolio to withstand episodes of significant volatility in interest rates, as well as potentially limited liquidity in the credit markets stemming from credit spread widening.

We continue to believe that 2012 marked a bottoming in the U.S. commercial and residential real estate markets. Despite the recent increase in mortgage rates, we remain optimistic about the prospects for home price appreciation over the remainder of 2013 and into 2014 and beyond. Currently, the U.S. housing market benefits from favorable supply/demand dynamics, historically low mortgage rates, an increase in household formation and an influx of capital into the real estate-owned rental strategy. However, we expect that, without an increase in median income, the pace of home price appreciation is likely to moderate over the coming years. Furthermore, we believe the deep dislocations that occurred in these markets may result in an "over-correction" in pricing, creating a potential opportunity for us to capitalize on these market dislocations. As we look ahead to the remainder of 2013 and 2014, we believe further opportunities will arise from the evolution of the housing finance market.

The market movements outlined above have had a meaningful impact on our existing portfolio and may also have a significant impact on our operating results going forward. We believe current market dynamics may impact the availability and cost of financing. Furthermore, we may elect to apply a more dynamic hedging policy than we historically have employed, the cost of which may impact our earnings going forward. We expect that overall market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

Recent Government Activity

On June 25, 2013, Senators Bob Corker (R-TN) and Mark Warner (D-VA), with Senators Mike Johanns (R-NE), Jon Tester (D-MT), Dean Heller (R-NV), Heidi Heitkamp (D-ND), Jerry Moran (R-KS) and Kay Hagan (D-NC), formally introduced the Housing Finance Reform and Taxpayer Protection Act of 2013 (the “Corker-Warner Bill”) into the U.S. Senate. While the current draft of the Corker-Warner Bill will likely undergo significant changes as it is debated, it is expected to serve as a basis of discussion for congressional efforts to reform Fannie Mae and Freddie Mac.

As currently drafted, the Corker-Warner Bill has three key provisions:

i. the establishment of the Federal Mortgage Insurance Corporation (the “FMIC”);
ii. the creation of a Mortgage Insurance Fund (the “Fund”); and
iii. the wind-down of Fannie Mae and Freddie Mac.

The FMIC would be a government guarantor modeled after the Federal Deposit Insurance Corporation (the “FDIC”) in that it would collect insurance premiums and maintain a deposit fund on all outstanding obligations. Every mortgage-backed security issued through the FMIC would have a private investor bearing the first risk of loss and holding at least $0.10 in equity capital for every dollar of risk. This private capital buffer would serve to protect taxpayers from the risk of default on the mortgages underlying securities issued by the FMIC. Thus, the ultimate purpose of the FMIC would be to bring in credit investors to bear the risk of default while providing liquidity, transparency and access to mortgage credit for the housing finance system.

The Federal Housing Finance Authority (the “FHFA”) would be abolished after the establishment of the FMIC, and all current responsibilities of the FHFA, as well as its resources, would be transferred to the FMIC. In particular, the Corker-Warner Bill specifies that the FMIC would maintain a database of uniform loan-level information on eligible mortgages, develop standard uniform securitization agreements and oversee the common securitization platform currently being developed by the FHFA.

In the event losses due to default on underlying mortgages exceed the first position losses of private credit investors in securities issued by the FMIC, the FMIC would cover such losses out of the Fund. The Corker-Warner Bill specifies that the FMIC would endeavor to attain a reserve balance of 1.25% of the aggregate outstanding principal balance of covered securities within five years of the establishment of the FMIC and 2.50% of such amount within ten years of the establishment of the FMIC. The Fund would be paid with insurance premiums, akin to user fees, paid by private investors with various reporting and transparency requirements.

As currently proposed, the Corker-Warner Bill would revoke the charters of Fannie Mae and Freddie Mac upon the establishment of the FMIC. Fannie Mae and Freddie Mac would wind down as expeditiously as possible while maximizing returns to taxpayers as their assets are sold off.

On July 11, 2013, U.S. Representatives introduced the Protecting American Taxpayers and Homeowners Act (“PATH”), a broad financing reform bill that serves as a counterpart to the Corker-Warner Bill. PATH would also revoke the charters of Fannie Mae and Freddie Mac and remove barriers to private investment. However, PATH would maintain the FHFA and give it oversight over a new non-government, not-for-profit National Mortgage Market Utility, the

mission of which would be to develop best practices standards for the private origination, servicing, pooling and securitizing of mortgages and operate a publicly accessible securitization outlet to match loan originators with investors. Additional provisions of PATH include the reduction in size and scope of the Federal Housing Administration, tailoring its mission specifically to first-time borrowers and low- and moderate- income borrowers except in periods of significant credit contraction.

There is no way to know if either proposal will become law or, should one of the proposals become law, if or how the enacted law will differ from the current draft of the bill. It is also unclear how these proposal would impact housing finance, and what impact, if any, they would have on mortgage REITs.

Factors impacting our operating results

Our operating results can be affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace. Our net interest income, which reflects the amortization of purchase premiums and accretion of purchase discounts, varies primarily as a result of changes in market interest rates and prepayment speeds, as measured by the Constant Prepayment Rate, (“CPR”), on our RMBS. Interest rates vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results can be impacted by unanticipated credit events experienced by borrowers whose mortgage loans are included in our RMBS.

See the caption “Risk Factors” in this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2012 (Commission File No. 001-35151) and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which are available on the Securities and Exchange Commission’s website at www.sec.gov.

Investment activities

We are currently invested in Agency RMBS, Non-Agency RMBS, ABS, CMBS, mortgage loans and other real estate-related assets. For the period from our IPO to December 31, 2011, the risk-reward profile of investment opportunities supported the deployment of a majority of our capital in Agency RMBS. Labor, housing and economic fundamentals, together with U.S. monetary policy designed to keep interest rates low, supported our Agency RMBS investments in this period. Overweighting of these investments was also favored by the relative ease of funding and superior liquidity. We also acquired a limited amount of Non-Agency RMBS, ABS and CMBS assets for our investment portfolio.

In 2012, we accomplished our goal of increasing our exposure to credit securities and leveraging the broader Angelo, Gordon platform. In particular, subsequent to the announcement of QE3 by the Federal Reserve in September 2012, we elected to minimize additional investments in Agency RMBS. Throughout the first part of 2013, we remained positioned in Agency RMBS assets that we believed would perform well in an ongoing elevated prepayment environment. During the second quarter however, we concurrently elected to increase our hedging activity, perceiving the potential for an increase in interest rate volatility and benchmark interest rates. We have since then reduced our hedging activity and rotated into shorter duration Agency RMBS. We will continue to base our investment decisions on a variety of factors, including liquidity, duration, interest rate expectations and hedging, and the mix of assets in our portfolio may accordingly shift over time.

We finance our investments in real estate securities primarily through short-term borrowings structured as repurchase agreements. Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize derivative financial instruments (or hedging instruments), including interest rate swap agreements and interest rate cap agreements, in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the cost of our financing.

As discussed in Note 2 to our financial statements, if we purchase a security and finance it with a repurchase agreement, and the transaction is considered linked under ASC 860-10, we 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 statement of operations. Throughout this Item 2, where we disclose our unlinked investment portfolio and the related repurchase agreements that finance it, we have un-linked the transactions and used the gross presentation as used for all other securities, and we have presented a reconciliation to GAAP. The presentation inclusive of linked transactions is consistent with how the management evaluates the Company’s business, and management believes it provides the most accurate depiction of the Company’s investment portfolio and financial condition.

The following table presents a reconciliation of certain information related to securities inclusive of unlinked securities to securities on a GAAP basis as of September 30, 2013:

Instrument	Current Face	Amortized Cost	Unrealized MTM	Fair Value	Weighted Average Coupon	Weighted Average Life
Agency RMBS:						
15 Year Fixed Rate	$ 581,988,428	$ 599,490,276	$ 6,311,383	$ 605,801,659	3.13 %	5.24
20 Year Fixed Rate	321,962,591	330,362,646	(813,870)	329,548,776	3.36 %	7.44
30 Year Fixed Rate	1,121,864,732	1,186,512,235	(11,302,680)	1,175,209,555	4.01 %	9.60
ARM	505,107,796	502,941,692	1,019,441	503,961,133	2.40 %	6.01
Interest Only	723,052,361	135,761,499	(3,250,370)	132,511,129	4.87 %	4.30
Credit Investments:						
Non-Agency RMBS	1,022,136,598	871,780,695	16,418,594	888,199,289	3.87 %	5.57
ABS	100,516,816	100,126,816	(782,493)	99,344,323	3.80 %	1.12
CMBS	83,470,315	80,040,267	(375,824)	79,664,443	4.22 %	4.37
Interest Only	52,357,700	6,710,335	(213,914)	6,496,421	1.92 %	4.53
Total: Non-GAAP Basis - Including Linked Transactions	$ 4,512,457,337	$ 3,813,726,461	$ 7,010,267	$ 3,820,736,728	3.75 %	6.38
Linked Transactions	$ 311,676,369	$ 275,416,315	$ 4,239,184	$ 279,655,499	3.95 %	4.79
Total: GAAP Basis - Excluding Linked Transactions	$ 4,200,780,968	$ 3,538,310,146	$ 2,771,083	$ 3,541,081,229	3.74 %	6.49

The following table presents a reconciliation of certain information related to securities inclusive of unlinked securities to securities on a GAAP basis as of December 31, 2012:

Instrument	Current Face	Amortized Cost	Unrealized MTM	Fair Value	Weighted Average Coupon (1)	Weighted Average Life
Agency RMBS:						
15 Year Fixed Rate	$ 1,177,320,487	$ 1,224,242,576	$ 23,967,620	$ 1,248,210,196	2.97 %	4.90
20 Year Fixed Rate	137,858,353	144,555,156	3,569,538	148,124,694	3.68 %	6.29
30 Year Fixed Rate	1,998,807,425	2,114,981,215	28,756,880	2,143,738,095	3.63 %	8.38
ARM	36,228,319	37,813,033	362,721	38,175,754	2.96 %	5.84
Interest Only	972,543,812	209,201,756	(1,583,344)	207,618,412	6.00 %	4.30

Credit Investments:											
Non-Agency RMBS		970,183,150		852,498,516		13,519,124		866,017,640	4.72	%	7.04
ABS		33,620,881		33,584,592		352,505		33,937,097	5.34	%	1.37
CMBS		110,406,946		107,256,568		2,803,346		110,059,914	5.27	%	5.14
Interest Only		640,867,674		68,181,748		(445,147)		67,736,601	2.13	%	4.06
Total: Non-GAAP Basis - Including Linked Transactions	$	6,077,837,047	$	4,792,315,160	$	71,303,243	$	4,863,618,403	3.97	%	6.22
Linked Transactions	$	349,775,342	$	318,449,020	$	8,140,603	$	326,589,623	4.79	%	6.54
Total: GAAP Basis - Excluding Linked Transactions	$	5,728,061,705	$	4,473,866,140	$	63,162,640	$	4,537,028,780	3.92	%	6.20

(1) Equity residual investments with a zero coupon rate are excluded from this calculation.

As mentioned above, our investments have been focused in Agency RMBS given the relative ease of funding and superior liquidity. We evaluate investments in Agency RMBS using factors including expected future prepayment trends, supply and demand, costs of financing, costs of hedging, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. Our Non-Agency RMBS, ABS, CMBS, mortgage loans and interest only securities are subject to risk of loss with regard to principal and interest payments. We evaluate each investment based on the characteristics of the underlying collateral and securitization structure, rather than relying on the ratings assigned by rating agencies.

The Company has used leverage to complete the purchase of securities in its investment portfolio. Through September 30, 2013, leverage has been in the form of repurchase agreements. 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 securities at the end of each agreement's term, typically 30 to 90 days. The Company maintains the beneficial interest in the specific securities 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 securities 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. The Company finances certain of its Agency RMBS, Non-Agency RMBS, ABS and CMBS through the use of repurchase agreements.

On April 9, 2012, AG MIT, a direct, wholly-owned subsidiary of the Company, entered into a Master Repurchase and Securities Contract (the "Repurchase Agreement") with Wells Fargo Bank, National Association to finance the Company's acquisition of certain residential, Non-Agency RMBSs. Effective April 12, 2013, AG MIT entered into an Amended and Restated Master Repurchase and Securities Contract (the "Renewal Agreement") to the Repurchase Agreement. The Renewal Agreement was entered into for multiple purposes, including the amendment of the Repurchase Agreement to finance AG MIT's acquisition of not only residential, non-Agency Securities, but also certain consumer asset-backed securities and commercial mortgage-backed securities. Each transaction under the Renewal Agreement will also have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The Renewal Agreement increases the aggregate maximum borrowing capacity of the Repurchase Agreement from $75 million to $125 million and extends the maturity date from April 8, 2013 to April 11, 2014. The Renewal Agreement also includes the same provisions in the Repurchase Agreement permitting the maturity date to be extended for an additional 90 days.

The Renewal Agreement contains representations, warranties, covenants, events of default and indemnities that are substantially identical to those in the Repurchase Agreement and are customary for agreements of this type. The 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 and AG MIT 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 following table presents a reconciliation of certain information related to repurchase agreements inclusive of unlinked repurchase agreements on a GAAP basis as of September 30, 2013:

Repurchase Agreements Maturing Within:	Balance		Weighted Average Rate		Weighted Average Days to Maturity	Weighted Average Haircut	
30 days or less	$	1,549,683,000	0.99	%	17.8	12.3	%
31-60 days		858,497,000	0.46	%	46.9	6.4	%
61-90 days		217,044,000	0.50	%	70.0	8.1	%
Greater than 90 days		569,136,409	0.77	%	145.9	4.4	%
Total: Non-GAAP Basis - Including Linked Transactions	$	3,194,360,409	0.77	%	52.0	9.0	%

Linked Transactions	$	229,265,000	1.87	%	23.9	17.2	%
Total: GAAP Basis - Excluding Linked Transactions	$	2,965,095,409	0.69	%	54.2	8.4	%

42

The following table presents a reconciliation of certain information related to repurchase agreements inclusive of unlinked repurchase agreements on a GAAP basis as of December 31, 2012:

Repurchase Agreements Maturing Within:	Balance		Weighted Average Rate		Weighted Average Days to Maturity	Weighted Average Haircut	
30 days or less	$	2,525,200,001	0.83	%	15.3	7.9	%
31-60 days		783,969,000	0.52	%	44.5	4.0	%
61-90 days		547,416,000	0.57	%	70.7	3.5	%
Greater than 90 days		337,178,271	1.30	%	125.7	11.9	%
Total: Non-GAAP Basis - Including Linked Transactions	$	4,193,763,272	0.78	%	36.9	6.9	%
Linked Transactions	$	282,343,454	1.85	%	14.8	12.7	%
Total: GAAP Basis - Excluding Linked Transactions	$	3,911,419,818	0.70	%	38.5	6.5	%

The following tables present a reconciliation of our leverage ratio at September 30, 2013 and December 31, 2012 inclusive of linked transactions to our leverage on a GAAP basis. Leverage numbers presented are inclusive of net payables/receivables on unsettled trades on our GAAP balance sheet, and the calculations divide leverage by our GAAP stockholders' equity.

September 30, 2013:	Leverage (1)		Equity		Leverage Ratio
Non-GAAP Leverage	$	3,208,226,279	$	707,825,616	4.53x
Non-GAAP Adjustments		229,265,000		-	
GAAP Leverage		2,978,961,279		707,825,616	4.21x

December 31, 2012:	Leverage (1)		Equity		Leverage Ratio
Non-GAAP Leverage	$	4,182,110,308	$	794,621,781	5.26x
Non-GAAP Adjustments		282,343,454		-	
GAAP Leverage		3,899,766,854		794,621,781	4.91x

(1) Includes repurchase agreements and net payable/receivable on unsettled trades.

The Company seeks to transact with several different counterparties in order to reduce the exposure to any single counterparty. The Company entered into master repurchase agreements with 30 counterparties, under which we had outstanding debt with 28 and 29 counterparties at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012, the Company did not have greater than 10% of stockholders' equity at risk with any individual counterparty.

To help mitigate exposure to higher short-term interest rates, the Company uses currently-paying and may use forward-starting, one-and three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement establishes a relatively stable fixed rate on related borrowings because the variable-rate payments received on the swap agreements largely offset interest accruing on the related borrowings, leaving the fixed-rate payments to be paid on the swap agreements as the Company's effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

The following table presents information about the Company's interest rate swaps as of September 30, 2013:

Maturity		Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2016		$ 180,000,000	0.90	%	0.26	%	2.71
2017		335,000,000	1.05	%	0.26	%	3.95
2018		818,000,000	1.28	%	0.26	%	4.67
2019		350,000,000	1.38	%	0.26	%	5.80
2020		665,000,000	1.70	%	0.26	%	6.56
2022		50,000,000	1.69	%	0.26	%	8.93
2023	*	245,000,000	2.37	%	0.26	%	9.71
Total/Wtd Avg		$ 2,643,000,000	1.45	%	0.26	%	5.62

* This figure includes a forward starting swap with a total notional of $25.0 million and a start date of October 1, 2013. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of September 30, 2013.

The following table presents information about the Company’s interest rate swaps as of December 31, 2012:

Maturity		Notional Amount	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
2014		$ 204,500,000	1.00 %	0.33 %	1.54
2015		364,025,000	1.08 %	0.30 %	2.42
2016		367,500,000	1.08 %	0.30 %	3.36
2017		410,000,000	1.02 %	0.31 %	4.70
2018	*	320,000,000	1.31 %	0.31 %	5.56
2019	*	450,000,000	1.39 %	0.31 %	6.56
2022		50,000,000	1.69 %	0.31 %	9.68
Total/Wtd Avg		$ 2,166,025,000	1.17 %	0.31 %	4.42

* These figures include forward starting swaps with a total notional of $100.0 million and a weighted average start date of April 2, 2013. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of December 31, 2012.

The Company has entered into to-be-announced, or TBA, security positions to facilitate the future purchase or sale of specified Agency RMBS. Pursuant to these TBAs, the Company agrees to purchase or sell, for future delivery or receipt, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received would not be identified until shortly, generally two days, before the TBA settlement date. The Company records TBA purchases and sales on trade date and presents the purchase or sale net of the corresponding payable or receivable until the settlement date of the transaction. Contracts for the purchase or sale of specified Agency RMBS are accounted for as derivatives if the delivery of the specified Agency security and settlement extends beyond the shortest period possible for that type of security.

The following tables present information about the Company’s TBAs for the three and nine months ended September 30, 2013 and September 30, 2012:

For the Three Months Ended September 30, 2013

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Receivable from Broker	Derivative Asset	Derivative Liability
TBAs	$(150,000,000)	$623,000,000	$(498,000,000)	$(25,000,000)	$(24,431,640)	$23,095,117	$284,375	$(1,620,898)

For the Three Months Ended September 30, 2012

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Payable to Broker	Derivative Asset	Derivative Liability
TBAs	$ -	$ 275,000,000	$ (275,000,000)	$ -	$ -	$ 363,477	$ 2,936,328	$ (2,572,851)

For the Nine Months Ended September 30, 2013

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Net Notional Amount	Net Fair Value as of Period End	Net Receivable from Broker	Derivative Asset	Derivative Liability
TBAs	$40,000,000	$1,543,000,000	$(1,608,000,000)	$(25,000,000)	$(24,431,640)	$23,095,117	$284,375	$(1,620,898)

For the Nine Months Ended September 30, 2012

	Beginning Notional	Additions	Sale or Settlement	Ending Net Notional	Net Fair Value as of Period End	Net Payable to Broker	Derivative Asset	Derivative Liability

	Amount			Amount				
TBAs	$ 100,000,000	$ 495,000,000	$ (595,000,000)	$ -	$ -	$ 363,477	$ 2,936,328	$ (2,572,851)

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

The Company has also sold short U.S. Treasury securities contracts to help mitigate the potential impact of changes in interest rates. As of September 30, 2013, the Company had obligations to return U.S. Treasury securities borrowed under reverse repurchase agreements, which are accounted for as securities borrowing transactions, with fair values of $50.0 million. As of September 30, 2013, the U.S. Treasury securities had a weighted average maturity of 7.6 years. The borrowed securities were collateralized by cash loaned under reverse repurchase agreements of $50.1 million. As of September 30, 2013, the reverse repurchase agreements had a weighted average maturity of October 4, 2013. The Company had no short positions in U.S. Treasury securities as of December 31, 2012.

Critical accounting policies

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates that involve the exercise of judgment and use of assumptions as to future uncertainties. Our most critical accounting policies involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our consolidated financial statements are based are reasonable at the time made and based upon information available to us at that time. We rely upon independent pricing of our assets at each quarter end to arrive at what we believe to be reasonable estimates of fair market value, whenever available.

Investments in real estate securities

Our real estate securities portfolio consists primarily of Agency RMBS, Non-Agency RMBS, ABS, CMBS, and other real estate-related assets on which we have chosen to make a fair value election pursuant to ASC 825. Real estate securities are recorded at fair market value on our balance sheet and the period change in fair market value is recorded in current period earnings on our consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net". Electing the fair value option allows us to record changes in fair value in the Statement of Operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period as all securities activities will be recorded in a similar manner.

Valuation of our real estate securities portfolio is determined by our Manager using third-party pricing services. The evaluation methodology of third-party pricing services used 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 security, which are also observable inputs, including: coupon; maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. We collect and consider current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. 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.

Investments in mortgage loans

Our mortgage loan portfolio consists of one commercial mortgage loan as of September 30, 2013, on which we have chosen to make a fair value election pursuant to ASC 825. Loans are recorded at fair market value on the balance sheet and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations. Electing the fair value option allows us to record changes in fair value in the Statement of Operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period as all loans activities will be recorded in a similar manner.

Valuation of our mortgage loan portfolio is determined by our Manager using third-party pricing services where available, and specialized third party valuation service providers. 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, 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. Analyses provided by valuation service providers are reviewed and considered by the Manager.

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 a result, 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 from affiliate." Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

Interest income

Interest income on our real estate securities and loan portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities and loans. We have 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 respective investments. We estimate future expected cash flows, at the time of purchase and determine the effective interest rate based on these estimated cash flows and our purchase price. At least quarterly, these estimated cash flows are assessed and a revised yield is computed based on the current amortized cost of the investment, as needed. As further explained below, there are uncertainties and contingencies involved in estimating cash flows, which are difficult to predict and are subject to future events that may impact our estimates and, as a result, our interest income.

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 we amortize such securities. If actual and anticipated cash flows differ from previous estimates, we recognize 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, we also reassess 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 are 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.

Other-than-temporary-impairment

We evaluate securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. 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 an investment security is impaired, an OTTI is considered to have occurred if (i) we intend 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 we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell the security or if it is more likely than not that we 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. 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 gain/(loss) line item on the consolidated statement of operations.

Increases in interest income may be recognized on a security that an OTTI charge was taken, if the performance of such security subsequently improves. 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.

For any securities in an unrealized loss position as of the balance sheet date, such securities 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 cost of the investment and the Company is not required to sell the security for regulatory or other reasons.

Linked transactions

In instances where we acquire assets through repurchase agreements with the same counterparty from whom the assets were purchased, we will evaluate 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 we will record the assets and the related financing on a gross basis on our balance sheet with the corresponding interest income and interest expense in our statements of operations. If the transaction is determined to be linked, we 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 statement of operations. Such forward commitments are recorded at fair value with subsequent changes in fair value recognized in income. The analysis of transactions under these rules requires assumptions based on management's judgment and experience.

Derivatives

We enter into various types of derivative instruments to hedge our exposure to market risks. We may use derivative instruments such as interest rate swaps, TBA security positions and credit derivatives as instruments to reduce such exposure, and non-derivative instruments including Agency interest-only securities and short positions in U.S. Treasury securities to manage interest rate risk. As discussed above, our derivative instruments also include linked transactions, which reflect a forward commitment to purchase assets. We recognize all derivatives as either assets or liabilities on the balance sheet, measured at fair value. As we have not designated any derivatives as hedging instruments, all changes in fair value are reported in earnings during the period in which they occur.

Recent accounting pronouncements

In December 2011, the FASB issued Accounting Standards Updated 2011-11, “Disclosures about Offsetting Assets and Liabilities” (ASU 2011-11). ASU 2011-11 amends Topic 210 to require additional disclosure information about offsetting and related arrangements. Entities will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of US GAAP and those entities that prepare their financial statements on the basis of IFRS. The guidance is effective for periods beginning on or after January 1, 2013, and interim periods within those annual periods.

In January 2013, the FASB issued ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (ASU 2013 -1). ASU 2013-1 addresses implementation issues about ASU 2011-11 and applies to derivatives accounted for in accordance with ASC 815-10, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20 “Balance Sheet Offsetting” or ASC 815 or subject to an enforceable master netting arrangement or similar agreement. The guidance was effective January 1, 2013 and was applied retrospectively. This guidance does not amend the circumstances in which the Company offsets its derivative positions. As a result, the guidance does not have a material effect on the Company's financial statements.

Results of operations

The table below presents certain information from our Consolidated Statement of Operations for the three and nine months ended September 30, 2013 as well as the three and nine months ended September 30, 2012:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Statement of Operations Data:				
Net Interest Income				
Interest income	$ 33,278,284	$ 28,285,116	$ 114,163,747	$ 60,164,752
Interest expense	5,584,419	4,228,610	19,749,592	8,506,041
	27,693,865	24,056,506	94,414,155	51,658,711
Other Income				
Net realized gain/(loss)	(45,247,890)	4,105,323	(116,489,235)	14,087,123
Gain on linked transactions, net	2,060,270	6,688,111	6,558,879	13,492,268
Realized loss on periodic interest settlements of interest rate swaps, net	(9,123,233)	(2,471,590)	(21,205,353)	(6,061,954)
	40,136,126	45,917,570	(60,668,593)	78,755,229

Unrealized gain/(loss) on real estate securities and loans, net								
Unrealized gain/(loss) on derivative and other instruments, net		(5,779,945)		(13,371,486)		67,348,314		(26,793,133)
		(17,954,672)		40,867,928		(124,455,988)		73,479,533
Expenses								
Management fee to affiliate		2,523,547		1,657,701		8,195,890		3,903,378
Other operating expenses		2,819,431		1,653,547		7,780,385		3,227,786
Equity based compensation to affiliate		55,105		120,612		186,983		312,712
Excise tax		373,083		272,195		1,391,942		605,773
		5,771,166		3,704,055		17,555,200		8,049,649
Income/(loss) before provision for income taxes and equity in earnings from affiliate		3,968,027		61,220,379		(47,597,033)		117,088,595
Provision for income taxes		(122,979)		-		(2,778,758)		-
Equity in earnings from affiliate		2,155,471		-		1,911,830		-
Net Income/(Loss)		6,000,519		61,220,379		(48,463,961)		117,088,595
Dividends on preferred stock		3,367,354		790,100		10,102,062		790,100
Net Income/(Loss) Available to Common Stockholders	$	2,633,165	$	60,430,279	$	(58,566,023)	$	116,298,495
Share Data:								
Earnings/(Loss) Per Share of Common Stock								
Basic	$	0.09	$	3.13	$	(2.10)	$	7.07
Diluted	$	0.09	$	3.10	$	(2.10)	$	7.07

Changes in the year-to-date results of operations are primarily caused by increases in equity and our portfolio. Our year-to-date weighted average equity and investment portfolio increased by $408.1 million and $1.9 billion, respectively, inclusive of unlinked transactions and investments held within affiliated entities, from the nine months ended September 30, 2012 to the same period in 2013. These changes were primarily a result of common and preferred offerings, whose proceeds were invested throughout the respective periods.

Investment income, financing and hedging costs

Our primary source of income is the net interest earned on our investment portfolio. Our current portfolio is primarily comprised of fixed rate Agency RMBS. The portfolio has been financed with repurchase agreements. The difference between the interest earned on our assets and the interest accrued on our repurchase agreements and interest rate swaps is our net interest margin. During the three months ended September 30, 2013, the weighted average cost of securities and repurchase agreements was $3.9 billion and $3.4 billion, respectively. On an annualized basis, the average yield earned on the assets was 3.86%, and the average rate paid on repurchase agreements was 0.81%. The annualized cost associated with swaps as a percentage of the average repurchase agreement balance outstanding during the three months ended September 30, 2013 was 1.08%. During the three months ended September 30, 2012, the weighted average cost of securities and repurchase agreements was $3.7 billion and $3.2 billion, respectively. On an annualized basis, the average yield earned on the assets was 3.48%, and the average rate paid on repurchase agreements was 0.67%. The annualized cost associated with swaps as a percentage of the average repurchase agreement balance outstanding during the three months ended September 30, 2012 was 0.31%.

During the nine months ended September 30, 2013, the weighted average cost of securities and repurchase agreements was $4.7 billion and $4.0 billion, respectively. On an annualized basis, the average yield earned on the assets was 3.71%, and the average rate paid on repurchase agreements was 0.81%. The annualized cost associated with swaps as a percentage of the average repurchase agreement balance outstanding during the nine months ended September 30, 2013 was 0.70%. During the nine months ended September 30, 2012, we had a weighted average cost of securities and repurchase agreements of $2.8 billion and $2.4 billion, respectively. On an annualized basis, the average yield earned on the assets was 3.36%, and the average rate paid on repurchase agreements was 0.61%. The annualized cost associated with swaps as a percentage of the average repurchase agreement balance outstanding during the nine months ended September 30, 2012 was 0.34%.

Realized and unrealized gains/ (losses) on investments and derivatives

During the three months ended September 30, 2013, we sold certain real estate securities realizing net losses of $34.9 million, settled certain derivatives realizing a net loss of $2.0 million and recorded net realized losses of $0.4 million from the unlinking of securities previously accounted for as derivatives through linked transactions. Additionally, we recognized $7.9 million of realized losses due to OTTI charges on certain securities. During the nine months ended September 30, 2013, we sold certain real estate securities realizing net losses of $56.3 million, inclusive of $2.5 million in related tax provisions, sold certain loans realizing net gains of $0.1 million, settled certain derivatives realizing a net loss of $9.7 million and recorded net realized losses of $0.1 million from the unlinking of securities previously accounted for as derivatives through linked transactions. Additionally, we recognized $53.1 million of realized loss due to OTTI charges on certain securities.

At September 30, 2013 we identified certain securities that we intended to sell and as a result recognized an OTTI charge of $6.7 million, which is included in net realized gain/(loss). This charge represents a write-down to fair value as of the reporting date. Additionally, for the three and nine months ended September 30, 2013, the Company recognized a $1.2 million and $3.1 million OTTI charge, respectively, on certain securities. No OTTI was recorded for the three and nine months ended September 30, 2012. The decline in value of the remaining real estate securities is solely due to market conditions and not the quality of the assets. The remaining investments 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.

During the three months ended September 30, 2012, we sold certain real estate securities realizing net gains of $1.9 million, settled certain derivatives realizing a net loss of $0.4 million and recorded net realized gains of $2.6 million from the unlinking of securities previously accounted for as derivatives through linked transactions. During the nine months ended September 30, 2012, we sold certain real estate securities realizing a net gain of $9.5 million, settled certain derivatives realizing a net gain of $2.0 million and realized net gains of $2.6 million from the unlinking of securities previously accounted for as derivatives through linked transactions. We may opportunistically reposition the portfolio from time to time for numerous reasons including rotating into investments with better relative value. The timing and amount of future realized gains and losses will be impacted by these portfolio management decisions.

We have not designated any of our derivative instruments as hedges for GAAP; therefore the change in market value on such derivatives is included as a component of our net income. Our derivative instruments include interest rate derivatives, and certain TBA securities.

We have elected the fair value option on our real estate securities and loan portfolios. As a result, the change in market value of our securities is included as a component of net income.

The change in unrealized gains/(losses) was attributable to the changes in market pricing on the underlying instruments during the periods presented.

Management fees and other expenses

For the three months ended September 30, 2013 and September 30, 2012, our management fees were $2.5 million and 1.7 million, respectively. For the nine months ended September 30, 2013 and September 30, 2012, our management fees were $8.2 million and $3.9 million, respectively. Management fees are based upon a percentage of our stockholders' equity after certain adjustments, including the exclusion of unrealized gains or losses and other non-cash items.

For the three months ended September 30, 2013 and September 30, 2012, other operating costs were $2.8 million and $1.7 million, respectively. For the nine months ended September 30, 2013 and September 30, 2012, other operating costs were $7.8 million and $3.2 million, respectively. The amounts were primarily comprised of professional fees, insurance and director's fees. For three and nine months ended September 30, 2013 and 2012, certain expenses reimbursable to the Manager were also included in Other operating expense.

Of the $2.8 million and $7.8 million of Other operating expenses for the three and nine months ended September 30, 2013, respectively, the Company has expensed $1.6 million and $4.4 million, respectively, which will be paid to the Manager. Of the $1.7 million and $3.2 million of Other operating expenses for the three and nine months ended September 30, 2012, respectively, the Company has expensed $0.8 million, respectively, which have been paid to the Manager. The Manager waived its right to receive the remaining expense reimbursement of $0.4 million and $2.2 million for the three and nine months ended September 30, 2012, respectively. The Manager did not waive any expense reimbursements for the three and nine months ended September 30, 2013.

Book value per share

As of September 30, 2013, December 31, 2012 and September 30, 2012, our book value per common share was $19.26, $23.47 and 23.71, respectively.

Liquidity and capital resources

Liquidity is a measurement of our ability to meet potential cash requirements, including commitments to make distributions to our stockholders, finance our investments and expenses and satisfy other general business needs. Our principal sources of cash consist of borrowings under repurchase agreements, payments of principal and interest we receive on our real estate securities and loan portfolios, cash generated from our operating results, and proceeds from capital market transactions. We typically use cash to repay principal and interest on our repurchase agreements, purchase real estate securities, loans and other real estate related assets, make dividend payments on our capital stock, and fund our operations.

At September 30, 2013, we had $221.7 million available to support our liquidity needs, comprised of $35.1 million of cash and $186.6 million of Agency RMBS that had not been pledged as collateral under any of our financing agreements. We use leverage on certain of our assets to increase potential returns to our stockholders. The amount of leverage we may deploy for particular assets depends upon our Manager's assessment of the credit and other risks of those assets, and also depends on any limitations placed upon us through covenants contained in our master repurchase agreements as discussed below. We generate income principally from the yields earned on our investments and, to the extent that leverage is deployed, on the difference between the yields earned on our investments and our cost of borrowing and any hedging activities. Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our Investment Company Act exemption, to the extent leverage is deployed, we may use a number of sources to finance our investments.

We have entered into MRAs with 30 counterparties, allowing the Company to utilize leverage in its operations. As of September 30, 2013, we had debt outstanding of $3.2 billion with 28 counterparties, including repurchase agreements

accounted for as a component of linked transactions. The current borrowings under repurchase agreements have maturities between October 1, 2013 and May 29, 2014. These 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. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain financing agreements may contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default.

Further, under our repurchase agreements, we may be required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities or cash.

The following table presents contractual maturity information about the Company's repurchase agreements, including those accounted for within linked transactions, at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
Overnight	$	-	$	-
Within 30 days		1,549,683,000		2,525,200,001
30 to 59 days		858,497,000		783,969,000
60 to 89 days		217,044,000		547,416,000
90 to 119 days		225,182,000		200,687,271
Greater than or equal to 120 days		343,954,409		136,491,000
Total: Non-GAAP Basis - Including Linked Transactions	$	3,194,360,409	$	4,193,763,272
Linked Transactions	$	229,265,000	$	282,343,454
Total: GAAP Basis - Excluding Linked Transactions	$	2,965,095,409	$	3,911,419,818

We enter into a linked transaction when the initial transfer of a financial asset and repurchase financing are entered into contemporaneously with, or in contemplation of, one another, and all of the criteria found in ASC 860-10 are met at the inception of the transaction. In this situation, we then record the initial transfer and repurchase financing on a net basis. The fair value of linked transactions reflects the value of the underlying real estate securities, the related repurchase agreement borrowings and net accrued interest, resulting in an embedded repurchase agreement. As of September 30, 2013 and December 31, 2012, the Company had seventeen and sixteen linked transactions, respectively, resulting in $229.3 million and $282.3 million of embedded repurchase agreements with a weighted average rate of 1.87% and 1.85%, respectively. The weighted average contractual maturity of the repurchase agreements is October 24, 2013 as of September 30, 2013.

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we may utilize derivative financial instruments (or hedging instruments), including interest rate swap agreements and interest rate cap agreements, and non-derivative financial instruments including short positions in U.S. Treasury securities in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the cost of our financing. As of September 30, 2013, we have entered into $2.6 billion notional of interest rate swaps that have variable maturities between January 23, 2016 and October 1, 2023, and we have $50.0 million notional of short positions in U.S. Treasury securities with maturities between July 31, 2020 and August 15, 2023.

Effects of margin requirements, leverage and credit spreads

Our securities have values that fluctuate according to market conditions and, as discussed above, the market value of our securities will decrease as prevailing interest rates or credit spreads increase. When the value of the securities pledged to secure a repurchase agreement decreases to the point where the positive difference between the collateral value and the repurchase agreement amount is less than the haircut, our lenders may issue a “margin call,” which means that the lender will require us to pay the margin call in cash or pledge additional collateral to meet that margin call. Under our repurchase facilities, our lenders have full discretion to determine the value of the securities we pledge to them. Most of our lenders will value securities based on recent trades in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled paydowns are announced monthly. We experience margin calls in the ordinary course of our business. In seeking to manage effectively the margin requirements established by our lenders, we maintain a position of cash and unpledged securities. We refer to this position as our “liquidity.” The level of liquidity we have available to meet margin calls is directly affected by our leverage levels, our haircuts and the price changes on our securities. If interest rates increase as a result of a yield curve shift or any other reason or if credit spreads widen, then the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline, we will experience margin calls, and we will use our liquidity to meet the margin calls. There can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls. If our haircuts increase, our liquidity will proportionately decrease. In addition, if we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness. We intend to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls but that also allows us to be substantially invested in securities. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into potentially unfavorable market conditions and harm our results of operations and financial condition. Further, an unexpected rise in interest rates and a corresponding fall in the market value of our securities may also force us to liquidate assets under difficult market conditions, thereby harming our results of operations and financial condition, in an effort to maintain sufficient liquidity to meet increased margin calls.

Forward-looking statements regarding liquidity

Based upon our current portfolio, leverage rate and available borrowing arrangements, we believe that the net proceeds of our common equity offerings, preferred equity offerings, and private placements, combined with cash flow from operations and available borrowing capacity, will be sufficient to enable us to meet anticipated liquidity requirements such as to fund our investment activities, pay fees under our management agreement, fund our distributions to stockholders and pay general corporate expenses.

Contractual obligations

As of September 30, 2013, we had the following contractual obligations. On June 29, 2011, we entered into an agreement with our Manager pursuant to which our Manager is entitled to receive a management fee and the reimbursement of certain expenses. The management fee is calculated and payable quarterly in arrears in an amount equal to 1.50% of our Stockholder’s Equity, per annum. For purposes of calculating the management fee, “Stockholders’ Equity” means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus the Company’s retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that the Company pays for repurchases of its common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders’ equity as reported in the Company’s financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in

GAAP, and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements. Our Manager uses the proceeds from its management fee in part to pay compensation to its officers and personnel, who, notwithstanding that certain of them also are our officers, receive no cash compensation directly from us. We are required to reimburse our Manager for operating expenses related to us incurred by our Manager, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Of the $2.8 million and $7.8 million of Other operating expenses for the three and nine months ended September 30, 2013, respectively, the Company has expensed $1.6 million and $4.4 million, respectively, which will be paid to the Manager. Of the $1.7 million and $3.2 million of Other operating expenses for the three and nine months ended September 30, 2012, respectively, the Company has expensed $0.8 million, respectively, which have been paid to the Manager. The Manager waived its right to receive the remaining expense reimbursement of $0.4 million and $2.2 million for the three and nine months ended September 30, 2012, respectively. The Manager did not waive any expense reimbursements for the three and nine months ended September 30, 2013.

On July 6, 2011, we entered into (i) warrant agreements with the purchasers of units in the private placement, (ii) a restricted stock award agreement with our Manager under the Manager Equity Incentive Plan, pursuant to which the Manager received 40,250 shares of our common stock, and (iii) restricted stock award agreements with our independent directors under the Equity Incentive Plan, pursuant to which each of the initial independent directors received 1,500 shares of our common stock. On June 1, 2013, we granted 500 shares of our common stock under the Equity Incentive Plan to our fifth independent director, who was elected at our 2013 Annual Meeting of Stockholders. These shares will vest on July 6, 2014.

We have presented a table that details the contractual maturity of our repurchase agreements at September 30, 2013. See the “Liquidity and Capital Resources” section for this table. As of September 30, 2013 and December 31, 2012, we are obligated to pay accrued interest our repurchase agreements in the amount of $2.8 million and $3.5 million, respectively, inclusive of accrued interest accounted for as a component of linked transactions.

Off-balance sheet arrangements

Our linked transactions are comprised of real estate securities, associated repurchase agreements and interest receivable/payable on such accounts. The extent to which these transactions become unlinked in the future, the underlying real estate securities and the borrowings under repurchase agreements and associated interest income and expense will be presented on a gross basis on our consolidated balance sheet and statement of operations, prospectively. As of September 30, 2013, our maximum exposure to loss on linked transactions is $279.7 million. See the Investment Activities section of this Item 2 for further details.

We may also utilize credit derivatives, such as credit default swaps, to provide credit event protection based on a financial index or specific security in exchange for receiving a fixed-rate fee or premium over the term of the contract. These instruments enable us to synthetically assume the credit risk of a reference security, portfolio of securities or index of securities. The counterparty pays a premium to us, and we agree to make a payment to compensate the counterparty for losses upon the occurrence of a specified credit event. As of September 30, 2013, we did not employ any credit derivatives.

We have entered into TBA positions to facilitate the future purchase or sale of specified Agency RMBS. Pursuant to these TBAs, we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received would not be identified until shortly, generally two days, before the TBA settlement date. We record TBA purchases and sales on the trade date and present the purchase or receipt net of the corresponding payable or receivable until the settlement date of the transaction. Our maximum exposure to loss represents the payable amount until the settlement date. As of September 30, 2013, our maximum exposure to loss on TBAs is $24.4 million. See the Investment Activities section of this Item 2 for further details.

Certain related person transactions

Our board of directors has adopted a policy regarding the approval of any “related person transaction,” which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, the amount involved exceeds $120,000 and a “related person” (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to our Secretary or Assistant Secretary and related person transaction and all material facts about the transaction. Our Secretary or Assistant Secretary would then assess and promptly communicate that information to the audit committee of our board of directors. Based on its consideration of all of the relevant facts and circumstances, this committee will decide whether or not to approve such transaction and will generally approve only those transactions that do not create a conflict of interest. If we become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction will be referred to this committee which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction. We are not aware of any related person transactions as of September 30, 2013.

Management agreement

On June 29, 2011 we entered into a management agreement with our Manager, which governs the relationship between us and our Manager and describes the services to be provided by our Manager and its compensation for those

services. The terms of our management agreement, including the fees payable by us to Angelo, Gordon, were not negotiated at arm's length, and its terms may not be as favorable to us as if they had been negotiated with an unaffiliated party. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to our Manager's day-to-day duties and obligations arising under our management agreement.

Grants of restricted common stock

As of September 30, 2013, we have granted an aggregate of 18,057 shares of restricted common stock to our independent directors and 40,250 shares of restricted common stock to our Manager under our equity incentive plans. As of September 30, 2013, 42,389 shares of restricted common stock granted to our Manager and independent directors have vested.

See Note 10 to our financial statements included in this report for further detail on restricted stock grants.

Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock if and to the extent authorized by our board of directors. Federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT ordinary taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, prior to the time we have fully deployed the net proceeds of our follow-on offerings to acquire assets in our target asset classes we may fund our quarterly distributions out of such net proceeds.

During the quarter ended September 30, 2013, the Company declared a quarterly dividend to common stockholders totaling $17.0 million, or $0.60 per share, which was paid on October 28, 2013. For the nine months ended September 30, 2013, the Company declared dividends to common stockholders of $61.7 million or $2.20 per share. During the quarter ended September 30, 2012, the Company declared a quarterly dividend to common stockholders totaling $17.6 million, or $0.77 per share, which was paid on October 26, 2012. For the nine months ended September 30, 2012, the Company declared dividends to common stockholders of $39.7 million, or $2.17 per share.

During the three months ended September 30, 2013, the board of directors declared a quarterly distribution to the holders of the Series A Preferred Stock and Series B Preferred Stock of $0.51563 per share and $0.50 per share, respectively. The distributions were paid on September 17, 2013 to stockholders of record as of August 30, 2013. During the nine months ended September 30, 2013, the board of directors declared distributions to the holders of the Series A Preferred Stock and Series B Preferred Stock of $1.54689 per share and $1.50 per share, respectively. During the three months ended September 30, 2012, the board of directors declared a distribution to the holders of the Series A Preferred Stock of $0.2521 per share for the partial quarterly period that began on the initial issuance date of the Series A Preferred Stock and ended on September 16, 2012. The distribution was paid on September 17, 2012 to stockholders of record as of August 31, 2012.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates.

Other matters

We intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of the Investment Company Act. If we failed to maintain our exempt status under the Investment Company Act and became regulated as an investment company, our ability to, among other things, use leverage would be substantially reduced and, as a result, we would be unable to conduct our business as described in the "Business" section of this report. Accordingly, we monitor our compliance with both the 55% Test and the 80% Test of the Investment Company Act in order to maintain our exempt status. As of December 31, 2012, we determined that we maintained compliance with both the 55% Test and the 80% Test requirements.

We calculate that at least 75% of our assets were real estate assets, cash and cash items and government securities for the year ended December 31, 2012. We also calculate that our revenue qualifies for the 75% gross income test and for the 95% gross income test rules for the year ended December 31, 2012. Overall, we believe that we met the REIT

income and asset tests. We also met all other REIT requirements, including the ownership of our common stock and the distribution of our net income. Therefore, for the year ended December 31, 2012, we believe that we qualified as a REIT under the Code.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary components of our market risk relate to interest rates, liquidity, prepayment rates and credit risk. While we do not seek to avoid risk completely, we seek to assume risk that can be quantified from historical experience and to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest rate risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with both our investments and the financing under our repurchase agreements. We seek to reduce interest rate risks on any outstanding debt and minimize exposure to interest rate fluctuations thereon through the use of interest rate swaps, interest rate caps or other financial instruments, or through a combination of these strategies.

Interest rate effect on net interest income

Our operating results depend in large part upon differences between the yields earned on our investments and our cost of borrowing and upon the effectiveness of our interest rate hedging activities. The majority of our repurchase agreements are short term in nature with an initial term of between 30 and 90 days. The financing rate on these agreements will generally be fixed at the outset of each repurchase transaction by reference to prevailing short-term repurchase rates plus a spread. As a result, our borrowing costs will tend to increase during periods of rising short-term interest rates as we renew, or "roll", maturing transactions at the higher prevailing rates. When combined with the fact that the income we earn on our fixed interest rate investments will remain substantially unchanged, this will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. We are actively looking to obtain term financing for our credit portfolio. The financing on term facilities generally are fixed at the outset of each transaction by reference to a pre-determined interest rate plus a spread.

In an attempt to offset the increase in funding costs related to rising short term interest rates, our Manager enters into hedging transactions structured to provide us with positive cash flow in the event short term interest rates rise. Our Manager accomplishes this through the use of interest rate swaps, interest rate caps and other derivatives. Some hedging strategies involving the use of derivatives are highly complex, may produce volatile returns and may expose us to increased risks relating to counterparty defaults.

Interest rate effects on fair value

Another component of interest rate risk is the effect that changes in interest rates will have on the market value of the assets that we acquire.

Generally, in a rising interest rate environment, the fair value of our real estate securities and loan portfolios would be expected to decrease, all other factors being held constant. In particular, the portion of our real estate securities portfolio with fixed-rate coupons would be expected to decrease more severely than that portion with a floating-rate coupon. This is because fixed-rate coupon real estate securities tend to have significantly more duration or price sensitivity to changes in interest rates, than floating-rate coupon real estate securities. We anticipate that fixed-rate coupon real estate securities will comprise a substantial majority of our portfolio for the foreseeable future.

The following table quantifies the estimated changes in net interest income and GAAP equity should interest rates go up or down by 50 and 100 basis points, assuming (i) the yield curves of the rate shocks will be parallel to each other and the current yield curve and (ii) all other market risk factors remain constant. These estimates were compiled using a combination of third-party services and models, market data and internal models. All changes in income and equity are measured as percentage changes from the projected net interest income and GAAP equity from our base interest rate scenario. The base interest rate scenario assumes interest rates as of September 30, 2013.

Actual results could differ materially from estimates. The accuracy of the projected Agency RMBS prices relies on assumptions that define specific Agency RMBS spreads and varying prepayment activity at projected interest rate levels. To the extent that these estimates or other assumptions do not hold true, actual results will likely differ materially from projections and could be larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. In addition, while the tables below reflect the estimated impact of interest rate increases and decreases on a static portfolio as of September 30, 2013, our Manager may from time to time sell any of our investments as a part of the overall management of our investment portfolio.

Change in Interest Rates (basis points)	Percentage Change in GAAP Equity (1)(2)(4)	Percentage Change in Projected Net Interest Income (3)

100	-2.70	%	-3.63	%
50	-1.10	%	-1.82	%
-50	1.00	%	-1.23	%
-100	1.10	%	-1.23	%

(1) Includes linked real estate securities that are reported as a component of linked transactions on our consolidated balance sheet. Such real estate securities may not be linked in future periods.
(2) Does not include cash investments, which typically have overnight maturities and are not expected to change in value as interest rates change.
(3) Interest income includes trades settled as of September 30, 2013.
(4) The duration on the real estate investments other than Agency securities was assumed at 0.0 years.

Liquidity risk

Our primary liquidity risk arises from financing long-maturity assets with shorter-term borrowing primarily in the form of repurchase agreements.

We pledge real estate securities and cash as collateral to secure our repurchase transactions. Should the fair value of our real estate securities pledged as collateral decrease (as a result of rising interest rates, changes in prepayment speeds, widening of credit spreads or otherwise), we will likely be subject to margin calls for additional collateral from our financing counterparties. Should the fair value of our real estate securities decrease materially and suddenly, margin calls will likely increase causing an adverse change to our liquidity position which could result in substantial losses. In addition, we cannot be assured that we will always be able to roll our repurchase transactions at their scheduled maturities which could cause material additional harm to our liquidity position and result in substantial losses. Further, should general market liquidity tighten as it did in 2007, 2008 and 2009, our repurchase agreement counterparties may increase our margin requirements on new financings, including repurchase transactions that we roll at maturity with the same counterparty, which would require us to post additional collateral and would reduce our ability to use leverage and could potentially cause us to incur substantial losses.

The terms of our interest rate swaps require us to post collateral in the form of cash or Agency RMBS to our counterparties to satisfy two types of margin requirements: variation margin and initial margin.

We and our swap counterparties are both required to post variation margin to each other depending upon the daily moves in prevailing benchmark interest rates. The amount of this variation margin is derived from the mark to market valuation of our swaps. Hence, as our swaps lose value in a falling interest rate environment, we are required to post additional variation margin to our counterparties on a daily basis; conversely, as our swaps gain value in a rising interest rate environment, we are able to recall variation margin from our counterparties. By recalling variation margin from our swap counterparties, we are able to partially mitigate the liquidity risk created by margin calls on our repurchase transaction during periods of rising interest rates.

Initial margin works a little differently. Collateral posted to meet initial margin requirements is intended to create a safety buffer to benefit our counterparties if we were to default on our payment obligations under the terms of the swap and our counterparties were forced to unwind the swap. For our non-centrally cleared swaps, the initial margin is set at the outset of each trade as a fixed percentage of the notional amount of the swap. This means that once we post initial margin at the outset of a non-centrally cleared swap, we will have no further posting obligations as it pertains to initial margin. However, the initial margin on our centrally cleared swaps varies from day to day depending upon various factors, including the absolute level of interest rates and the implied volatility of interest rates. There is a distinctly positive correlation between initial margin, on the one hand, and the absolute level of interest rates and implied volatility of interest rates, on the other hand. As a result, in times of rising interest rates and/or increasing rate volatility, we anticipate that the initial margin required on our centrally-cleared swaps will likewise increase, potentially by a substantial amount. These margin increases will have a negative impact on our liquidity position and will likely impair the intended liquidity risk mitigation effect of our interest rate swaps discussed above.

Our Manager seeks to mitigate our liquidity risks by maintaining a prudent level of leverage, monitoring our liquidity position on a daily basis and maintaining a substantial cushion of cash and unpledged real estate securities and loans in our portfolio in order to meet future margin calls. In addition, our Manager seeks to further mitigate our liquidity risk by (i) diversifying our exposure across a broad number of financing counterparties, (ii) limiting our exposure to any single financing counterparty and (iii) monitoring the ongoing financial stability of our financing counterparties.

Prepayment risk

Premiums arise when we acquire real estate securities at a price in excess of the principal balance of the mortgages securing such real estate securities (i.e., par value). Conversely, discounts arise when we acquire real estate securities at a price below the principal balance of the mortgages securing such real estate securities. Premiums paid on our real estate securities are amortized against interest income and accretable purchase discounts on our real estate securities are accreted to interest income. Purchase premiums on our real estate securities, which are primarily carried on our Agency RMBS, are amortized against interest income over the life of each respective security using the effective yield

method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the yield/interest income earned on such assets. Generally, if prepayments on our Non-Agency RMBS are less than anticipated, we expect that the income recognized on such assets would be reduced due to the slower accretion of purchase discounts, and impairments could result.

As further discussed in the "Critical Accounting Policies" section above, differences between previously estimated cash flows and current actual and anticipated cash flows caused by changes to prepayment or other assumptions are adjusted retrospectively through a "catch up" adjustment for the impact of the cumulative change in the effective yield through the reporting date, or adjusted prospectively through an adjustment of the yield over the remaining life of the security for securities accounted for under ASC 320-10 (generally Agency RMBS) and ASC 325-40 (generally Non-Agency RMBS, ABS, CMBS and interest only securities) respectively.

In addition, our interest rate hedges are structured in part based upon assumed levels of future prepayments within our real estate securities portfolio. If prepayments are slower or faster than assumed, the life of the real estate securities will be longer or shorter than assumed, which could reduce the effectiveness of our Manager's hedging strategies and may cause losses on such transactions.

Our Manager seeks to mitigate our prepayment risk by investing in real estate securities with a variety of prepayment characteristics as well as by attempting to maintain in our portfolio a mix of assets purchased at a premium with assets purchased at a discount.

Real estate value risk

Residential and commercial property values are subject to volatility and may be affected adversely by a number of factors outside of our control, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing or commercial real estate); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values reduce the value of the collateral underlying our RMBS and CMBS portfolios as well as the potential sale proceeds available to repay our loans in the event of a default. In addition, substantial decreases in property values can increase the rate of strategic defaults by residential mortgage borrowers which can impact and create significant uncertainty in the recovery of principal and interest on our investments.

Credit risk

Although we expect to encounter only de minimis credit risk in our Agency RMBS portfolio, we are exposed to the risk of potential credit losses from an unanticipated increase in borrower defaults as well as general credit spread widening on any Non-Agency assets in our portfolio, including residential and commercial mortgage whole loans as well as Non-Agency RMBS and CMBS. We seek to manage this risk through our Manager's pre-acquisition due diligence process and, if available, through the use of non-recourse financing, which limits our exposure to credit losses to the specific pool of mortgages that are the subject of the non-recourse financing. Our Manager's pre-acquisition due diligence process includes the evaluation of, among other things, relative valuation, supply and demand trends, the shape of various yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Basis Risk

Basis risk refers to the possible book value decline triggered by the risk of incurring losses on the fair value of our Agency RMBS as a result of widening market spreads between the yields on our Agency RMBS and the yields on comparable duration Treasury securities. The basis risk associated with fluctuations in fair value of our Agency RMBS may relate to factors impacting the mortgage and fixed income markets other than changes in benchmark interest rates, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other hedges to protect against moves in interest rates, such instruments will generally not protect our net book value against basis risk.

Risk management

To the extent consistent with maintaining our REIT qualification, we seek to manage risk exposure to protect our investment portfolio against the effects of major interest rate changes. We generally seek to manage this risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our target assets and our financings;
- structuring our financing agreements to have a range of maturity terms, amortizations and interest rate adjustment periods;
- using hedging instruments to adjust the interest rate sensitivity of our target assets and our borrowings.

ITEM 4. CONTROLS AND PROCEDURES.

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that the Company's management, including its principal executive officer and principal financial officer, as appropriate, allow timely decisions regarding required disclosure.

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of September 30, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2013, we were not involved in any such legal proceedings.

ITEM 1A. RISK FACTORS.

Refer to the risks identified under the captions “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein, in our Annual Report on Form 10-K for the year ended December 31, 2012 (Commission File No. 001-35151) and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which are available on the Securities and Exchange Commission’s website at www.sec.gov.

The failure of U.S. lawmakers to reach an agreement on the national debt ceiling or a budget may materially adversely affect our business, financial condition and results of operations.

On October 16, 2013, Congress passed legislation to reopen the government through January 15, 2014 and effectively suspend the debt ceiling through February 7, 2014 to permit broader negotiations over budget issues. In the event U.S. lawmakers fail to reach an agreement on the national debt ceiling or a budget, the U.S. could default on its obligations, which could negatively impact the trading market for U.S. government securities. This may, in turn, negatively affect the value of our Agency RMBS and our ability to obtain financing for our investments. As a result, it may materially adversely affect our business, financial condition and results of operations.

On August 5, 2011, Standard & Poor’s downgraded the U.S. credit rating to AA+ for the first time due to the U.S. Congress’ inability to reach an effective agreement on the national debt ceiling and a budget in a timely manner. Because Fannie Mae and Freddie Mac are in the conservatorship of the U.S. Government, the implicit credit rating of Agency RMBS guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae were also downgraded to AA+. While this downgrade did not have a significant impact on the fair value of the Agency RMBS in our portfolio, it increased the uncertainty regarding the credit risk of Agency RMBS. The current U.S. debt ceiling and budget deficit concerns have increased the possibility of the credit-rating agencies further downgrading the U.S. credit rating. On October 15, 2013, Fitch Ratings Service placed the U.S. credit rating on negative watch, warning that a failure by the U.S. Government to honor interest or principal payments on U.S. Treasury Securities would impact its decision whether to downgrade the U.S. credit rating. Fitch also stated that the manner and duration of an agreement to raise the debt ceiling and resolve the budget impasse, as well as the perceived risk of such events occurring in the future, would weigh on its ratings.

A further downgrade of the U.S. Government’s credit rating could create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system. Such circumstances could adversely affect our business in many ways, including but not limited to adversely impacting our ability to obtain attractive financing for our investments, increasing the cost of such financing if it is obtained, increasing the likelihood that our repurchase agreement lenders require that we post additional collateral as a result of margin calls causing us to sell assets at depressed prices in order to generate liquidity to satisfy these margin calls or to settle repurchase agreement obligations if we are unable to obtain new repurchase agreement borrowings when our current borrowings expire. As a result, these adverse economic and market conditions may also adversely affect our liquidity position, and could

increase our risk of a counterparty defaulting on its obligations. If any of these events were to occur, it could materially adversely affect our business, financial condition and results of operations.

Adoption of the Basel III standards could negatively affect our access to future financings.

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. U.S. regulators have elected to implement substantially all of the Basel III standards. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. These increased bank capital requirements may constrain our ability to obtain attractive future financings and increase the cost of such financings if they are obtained.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the nine months ended September 30, 2013, the Company issued 216,351 shares of common stock upon the exercise of 634,500 outstanding warrants, respectively, to purchase such common stock in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. There were no shares issued during the three months ended September 30, 2013. Common stock issued upon the cash exercise of warrants were exercised at a strike price of $20.50. The warrants had been received by the holders in connection with the Company's initial public offering that closed on July 6, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
* 3.1	Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Amendment No. 2 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 18, 2011 ("Pre-Effective Amendment No. 2").
*3.2	Amended and Restated Bylaws of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Pre-Effective Amendment No. 2.
*3.3	Articles Supplementary of 8.25% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.
*3.4	Articles Supplementary of 8.00% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.
*4.1	Specimen Stock Certificate of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 4.1 of Pre-Effective Amendment No. 2.
*4.2	Specimen 8.25% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.
*4.3	Specimen 8.00% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.

*10.1	Form of Warranty Agreement- Form of Registration Rights Agreement by and between the Company and the purchasers of units and shares in the private placement, dated June 29, 2011, incorporated by reference to Exhibit 10.1 of Amendment No. 7 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on June 29, 2011 ("Pre-Effective Amendment No. 7").
*10.2	Form of Management Agreement, dated June 29, 2011 by and between the Company and AG REIT Management, LLC, incorporated by reference to Exhibit 10.3 of Amendment No. 3 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 25, 2011.
*10.3	Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.4 of Pre-Effective Amendment No. 2.
*10.4	Manager Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.5 of Pre-Effective Amendment No. 2.
*10.5	Form of Manager Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.6 of Pre-Effective Amendment No. 2.
*10.6	Form of Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.7 of Pre-Effective Amendment No. 2.

*10.7	Form of Indemnification Agreement, dated July 6, 2011, by and between the Company and the Company's directors and officers, incorporated by reference to Exhibit 10.10 of Pre-Effective Amendment No. 7.
*10.8	Amended and Restated Master Repurchase and Securities Contract dated as of April 12, 2013 between AG MIT, LLC, AG Mortgage Investment Trust, Inc. and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on April 15, 2013.
*10.9	Guarantee Agreement dated as of April 9, 2012 by AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on April 10, 2012.
31.1	Certification of David N. Roberts pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Brian C. Sigman pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of David N. Roberts pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Brian C. Sigman pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Fully or partly previously filed.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

	AG MORTGAGE INVESTMENT TRUST, INC.	
November 5, 2013	By:	/s/ David N. Roberts
	David N. Roberts	
	Chief Executive Officer	
November 5, 2013	By:	/s/ Brian C. Sigman
	Brian C. Sigman	
	Chief Financial Officer and Principal Accounting Officer	

60

AG MORTGAGE INVESTMENT TRUST, INC.

FORM 10-Q
September 30, 2013

INDEX OF EXHIBITS

Exhibit No.	Description
*3.1	Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Amendment No. 2 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 18, 2011 (“Pre-Effective Amendment No. 2”).
*3.2	Amended and Restated Bylaws of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Pre-Effective Amendment No. 2.
*3.3	Articles Supplementary of 8.25% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.
*3.4	Articles Supplementary of 8.00% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.
*4.1	Specimen Stock Certificate of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 4.1 of Pre-Effective Amendment No. 2.
*4.2	Specimen 8.25% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.
*4.3	Specimen 8.00% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.
*10.1	Form of Warranty Agreement - Form of Registration Rights Agreement by and between the Company and the purchasers of units and shares in the private placement, dated June 29, 2011, incorporated by reference to Exhibit 10.1 of Amendment No. 7 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on June 29, 2011 (“Pre-Effective Amendment No. 7”).
*10.2	Form of Management Agreement, dated June 29, 2011 by and between the Company and AG REIT Management, LLC, incorporated by reference to Exhibit 10.3 of Amendment No. 3 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 25, 2011.
*10.3	Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.4 of Pre-Effective Amendment No. 2.
*10.4	Manager Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.5 of Pre-Effective Amendment No. 2.
*10.5	

	Form of Manager Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.6 of Pre-Effective Amendment No. 2.
*10.6	Form of Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.7 of Pre-Effective Amendment No. 2.
*10.7	Form of Indemnification Agreement, dated July 6, 2011, by and between the Company and the Company's directors and officers, incorporated by reference to Exhibit 10.10 of Pre-Effective Amendment No. 7.
*10.8	Amended and Restated Master Repurchase and Securities Contract dated as of April 12, 2013 between AG MIT, LLC, AG Mortgage Investment Trust, Inc. and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on April 15, 2013.
*10.9	Guarantee Agreement dated as of April 9, 2012 by AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on April 10, 2012.

31.1	Certification of David N. Roberts pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Brian C. Sigman pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of David N. Roberts pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Brian C. Sigman pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Fully or partly previously filed.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.