

AG Mortgage Investment Trust, Inc.
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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 (I.R.S. Employer
Incorporation or Organization) Identification No.)

245 Park Avenue, 26th Floor **10167**
New York, New York
(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 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 No

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

Large Accelerated filer Accelerated filer Non-Accelerated filer 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

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As of July 29, 2016, there were 27,880,092 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.

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PART I**ITEM 1. FINANCIAL STATEMENTS****AG Mortgage Investment Trust, Inc. and Subsidiaries****Consolidated Balance Sheets**

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Real estate securities, at fair value:		
Agency - \$1,042,200,234 and \$1,133,899,693 pledged as collateral, respectively	\$ 1,166,616,915	\$ 1,201,441,652
Non-Agency - \$1,039,533,429 and \$1,157,357,871 pledged as collateral, respectively	1,083,648,789	1,229,811,018
ABS - \$75,473,169 and \$54,761,837 pledged as collateral, respectively	75,473,169	54,761,837
CMBS - \$170,377,967 and \$142,852,162 pledged as collateral, respectively	173,677,975	148,948,690
Residential mortgage loans, at fair value - \$48,921,692 and \$50,686,922 pledged as collateral, respectively	55,636,606	57,080,227
Commercial loans, at fair value - \$32,800,000 and \$62,800,000 pledged as collateral, respectively	54,800,000	72,800,000
U.S. Treasury securities, at fair value - \$206,222,422 and \$203,520,859 pledged as collateral, respectively	206,222,422	223,434,922
Investments in debt and equity of affiliates	52,567,286	43,040,191
Excess mortgage servicing rights, at fair value	346,507	425,311
Cash and cash equivalents	41,898,334	46,253,291
Restricted cash	40,524,466	32,200,558
Interest receivable	9,852,433	11,154,785
Receivable under reverse repurchase agreements	45,656,250	-
Derivative assets, at fair value	1,225,899	1,755,467
Other assets	7,605,960	16,064,115
Due from broker	735,922	24,904,168
Total Assets	\$ 3,016,488,933	\$ 3,164,076,232
Liabilities		
Repurchase agreements	\$ 2,249,996,002	\$ 2,034,963,460
FHLBC advances	-	396,894,000
Securitized debt, at fair value	25,788,283	30,046,861
Loan participation payable, at fair value	1,800,000	-
	45,442,266	-

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Obligation to return securities borrowed under reverse repurchase agreements, at fair value		
Payable on unsettled trades	-	1,198,587
Interest payable	2,977,987	2,731,846
Derivative liabilities, at fair value	23,974,089	6,863,770
Dividend payable	13,232,547	13,496,139
Due to affiliates	4,216,343	4,407,051
Accrued expenses	1,548,894	2,074,628
Taxes payable	954,716	1,714,716
Due to broker	36,676	2,740,461
Total Liabilities	2,369,967,803	2,497,131,519
Stockholders' Equity		
Preferred stock - \$0.01 par value; 50,000,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070,000 shares issued and outstanding (\$51,750,000 aggregate liquidation preference)	49,920,772	49,920,772
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding (\$115,000,000 aggregate liquidation preference)	111,293,233	111,293,233
Common stock, par value \$0.01 per share; 450,000,000 shares of common stock authorized and 27,857,993 and 28,286,210 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	278,580	282,863
Additional paid-in capital	578,920,591	584,581,995
Retained earnings/(deficit)	(93,892,046)	(79,134,150)
Total Stockholders' Equity	646,521,130	666,944,713
Total Liabilities & Stockholders' Equity	\$ 3,016,488,933	\$ 3,164,076,232

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

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net Interest Income				
Interest income	\$ 30,200,296	\$ 37,278,271	\$ 60,897,454	\$ 73,658,536
Interest expense	8,396,997	7,574,429	16,957,296	15,088,607
	21,803,299	29,703,842	43,940,158	58,569,929
Other Income				
Net realized gain/(loss)	(5,317,085)	(2,153,328)	(18,303,743)	(11,803,254)
Realized loss on periodic interest settlements of derivative instruments, net	(1,607,539)	(3,228,729)	(3,985,314)	(6,689,956)
Unrealized gain/(loss) on real estate securities and loans, net	10,958,117	(22,256,001)	19,798,887	(10,996,283)
Unrealized gain/(loss) on derivative and other instruments, net	202,572	5,798,988	(11,753,430)	(3,121,810)
	4,236,065	(21,839,070)	(14,243,600)	(32,611,303)
Expenses				
Management fee to affiliate	2,420,782	2,502,091	4,870,925	5,009,181
Other operating expenses	2,664,252	3,285,942	5,711,064	6,363,940
Servicing fees	104,979	144,999	209,958	319,998
Equity based compensation to affiliate	87,183	36,738	142,154	113,418
Excise tax	375,000	375,000	750,000	750,000
	5,652,196	6,344,770	11,684,101	12,556,537
Income/(loss) before equity in earnings/(loss) from affiliates	20,387,168	1,520,002	18,012,457	13,402,089
Equity in earnings/(loss) from affiliates	689,973	320,442	620,257	1,201,797
Net Income/(Loss)	21,077,141	1,840,444	18,632,714	14,603,886
Dividends on preferred stock	3,367,354	3,367,354	6,734,708	6,734,708
Net Income/(Loss) Available to Common Stockholders	\$ 17,709,787	\$ (1,526,910)	\$ 11,898,006	\$ 7,869,178
Earnings/(Loss) Per Share of Common Stock				

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Basic	\$ 0.63	\$ (0.05) \$ 0.42	\$ 0.28
Diluted	\$ 0.63	\$ (0.05) \$ 0.42	\$ 0.28

Weighted Average Number of Shares
of Common Stock Outstanding

Basic	28,038,953	28,389,211	28,155,441	28,388,417
Diluted	28,054,454	28,389,211	28,170,433	28,415,992

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, 2015	28,386,015	\$ 283,861	\$ 49,920,772	\$ 111,293,233	\$ 586,051,751	\$ (14,874,474)	\$ 732,675,143
Offering costs	-	-	-	-	(83,651)	-	(83,651)
Grant of restricted stock and amortization of equity based compensation	3,196	32	-	-	173,340	-	173,372
Common dividends declared	-	-	-	-	-	(34,066,096)	(34,066,096)
Preferred Series A dividends declared	-	-	-	-	-	(2,134,708)	(2,134,708)
Preferred Series B dividends declared	-	-	-	-	-	(4,600,000)	(4,600,000)
Net Income/(Loss)	-	-	-	-	-	14,603,886	14,603,886
Balance at June 30, 2015	28,389,211	\$ 283,893	\$ 49,920,772	\$ 111,293,233	\$ 586,141,440	\$ (41,071,392)	\$ 706,567,946
Balance at January 1, 2016	28,286,210	\$ 282,863	\$ 49,920,772	\$ 111,293,233	\$ 584,581,995	\$ (79,134,150)	\$ 666,944,713
Repurchase of common stock	(432,853)	(4,329)	-	-	(5,863,449)	-	(5,867,778)
Grant of restricted stock	4,636	46	-	-	202,045	-	202,091

and amortization of equity based compensation							
Common dividends declared	-	-	-	-	-	(26,655,902)	(26,655,902)
Preferred Series A dividends declared	-	-	-	-	-	(2,134,708)	(2,134,708)
Preferred Series B dividends declared	-	-	-	-	-	(4,600,000)	(4,600,000)
Net Income/(Loss)	-	-	-	-	-	18,632,714	18,632,714
Balance at June 30, 2016	27,857,993	\$ 278,580	\$ 49,920,772	\$ 111,293,233	\$ 578,920,591	\$ (93,892,046)	\$ 646,521,130

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

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash Flows from Operating Activities		
Net income/(loss)	\$ 18,632,714	\$ 14,603,886
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Net amortization of premium	4,615,360	7,684,635
Net realized (gain)/loss	18,303,743	11,803,254
Unrealized (gains)/losses on real estate securities and loans, net	(19,798,887	) 10,996,283
Unrealized (gains)/losses on derivative and other instruments, net	11,753,430	3,121,810
Equity based compensation to affiliate	142,154	113,418
Equity based compensation expense	59,937	59,954
Income from investments in affiliates in excess of distributions received	-	(698,246
Change in operating assets/liabilities:)
Interest receivable	1,302,352	766,299
Other assets	700,209	594,875
Due from broker	(63,548	) 1,332,166
Interest payable	(1,335,693	) (955,753
Due to affiliates	(190,708	) (75,824
Accrued expenses	(525,734	) (58,121
Taxes payable	(760,000	) (766,300
Net cash provided by (used in) operating activities	32,835,329	48,522,336
Cash Flows from Investing Activities		
Purchase of real estate securities	(165,749,030	) (387,133,161
Origination of commercial loans	(10,428,437) -
Purchase of U.S. treasury securities	(358,417,649	) (525,244,604
Investments in debt and equity of affiliates	(12,906,210	) (12,150,900
Proceeds from sale of real estate securities	131,005,232	387,880,819
Proceeds from sale of residential mortgage loans	23,267,693	-
Proceeds from sales of U.S. treasury securities	383,950,089	522,584,101
Distribution received from investments in debt and equity of affiliates	234,554	-
Principal repayments on real estate securities	171,006,146	256,557,649
Principal repayments on commercial loans	30,000,000	-
Principal repayments on residential mortgage loans	1,064,010	4,552,318
Net proceeds from (payment made) on reverse repurchase agreements	(45,655,799	) (104,887,745
Net proceeds from (payment made) on sales of securities borrowed under reverse repurchase agreements	45,281,749	101,381,187

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Net settlement of interest rate swaps	(5,606,515) (12,095,409)
Net settlement of TBAs	25,039	2,838,477	
Proceeds from redemption of FHLBC Stock	8,013,900	-	
Cash flows provided by (used in) other investing activities	(229,607	) 2,667,569	
Restricted cash provided by (used in) investing activities	(3,858,092	) 12,840,432	
Net cash provided by (used in) investing activities	190,997,073	249,790,733	
Cash Flows from Financing Activities			
Repurchase of common stock	(7,066,364) -	
Offering costs	-	(83,651)
Borrowings under repurchase agreements	47,385,733,895	15,375,825,942	
Borrowings under FHLBC advances	147,215,991	-	
Repayments of repurchase agreements	(47,170,701,353)	(15,620,927,549)	
Repayments of FHLBC advances	(544,109,991) -	
Proceeds from transfer of loan participation	1,564,266	-	
Net collateral received from (paid to) derivative counterparty	(15,111,367	) (3,622,876)
Net collateral received from (paid to) repurchase counterparty	7,941,766	733,324	
Dividends paid on common stock	(26,919,494	) (34,064,178)
Dividends paid on preferred stock	(6,734,708	) (6,734,708)
Net cash provided by (used in) financing activities	(228,187,359	) (288,873,696)
Net change in cash and cash equivalents	(4,354,957	) 9,439,373	
Cash and cash equivalents, Beginning of Period	46,253,291	64,363,514	
Cash and cash equivalents, End of Period	\$41,898,334	\$73,802,887	
Supplemental disclosure of cash flow information:			
Cash paid for interest on repurchase agreements and FHLBC advances	\$15,953,483	\$14,152,096	
Cash paid for income tax	\$1,572,625	\$1,535,522	
Supplemental disclosure of non-cash financing and investing activities:			
Common stock dividends declared but not paid	\$13,232,547	\$17,033,527	
Decrease of securitized debt	\$4,194,321	\$4,247,368	
Transfer from residential mortgage loans to other assets	\$1,370,872	\$1,767,572	
Transfer from investments in debt and equity of affiliates to CMBS	\$3,103,111	\$-	
Transfer from Linked Transactions to real estate securities	\$-	\$139,778,263	
Transfer from Linked Transactions to repurchase agreements	\$-	\$113,363,873	

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

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

1. Organization

AG Mortgage Investment Trust, Inc. (the “Company”) was incorporated in the state of Maryland on March 1, 2011. The Company is focused on investing in, acquiring and managing a diversified portfolio of residential mortgage-backed securities, or RMBS, issued or guaranteed by a government-sponsored entity such as Fannie Mae or Freddie Mac (collectively, “GSEs”), 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 RMBS issued by entities or organizations other than a U.S. government-sponsored entity 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 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) secured by, or evidence an ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.

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

Commercial loans are secured by an interest in commercial real estate and represent a contractual right to receive money on demand or on fixed or determinable dates. Residential mortgage loans refer to performing, re-performing

and non-performing loans secured by a first lien mortgage on residential mortgaged property located in any of the 50 states of the United States or in the District of Columbia. The Company refers to its residential and commercial mortgage loans as “mortgage loans” or “loans.”

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

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

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

2. Summary of Significant Accounting Policies

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

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. As of June 30, 2016 and December 31, 2015, the Company held no cash equivalents. The Company places its cash with high credit quality institutions to minimize credit risk exposure. Cash pledged to the Company as collateral is unrestricted in use and, accordingly, is included as a component of “Cash and cash equivalents” on the consolidated balance sheet. Any cash held by the Company as collateral is included in the “Due to broker” line item on the consolidated balance sheet and in cash flows from financing activities on the consolidated statement of cash flows. Any cash due to the Company in the form of principal payments is included in the “Due from broker” line item on the consolidated balance sheet and in cash

flows from operating activities on the consolidated statement of cash flows.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives and repurchase agreements and is not available to the Company for general corporate purposes. Restricted cash may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the derivative or repurchase agreement. Restricted cash is carried at cost, which approximates fair value.

Offering costs

The Company incurred offering costs in May 2015 in connection with the filing of its Registration Statement on Form S-3. The offering costs have been accounted for as a reduction of additional paid-in capital.

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 per share takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock and unvested restricted stock units 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. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

Valuation of financial instruments

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

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

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

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320-10, "Investments – Debt and Equity Securities", ASC 325-40, "Beneficial Interests in Securitized Financial Assets", or ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality". The Company has chosen to make a fair value election pursuant to ASC 825, "Financial Instruments" 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." Real estate securities acquired through securitizations are shown in the line item "Purchase of real estate securities" on the consolidated statement of cash flows.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

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

When the Company purchases securities with evidence of credit deterioration since origination, it will analyze to determine if the guidance found in ASC 310-30 is applicable.

The Company accounts for its securities under ASC 310 and ASC 325 and evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

When a real estate security is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e., a decision has been made as of the reporting date) or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the real estate security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. Additionally for securities accounted for under ASC 325-40, 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 include observations of current information and events, and assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of potential credit losses. Cash flows 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.

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

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

Any unrealized losses on securities at June 30, 2016 do not represent other than temporary impairment as the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the amortized cost of the investment, and the Company is not required to sell the security for regulatory or other reasons. In addition, any unrealized losses on the Company's Agency RMBS accounted for under ASC 320 are not due to credit losses given their explicit guarantee of principal and interest by the GSEs, but rather are due to changes in interest rates and prepayment expectations. 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, defaults, severities, amongst others and will opportunistically rotate the portfolio into securities with more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes.

Realized gains or losses on sales of securities, loans and derivatives 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 first in, first out, or FIFO, basis. Realized gains and losses are recorded in earnings at the time of disposition.

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Accounting for mortgage loans

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

The Company amortizes or accretes any premium or discount over the life of the related loan utilizing the effective interest method. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated and recorded accordingly. Income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

When the Company purchases mortgage loans with evidence of credit deterioration since origination and it determines that it is probable it will not collect all contractual cash flows on those loans, it will apply the guidance found in ASC 310-30. Mortgage loans that are delinquent 60 or more days are considered non-performing.

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for loans accounted for under ASC 310-30. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of principal and interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes

prospectively through an adjustment of the loan's yield over its remaining life. The Company will adjust the amount of accretable yield by reclassification from the nonaccretable difference. The adjustment is accounted for as a change in estimate in conformity with ASC 250, "Accounting Changes and Error Corrections" with the amount of periodic accretion adjusted over the remaining life of the loan. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, are recognized as impairment. Increases in interest income may be recognized on a loan on which the Company previously recorded an OTTI charge if the performance of such loan subsequently improves.

Investments in debt and equity of affiliates

The Company's unconsolidated ownership interests in affiliates are accounted for using the equity method. A majority of the Company's investments held through affiliated entities are comprised of real estate securities and loans. These underlying entities have chosen to make a fair value election on their financial instruments pursuant to ASC 825; as such, the Company will treat these investments consistently with this election. As of June 30, 2016 and December 31, 2015, these investments had a fair market value of \$61.7 million and \$62.2 million, respectively.

In December 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc LLC, one of the company's indirect subsidiaries ("AG Arc"), formed Arc Home LLC ("Arc Home") to originate conforming, FHA, and Jumbo loans. The Company invests in Arc Home through AG Arc, and has chosen to make a fair value election on AG Arc pursuant to ASC 825. As of June 30, 2016 and December 31, 2015, AG Arc had a fair market value of \$4.5 and \$(0.3) million, respectively.

In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, Federal Housing Administration ("FHA"), Veteran's Administration ("VA") and Ginnie Mae seller/servicer of mortgages with licenses to conduct business in 44 states. Through this subsidiary, Arc Home is currently originating conforming, FHA, and Jumbo loans.

The Company's investments in debt and equity of affiliates are recorded at fair market value on the consolidated balance sheet in the "Investments in debt and equity of affiliates" line item and periodic changes in fair market value are recorded in current period earnings on the consolidated statement of operations as a component of "Equity in earnings/(loss) from affiliates." Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

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Excess mortgage servicing rights

The Company has acquired the right to receive the excess servicing spread related to excess mortgage servicing rights (“MSRs”). The Company has chosen to make a fair value election pursuant to ASC 825 for MSRs. MSRs are recorded at fair market value on the consolidated balance sheet and any 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 derivative and other instruments, net.”

Investment consolidation and transfers of financial assets

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 refers to guidance in ASC 810-10, “Consolidation.” In situations where the Company is the transferor of financial assets, the Company refers 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. See Note 3 for more detail.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The company adopted ASU 2015-02 on January 1, 2016 using the modified retrospective approach, which did not require the restatement of prior periods to conform to the post-adoption presentation. The Company concluded the adoption of this guidance did not have a material impact on its financial statements.

The Company has entered into securitization transactions which result in the Company consolidating the VIEs that were created to facilitate the transactions and to which the underlying assets in connection with the securitization were transferred. In determining the accounting treatment to be applied to these securitization transactions, the Company evaluated whether the entities used to facilitate these transactions were VIEs and, if so, whether they should be consolidated. Based on its evaluation, the Company concluded that the VIEs should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP.

The Company may periodically enter into transactions in which it transfers assets to a third party. 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.

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On February 12, 2016, the Company originated a \$12.0 million commercial loan and at closing, transferred a 15% or \$1.8 million interest in the loan to an unaffiliated third party. The Company, as transferor, evaluated the transfer under ASC 860-10, and concluded the transferred participation interest should be accounted for as a secured borrowing. The Company has recorded the \$12.0 million commercial loan on its consolidated balance sheet as an asset in the “Commercial loans, at fair value” line item. The Company has recorded a \$1.8 million liability in the “Loan participation payable, at fair value” line item representing the transfer of the participation interest. The Company has chosen to make a fair value election on the consolidated interest pursuant to ASC 825. The holder of the participation interest has no recourse to the general credit of the Company. See Note 4 for more detail.

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 consolidated 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 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 or ASC 325-40 as applicable. Total interest income is recorded in the “Interest income” line item on the consolidated statement of operations.

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

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

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

For security and loan investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30. For purposes of income recognition, the Company aggregates loans that have common risk characteristics into pools and uses a composite interest rate and expectation of cash flows expected to be collected for the pool. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (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 an 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 accretion and premium amortization for U.S. federal and other tax purposes differs from the financial accounting treatment of these items as described above.

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Repurchase agreements and FHLBC Advances

The Company finances the acquisition of certain assets within its portfolio through the use of repurchase agreements. Prior to March 31, 2016, the Company also financed its Agency RMBS portfolio with advances from the Federal Home Loan Bank of Cincinnati (“FHLBC Advances”) (see the following paragraph regarding the current status of the FHLBC Advances). Repurchase agreements are, and while the Company had them, FHLBC Advances were treated as collateralized financing transactions and carried at primarily their contractual amounts, including accrued interest, as specified in the respective agreements. The carrying amount of the Company’s repurchase agreements and FHLBC Advances approximates fair value.

In July 2015, the Company’s wholly-owned captive insurance subsidiary, MITT Insurance Company LLC (“MITT Insurance”), was granted membership in the Federal Home Loan Bank (“FHLB”) system, specifically in the FHLB of Cincinnati (“FHLBC”). However, in January 2016, the Federal Housing Finance Agency, the FHFA, issued RIN 2590-AA39, Members of Federal Home Loan Banks (“the Final Rule”), which expressly excludes captive insurance companies, such as MITT Insurance (“Excluded Captives”), from being eligible for membership in the FHLBC. The Final Rule prevents the FHLBC from making any new advances or extending any existing advances to Excluded Captives, subject to a defined grace period. In addition, upon the termination of membership, the FHLB must liquidate all outstanding advances to Excluded Captives, settle all other business transactions, and repurchase or redeem all FHLB stock held by the terminated Excluded Captive in accordance with the Final Rule. Therefore, MITT Insurance must completely wind down all business relationships with the FHLBC, including the repayment of all outstanding advances, prior to or simultaneously with the termination of MITT Insurance’s membership with the FHLBC. As a result of the Final Rule, MITT Insurance exited all FHLBC Advances and as of June 30, 2016, the Company had no outstanding advances with the FHLBC.

The Company pledges certain securities or loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities or loans pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged assets, lenders may require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of June 30, 2016 and December 31, 2015, the Company has met all margin call requirements.

Other investments

The Company's subsidiary, MITT Insurance, is a member of, and owns capital stock in the FHLBC. The FHLBC previously provided MITT Insurance with financing for the Company's Agency RMBS portfolio, but due to the Final Rule, as of June 30, 2016, the Company has no outstanding advances with the FHLBC. The amount of FHLBC Advances is included in the "FHLBC advances" line item on the Company's consolidated balance sheets. Although the FHLBC no longer provides MITT Insurance with financing, MITT Insurance remains a member of the FHLBC. The Company is required to maintain a stock investment both for membership and for the level of advances from the FHLBC to the Company. Since the Company currently has no outstanding advances, approximately \$8.0 million of its FHLBC activity based stock was redeemed as of June 30, 2016, and the Company retained only its membership based stock. At June 30, 2016 and December 31, 2015 the Company owned FHLBC stock totaling \$2,000 and \$8.0 million, respectively. The Company has chosen to make a fair value election pursuant to ASC 825 for its stock investment in FHLBC which is recorded in the "Other assets" line item on the Company's consolidated balance sheet. When evaluating FHLBC stock for impairment, the Company considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of June 30, 2016, the Company had not recognized an impairment charge related to its FHLBC stock. The Company is entitled to a quarterly dividend on the weighted average shares of stock it holds during the period. For the three and six months ended June 30, 2016 the Company recorded dividend income on its FHLBC stock of approximately \$0.1 million and \$0.1 million, respectively, that is included in "Interest income" on the Company's consolidated statement of operations. The Company did not record any dividend income for the three or six months ended June 30, 2015 as it did not own any FHLBC stock during that period.

Accounting for derivative financial instruments

The Company enters into derivative contracts as a means of mitigating 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, if or when hedge accounting is elected, the fair value adjustments will affect either other comprehensive income in stockholders' equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of June 30, 2016 and December 31, 2015, the Company did not have any interest rate derivatives designated as hedges. All derivatives have been recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis. When the Company unwinds a derivative, it records a realized gain/(loss) in the period in which it was generated in the "Net realized gain/(loss)" line item in the consolidated statement of operations.

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To-be-announced securities

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

The Company presents the purchase or sale of TBAs net of the corresponding payable or receivable, respectively, until the settlement date of the transaction. Contracts for the purchase or sale of Agency RMBS are accounted for as derivatives if they do not qualify for the “regular way” security trade scope exception found in ASC 815-10. To be eligible for this scope exception, the contract must meet the following conditions: (1) there is no other way to purchase or sell that security, (2) delivery of that security and settlement will occur within the shortest period possible for that type of security, and (3) it is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued. Unrealized gains and losses associated with TBA contracts not meeting the regular-way exception and 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.”

U.S. Treasury securities

The Company may purchase long or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may finance its purchase of U.S. Treasury securities with overnight repurchase agreements. The Company may borrow securities to cover short sales of U.S. Treasury securities through overnight 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. Interest income and expense associated with purchases and short sales of U.S. Treasury securities are recognized in "Interest income" and "Interest expense", respectively, on the consolidated statement of operations. 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 the consolidated statement of operations.

Manager compensation

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

Income taxes

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

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

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

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

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

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

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) 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 740, “Income Taxes.” The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 9 for further details.

Stock-based compensation

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

Compensation cost related to restricted common shares issued to the Company’s directors is measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. Compensation cost related to restricted common shares and restricted stock units 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. Shares of restricted common stock held by the Manager and independent directors accrue dividends, but these dividends are not paid until vested and therefore the shares are not considered to be participating shares. Restricted stock units granted to the Manager do not entitle the participant the rights of a shareholder of the Company’s common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The restricted stock units are not considered to be participating shares. Restricted stock units are measured at fair value reduced by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at an assumed risk free rate. The Company has elected to use the straight-line method to amortize compensation expense for restricted common shares and restricted stock units.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Updates (“ASU”) 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. The new standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company has concluded the guidance does not have a material impact on its consolidated financial statements.

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In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this ASU affect all entities that hold financial assets or owe financial liabilities, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The classification and measurement guidance of investments in debt securities and loans are not affected by the amendments in this ASU. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is not permitted for public business entities, except for a provision related to financial statements of fiscal years or interim periods that have not yet been issued, to recognize in other comprehensive income, the change in fair value of a liability resulting from a change in the instrument-specific credit risk measured using the fair value option. Entities should apply the amendments in this ASU by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718),” (“ASU 2016-09”). ASU 2016-09 requires all income tax effects of share-based payment awards to be recognized in the income statement when the awards vest or are settled. ASU 2016-09 also allows an employer to repurchase more of an employee’s shares for tax withholding purposes than is permitted under current guidance without triggering liability accounting. Finally, ASU 2016-09 allows a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses,” (“ASU 2016-13”). ASU 2016-13 introduces a new model related to the accounting for credit losses on instruments, specifically, financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. ASU 2016-13 amends the current guidance, requiring an OTTI charge only when fair value is below the amortized cost of an asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security’s amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. The new guidance also expands the disclosure requirements regarding an entity’s assumptions, and models. In addition, public entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated

financial statements.

3. Real Estate Securities

The following tables detail the Company's real estate securities portfolio as of June 30, 2016 and December 31, 2015. The Company's Agency RMBS are mortgage pass-through certificates or collateralized mortgage obligations ("CMOs") representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The Company's 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 entity.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The following table details the Company's real estate securities portfolio as of June 30, 2016:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average Coupon (2)
				Gains	Losses		
Agency RMBS:							
30 Year Fixed Rate	\$ 752,439,005	\$ 31,967,420	\$ 784,406,425	\$ 26,029,231	\$ (14,166)	\$ 810,421,490	3.75%
Fixed Rate CMO	70,784,803	544,650	71,329,453	2,490,574	-	73,820,027	3.00%
ARM	231,078,143	(2,518,685)	228,559,458	9,538,833	-	238,098,291	2.36%
Interest Only	472,517,763	(426,770,168)	45,747,595	1,352,749	(2,823,237)	44,277,107	2.71%
Credit Securities:							
Non-Agency RMBS	1,263,194,990	(188,936,539)	1,074,258,451	21,214,286	(14,224,680)	1,081,248,057	4.16%
Non-Agency RMBS Interest Only	432,881,867	(429,374,565)	3,507,302	-	(1,106,570)	2,400,732	0.16%
ABS	77,273,481	(421,095)	76,852,386	234,519	(1,613,736)	75,473,169	5.19%
CMBS	204,572,495	(70,522,506)	134,049,989	599,577	(4,277,084)	130,372,482	5.28%
CMBS Interest Only	1,881,948,954	(1,839,685,011)	42,263,943	1,095,967	(54,417)	43,305,493	0.34%
Total	\$ 5,386,691,501	\$ (2,925,716,499)	\$ 2,460,975,002	\$ 62,555,736	\$ (24,113,890)	\$ 2,499,416,848	2.21%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains/(losses).

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

The following table details the Company's real estate securities portfolio as of December 31, 2015:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average Coupon (2)
				Gains	Losses		
Agency RMBS:							
30 Year Fixed Rate	\$ 782,276,607	\$ 34,905,903	\$ 817,182,510	\$ 6,674,932	\$ (3,720,150)	\$ 820,137,292	3.76%
Fixed Rate CMO	76,098,478	672,376	76,770,854	1,254,658	-	78,025,512	3.00%
ARM	248,169,781	(2,658,877)	245,510,904	4,298,463	-	249,809,367	2.37%
Interest Only	522,058,244	(468,676,886)	53,381,358	2,226,513	(2,138,390)	53,469,481	2.70%
Credit Securities:							
Non-Agency RMBS	1,395,179,483	(183,015,256)	1,212,164,227	23,555,968	(11,462,911)	1,224,257,284	4.17%
Non-Agency RMBS	465,387,354	(459,897,579)	5,489,775	351,842	(287,883)	5,553,734	0.12%
Interest Only	56,264,253	(353,693)	55,910,560	236,424	(1,385,147)	54,761,837	5.26%
CMBS	224,844,665	(89,380,593)	135,464,072	789,264	(1,382,362)	134,870,974	5.15%
CMBS	1,138,848,526	(1,124,644,529)	14,203,997	37,717	(163,998)	14,077,716	0.25%
Interest Only							
Total	\$ 4,909,127,391	\$ (2,293,049,134)	\$ 2,616,078,257	\$ 39,425,781	\$ (20,540,841)	\$ 2,634,963,197	2.52%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains/(losses).

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

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The following table presents the gross unrealized losses and fair value of the Company's real estate securities by length of time that such securities have been in a continuous unrealized loss position on June 30, 2016 and December 31, 2015:

As of	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016	\$ 496,105,239	\$ (13,299,049)	\$ 209,209,332	\$ (10,814,841)
December 31, 2015	905,669,623	(13,906,215)	154,287,673	(6,634,626)

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

For the three months ended June 30, 2016 the Company recognized OTTI charges of \$3.2 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded \$3.2 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. Of the \$3.2 million of OTTI recorded, \$0.5 million related to securities where OTTI was not previously recognized. For the six months ended June 30, 2016 the Company recognized OTTI charges of \$12.4 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded \$12.4 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. Of the \$12.4 million of OTTI recorded, \$7.7 million related to securities where OTTI was not previously recognized.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

For the three months ended June 30, 2015 the Company recognized \$1.2 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the \$1.2 million of OTTI due to an adverse change in cash flows where the fair values of the securities were less than their carrying amounts. Of the \$1.2 million of OTTI recorded, \$0.7 million related to securities where OTTI was not previously recognized. For the six months ended June 30, 2015 the Company recognized \$3.9 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the \$3.9 million of OTTI due to an adverse change in cash flows where the fair values of the securities were less than their carrying amounts. Of the \$3.9 million of OTTI recorded, \$1.8 million related to securities where OTTI was not previously recognized.

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

The following table details weighted average life broken out by Agency RMBS, Agency Interest-Only (“IO”) and Credit Securities as of June 30, 2016:

Weighted Average Life (3)	Agency RMBS (1)		Agency IO			Credit Securities	
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	\$ -	\$ -	-	\$ -	\$ -	-	\$ 139,458,12
Greater than one year and less than or equal to five years	240,325,695	231,285,030	2.60%	35,224,243	36,560,881	2.46%	451,140,01
Greater than five years and less than or equal to ten years	882,014,113	853,010,306	3.62%	9,052,864	9,186,714	4.90%	491,921,75
Greater than ten years	-	-	-	-	-	-	250,280,03
Total	\$ 1,122,339,808	\$ 1,084,295,336	3.39%	\$ 44,277,107	\$ 45,747,595	2.71%	\$ 1,332,799,9

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

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

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

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

The following table details weighted average life broken out by Agency RMBS, Agency IO and Credit Securities as of December 31, 2015:

Weighted Average Life (3)	Agency RMBS (1)		Agency IO			Credit Securities (2)	
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	\$ -	\$ -	-	\$ -	\$ -	-	\$ 61,279,492
Greater than one year and less than or equal to five years	8,855,191	8,698,829	2.53%	35,583,940	36,517,583	2.19%	465,361,080
Greater than five years and less than or equal to ten years	1,130,350,078	1,122,059,484	3.39%	17,885,541	16,863,775	5.33%	602,483,200
Greater than ten years	8,766,902	8,705,955	4.11%	-	-	-	304,397,760
Total	\$ 1,147,972,171	\$ 1,139,464,268	3.39%	\$ 53,469,481	\$ 53,381,358	2.70%	\$ 1,433,521,500

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

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

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

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

For the three months ended June 30, 2016, the Company sold 4 securities for total proceeds of \$101.1 million, recording realized gains of \$0.8 million and realized losses of \$0.2 million. For the six months ended June 30, 2016, the Company sold 10 securities for total proceeds of \$131.0 million, recording realized gains of \$0.8 million and realized losses of \$1.6 million.

For the three months ended June 30, 2015, the Company sold 14 securities for total proceeds of \$61.8 million, recording realized gains of \$2.4 million and realized losses of \$1.0 million. For the six months ended June 30, 2015, the Company sold 32 securities for total proceeds of \$387.9 million, recording realized gains of \$7.9 million and realized losses of \$1.8 million.

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

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

A Special Purpose Entity (“SPE”) is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE’s issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement. See Note 2 for more detail.

The Company previously entered into a resecuritization transaction that resulted in the Company consolidating the VIE created with the SPE which was used to facilitate the transaction. The Company concluded that the entity created to facilitate this transaction was a VIE. The Company also determined the VIE created to facilitate the resecuritization transaction should be consolidated by the Company and treated as a secured borrowing, based on consideration of its involvement in the VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIE. As of June 30, 2016 and December 31, 2015, the resecuritized asset had an aggregate principal balance of \$35.0 million and \$40.0 million, respectively. As of June 30, 2016 and December 31, 2015, the resecuritized asset had an aggregate fair value of \$32.1 million and \$37.1 million, respectively. As of June 30, 2016 and December 31, 2015, the principal balance of the consolidated tranche was \$26.2 million and \$30.4 million, respectively. As of June 30, 2016 and December 31, 2015, the fair market value of the consolidated tranche was \$25.8 million and \$30.0 million, respectively, which is included in the Company’s consolidated balance sheet as “Non-Agency RMBS.” As of June 30, 2016 and December 31, 2015, the aggregate security has a weighted average coupon of 4.96% and 5.32%, respectively, and a weighted average yield of 5.95% and 6.14%, respectively. As of June 30, 2015, and December 31, 2015, the Company has recorded secured financing of \$25.8 million and \$30.0 million, respectively, on the consolidated balance sheet in the “Securitized debt, at fair value” line item. The Company recorded the proceeds from the issuance of the secured financing in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows at the time of securitization. As of June 30, 2016 and December 31, 2015, the consolidated tranche had a weighted average life of 3.21 years and 4.04 years, respectively, and a weighted average yield of 3.11% and 3.67%, respectively. The holders of the consolidated tranche have no recourse to the general credit of the Company. The Company has no obligation to provide any other explicit or implicit support to any VIE.

4. Loans

Residential Mortgage Loans

On February 28, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of \$59.0 million and \$34.9 million, respectively. On February 18, 2014, the Company entered into a Master Repurchase Agreement and Securities Contract (“Repurchase facility”) to finance acquisitions of residential mortgage loans. See Note 6 for further detail on the Company’s loan repurchase facility.

On July 31, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of \$13.7 million and \$5.7 million, respectively.

On September 30, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of \$50.5 million and \$44.0 million, respectively.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The table below details certain information regarding the Company's residential mortgage loan portfolio as of June 30, 2016:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average		Life (Years) (2)
				Gains	Losses		Coupon Yield		
Residential mortgage loans	\$ 75,777,203	\$ (22,167,868)	\$ 53,609,335	\$ 2,027,271	\$ -	\$ 55,636,606	5.43%	10.07%	5.10

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Actual maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below details certain information regarding the Company's residential mortgage loan portfolio as of December 31, 2015:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average		Life (Years) (2)
				Gains	Losses		Coupon Yield		
Residential mortgage	\$ 78,834,774	\$ (24,413,319)	\$ 54,421,455	\$ 2,658,772	\$ -	\$ 57,080,227	5.46%	8.70%	5.58

loans

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Actual maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below summarizes certain information pertaining to the Company's residential mortgage loans:

Loan Type	June 30, 2016		December 31, 2015	
	Fair Value	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance
Re-Performing	\$41,987,499	\$ 54,762,249	\$43,152,987	\$ 56,424,387
Non-Performing	13,649,107	21,014,954	13,927,240	22,410,387
	\$55,636,606	\$ 75,777,203	\$57,080,227	\$ 78,834,774

As described in Note 2, the Company evaluates loans for OTTI on at least a quarterly basis. The determination of whether a loan is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a loan is less than its amortized cost at the balance sheet date, the loan is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary." No OTTI was recorded on loans for the three or six months ended June 30, 2016. For the three and six months ended June 30, 2015 the Company recognized \$0.4 million of OTTI on certain loan pools, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded the \$0.4 million of OTTI due to an adverse change in cash flows where the fair values of the securities were less than their carrying amounts. The \$0.4 million related to non-performing and re-performing loan pools with

unpaid principal balances of \$19.4 million and \$48.0 million, respectively where OTTI was not previously recognized.

The Company's mortgage loan portfolio consisted of mortgage loans on residential real estate located throughout the U.S. The following is a summary of certain concentrations of credit risk within the Company's mortgage loan portfolio:

Concentration of Credit Risk	June 30, 2016	December 31, 2015		
Percentage of fair value of mortgage loans with unpaid principal balance to current property value in excess of 100%	94	%	95	%
Percentage of fair value of mortgage loans secured by properties in the following states:				

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Representing 5% or more of fair value:

New York	20	%	20	%
California	9	%	9	%
Florida	6	%	6	%
Maryland	5	%	5	%

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AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The Company records interest income on a level-yield basis. The accretable discount is determined by the excess of the Company's estimate of undiscounted principal, interest, and other cash flows expected to be collected over its initial investment in the mortgage loan. The following is a summary of the changes in the accretable portion of discounts for the three and six months ended June 30, 2016 and June 30, 2015, respectively:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Beginning Balance	\$23,163,147	\$39,457,764	\$24,216,638	\$38,008,263
Additions	-	-	-	-
Accretion	(1,140,611)	(1,424,792)	(2,244,638)	(3,290,087)
Reclassifications from/(to) non-accretable difference	632,192	(4,491,240)	786,597	(212,560)
Disposals	(106,779)	(11,408)	(210,648)	(975,292)
Ending Balance	\$22,547,949	\$33,530,324	\$22,547,949	\$33,530,324

As of June 30, 2016, the Company's residential mortgage loan portfolio is comprised of 377 conventional loans with original loan balances between \$9,000 and \$1.1 million.

Commercial Loans

The following table presents detail on the Company's commercial loan portfolio on June 30, 2016.

Loan (2)	Current Face	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average			Stated Ma Date (8)
				Gains	Losses		Coupon (6)	Yield (7)	Life (Years) (7)	
Loan B (3)	\$ 32,800,000	\$ (2,589)	\$ 32,797,411	\$ 2,589	\$ -	\$ 32,800,000	5.21 %	5.52 %	1.03	July 1, 2016
	10,000,000	(15,193)	9,984,807	15,193	-	10,000,000	13.46 %	15.37 %	0.60	

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Loan	Current Face	Premium (Discount)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Coupon (5)	Yield	Life (Years)	Stated Maturity Date (7)	February 1, 2017
Loan C (4)											February 1, 2017
Loan D (5)	12,000,000	(994,729)		11,005,271	994,729	-	12,000,000	10.46%	15.11%	0.63	February 1, 2017
	\$ 54,800,000	\$ (1,012,511)	\$ 53,787,489	\$ 1,012,511	\$ -	\$ 54,800,000	7.87 %	9.42 %	0.86		

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains (losses).

(2) Loan A paid off in Q2 2016, with the Company receiving \$30.0 million of principal proceeds.

(3) Loan B is comprised of a first mortgage and mezzanine loan of \$31.8 million and \$1.0 million, respectively. As of the stated maturity date, Loan B has been extended for an additional 12 months.

(4) Loan C is a mezzanine loan.

(5) Loan D is a first mortgage loan. See below for further information.

(6) Each commercial loan investment has a variable coupon rate.

(7) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(8) The Company has the contractual right to receive a balloon payment.

In February 2016, the Company originated a \$12.0 million commercial loan and, at closing, transferred a 15.0%, or \$1.8 million, participation interest in the loan (the "Participation Interest") to an unaffiliated third party. The Participation Interest did not meet the sales criteria established under ASC 860, therefore, the entire commercial loan has been recorded as an asset in the "Commercial loans, at fair value" line item on the Company's consolidated balance sheet, referred to in the above table as "Loan D". The weighted average coupon and yield on the commercial loan was 10.46% and 15.11%, respectively, at June 30, 2016. A \$1.8 million liability was recorded in the "Loan participation payable, at fair value" line item on the Company's consolidated balance sheet representing the transfer of the Participation Interest. The Company recorded the origination of the commercial loan in the "Cash Flows from Investing Activities" section and the proceeds from the transfer in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows. The weighted average coupon and yield on the Participation Interest was 10.46% and 24.18%, respectively, at June 30, 2016.

The following table presents detail on the Company's commercial loan portfolio on December 31, 2015.

Loan	Current Face	Premium (Discount)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Weighted Average Coupon (5)	Yield	Life (Years)	Stated Maturity Date (7)
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	(6)										
Loan A (2)	\$ 30,000,000	\$ (70,981)	\$ 29,929,019	\$ 70,981	\$ -	\$ 30,000,000	6.52 %	8.50 %	0.44	June 5, 2017	J
Loan B (3)	32,800,000	(38,441)	32,761,559	38,441	-	32,800,000	5.02 %	5.72 %	0.52	July 1, 2016	J
Loan C (4)	10,000,000	(29,607)	9,970,393	29,607	-	10,000,000	13.50%	16.13%	1.19	February 1, 2017	H 2
	\$ 72,800,000	\$ (139,029)	\$ 72,660,971	\$ 139,029	\$ -	\$ 72,800,000	6.80 %	8.30 %	0.58		

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its 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 columns above represent inception to date unrealized gains (losses).

(2) Loan A is comprised of a first mortgage and mezzanine loan of \$20.0 million and \$10.0 million, respectively.

(3) Loan B is comprised of a first mortgage and mezzanine loan of \$31.8 million and \$1.0 million, respectively.

(4) Loan C is a mezzanine loan.

(5) Each commercial loan investment has a variable coupon rate.

(6) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(7) The Company has the contractual right to receive a balloon payment.

During the three months and six months ended June 30, 2016, the Company received \$30.0 million of proceeds from the pay-off of Loan A. The Company did not have any loan sales or pay-offs for the three or six months ended June 30, 2015.

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June 30, 2016

During the three and six months ended June 30, 2016 the Company recorded \$0.1 million and \$0.2 million, respectively, of discount accretion. During the three and six months ended June 30, 2015 the Company recorded \$0.1 million and \$0.2 million, respectively, of discount accretion.

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.

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

In valuing its derivatives, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company's derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd Frank Act"). For swaps cleared under the Dodd Frank Act, a Central Counterparty Clearing House ("CCP") now stands

between the Company and the over-the-counter derivative counterparties. In order to access clearing, the Company has entered into clearing agreements with Futures Commissions Merchants (“FCMs”). The Company records its derivative asset and liability positions on a gross basis.

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

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.

TBA instruments are similar in form to the Company's Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

U.S. Treasury securities are valued using quoted prices for identical instruments in active markets. The fair value of the Company's obligation to return securities borrowed under reverse repurchase agreements is based upon the value of the underlying borrowed U.S. Treasury securities as of the reporting date.

The Company entered into a securitization transaction that resulted in the Company consolidating a VIE created with the SPE which was used to facilitate the transaction. The Company categorizes the fair value measurement of the consolidated tranche as Level 2.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

In December 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, formed Arc Home to originate conforming, FHA, and Jumbo loans. The Company invests in Arc Home through AG Arc. In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae seller/servicer of mortgages. Through this subsidiary, Arc Home is currently originating conforming, FHA, and Jumbo loans. As a result of this acquisition, the Company transferred its investment in AG Arc from Level 1 into Level 3 during the three months ended June 30, 2016.

In February 2016, the Company originated a \$12.0 million commercial loan and transferred a 15% participation interest in the loan to an unaffiliated third party. The Company categorizes the fair value measurement of the commercial loan and consolidated participation interest as Level 3.

As a condition to membership in the FHLBC, members are required to purchase and hold a certain amount of FHLBC stock, which is considered a non-marketable, long-term investment. Because this stock can only be transacted at its par value, and only to the FHLBC, the Manager believes cost approximates fair value. The Company categorizes the fair value measurement of these assets as Level 3. As part of the Final Rule mentioned previously, the Company will have to sell back all of its FHLBC stock by February 19, 2017.

The following table presents the Company's financial instruments measured at fair value as of June 30, 2016:

	Fair Value at June 30, 2016			Total
	Level 1	Level 2	Level 3	
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$ -	\$ 810,421,490	\$ -	\$ 810,421,490
Fixed Rate CMO	-	73,820,027	-	73,820,027
ARM	-	238,098,291	-	238,098,291
Interest Only	-	44,277,107	-	44,277,107
Credit Investments:				
Non-Agency RMBS	-	267,242,775	814,005,282	1,081,248,057
Non-Agency RMBS Interest Only	-	-	2,400,732	2,400,732
ABS	-	-	75,473,169	75,473,169

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CMBS	-	43,609,776	86,762,706	130,372,482
CMBS Interest Only	-	-	43,305,493	43,305,493
Residential mortgage loans	-	-	55,636,606	55,636,606
Commercial loans	-	-	54,800,000	54,800,000
U.S. Treasury securities	206,222,422	-	-	206,222,422
Excess mortgage servicing rights	-	-	346,507	346,507
Derivative assets	-	1,225,899	-	1,225,899
FHLBC stock	-	-	2,000	2,000
AG ARC	-	-	4,488,281	4,488,281
Total Assets Carried at Fair Value	\$ 206,222,422	\$ 1,478,695,365	\$ 1,137,220,776	\$ 2,822,138,563
Liabilities:				
Securitized debt	\$ -	\$ -	\$ (25,788,283)	\$ (25,788,283)
Loan participation payable	-	-	(1,800,000)	(1,800,000)
Securities borrowed under reverse repurchase agreements	(45,442,266)	-	-	(45,442,266)
Derivative liabilities	-	(23,974,089)	-	(23,974,089)
Total Liabilities Carried at Fair Value	\$ (45,442,266)	\$ (23,974,089)	\$ (27,588,283)	\$ (97,004,638)

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The following table presents the Company's financial instruments measured at fair value as of December 31, 2015.

	Fair Value at December 31, 2015			Total
	Level 1	Level 2	Level 3	
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$ -	\$ 820,137,292	\$ -	\$ 820,137,292
Fixed Rate CMO	-	78,025,512	-	78,025,512
ARM	-	249,809,367	-	249,809,367
Interest Only	-	53,469,481	-	53,469,481
Credit Investments:				
Non-Agency RMBS	-	772,579,324	451,677,960	1,224,257,284
Non-Agency RMBS Interest Only	-	-	5,553,734	5,553,734
ABS	-	-	54,761,837	54,761,837
CMBS	-	43,846,556	91,024,418	134,870,974
CMBS Interest Only	-	-	14,077,716	14,077,716
Residential mortgage loans	-	-	57,080,227	57,080,227
Commercial loans	-	-	72,800,000	72,800,000
U.S. Treasury securities	223,434,922	-	-	223,434,922
Excess mortgage servicing rights	-	-	425,311	425,311
Derivative assets	-	1,755,467	-	1,755,467
FHLBC stock	-	-	8,015,900	8,015,900
AG ARC	(316,580)	-	-	(316,580)
Total Assets Carried at Fair Value	\$ 223,118,342	\$ 2,019,622,999	\$ 755,417,103	\$ 2,998,158,444
Liabilities:				
Securitized debt	\$ -	\$ (30,046,861)	\$ -	\$ (30,046,861)
Derivative liabilities	-	(6,863,770)	-	(6,863,770)
Total Liabilities Carried at Fair Value	\$ -	\$ (36,910,631)	\$ -	\$ (36,910,631)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and six months ended June 30, 2016 and June 30, 2015.

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

**Three Months Ended
June 30, 2016**

	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commer Loans
Beginning balance	\$760,004,764	\$4,052,280	\$64,643,140	\$86,980,005	\$17,126,868	\$56,709,105	\$84,800
Transfers (1):							
Transfers into level 3	124,939,008	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases/Transfers (2)	4,993,750	-	12,500,598	2,000,000	26,318,875	-	-
Capital contributions	-	-	-	-	-	-	-
Reclassification of security type (3)	-	-	-	-	-	-	-
Proceeds from sales/redemptions	(21,677,437)	-	(1,511,503)	(2,100,960)	-	-	-
Proceeds from settlement	(53,642,972)	-	(559,488)	(182,835)	-	(737,718)	(30,000)
Total net gains/(losses) (4)							
Included in net income	(611,831)	(1,651,548)	400,422	66,496	(140,250)	(334,781)	-
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	\$814,005,282	\$2,400,732	\$75,473,169	\$86,762,706	\$43,305,493	\$55,636,606	\$54,800
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of June 30, 2016 (5)	\$748,366	\$(522,058)	\$390,869	\$54,752	\$(140,250)	\$(334,781)	\$-

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

(2) Transfers represent proceeds from transfer of loan participation.

(3) Represents a reclassification from investments in debt and equity of affiliates.

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

Unrealized gain/(loss) on real estate securities and loans, net	\$ 409,357
Unrealized gain/(loss) on derivative and other instruments, net	(12,319)

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Net realized gain/(loss)	(2,680,849)
Equity in earnings/(loss) from affiliates	(501,349)
Total	\$ (2,785,160)

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

Unrealized gain/(loss) on real estate securities and loans, net	\$196,897
Unrealized gain/(loss) on derivative and other instruments, net	(12,318)
Equity in earnings/(loss) from affiliates	(501,349)
Total	\$(316,770)

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

Three Months Ended

June 30, 2015

	Non-Agency RMBS	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights
Beginning balance	\$509,545,172	\$69,067,254	\$53,810,559	\$6,006,027	\$82,392,720	\$72,800,000	\$579,730
Transfers (1):							
Transfers into level 3	20,308,267	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases	28,384,097	-	18,000,000	-	-	-	-
Reclassification of security type (2)	-	-	-	-	-	-	-
Proceeds from sales	(14,262,260)	(7,803,290)	(13,870,892)	-	-	-	-
Proceeds from settlement	(71,350,444)	(334,856)	(717,106)	-	(2,702,973)	-	(49,780)
Total net gains/ (losses) (3)							
Included in net income	507,847	165,248	273,793	(239,036)	1,035,558	-	-
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	\$473,132,679	\$61,094,356	\$57,496,354	\$5,766,991	\$80,725,305	\$72,800,000	\$529,940
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2015 (4)	\$2,057,034	\$212,014	\$(133,055)	\$(239,036)	\$1,401,735	\$-	\$12,878

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

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

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

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Unrealized gain/(loss) on real estate securities and loans, net	1,701,227
Net realized gain/(loss)	42,183
Total	\$1,743,410

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

Unrealized gain/(loss) on real estate securities and loans, net	\$3,311,570
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**Six Months Ended
June 30, 2016**

	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commer Loans
Beginning balance	\$451,677,960	\$5,553,734	\$54,761,837	\$91,024,418	\$14,077,716	\$57,080,227	\$72,800
Transfers (1):							
Transfers into level 3	466,014,255	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases/Transfers (2)	11,717,812	-	23,698,801	2,000,000	26,348,759	-	10,428
Capital contributions	-	-	-	-	-	-	-
Reclassification of security type (3)	-	-	-	-	3,103,111	-	-
Proceeds from sales/redemptions	(29,172,134)	-	(1,511,503)	(2,100,960)	-	-	-
Proceeds from settlement	(76,553,594)	-	(1,187,108)	(1,103,203)	-	(1,064,010)	(30,000)
Total net gains/(losses) (4)	(9,679,017)	(3,153,002)	(288,858)	(3,057,549)	(224,093)	(379,611)	1,571,5
Included in net income	(9,679,017)	(3,153,002)	(288,858)	(3,057,549)	(224,093)	(379,611)	1,571,5
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	\$814,005,282	\$2,400,732	\$75,473,169	\$86,762,706	\$43,305,493	\$55,636,606	\$54,800
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of June 30, 2016 (5)	\$(3,571,140)	\$(1,529,325)	\$(160,154)	\$(2,739,373)	\$(224,093)	\$(379,611)	\$1,571,5

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

(2) Transfers represent proceeds from transfer of loan participation.

(3) Represents a reclassification from investments in debt and equity of affiliates.

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

Unrealized gain/(loss) on real estate securities and loans, net	\$ (6,816,273)
Unrealized gain/(loss) on derivative and other instruments, net	(171,477)
Net realized gain/(loss)	(8,394,294)
Equity in earnings/(loss) from affiliates	(501,349)
Total	\$ (15,883,393)

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

Unrealized gain/(loss) on real estate securities and loans, net	\$ (7,032,133)
Unrealized gain/(loss) on derivative and other instruments, net	(171,476)
Equity in earnings/(loss) from affiliates	(501,349)
Total	\$ (7,704,958)

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016****Six Months Ended****June 30, 2015**

	Non-Agency RMBS	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Service Rights
Beginning balance	\$455,236,279	\$66,693,243	\$39,343,274	\$6,125,949	\$85,089,859	\$72,800,000	\$628,300
Transfers (1):							
Transfers into level 3	20,308,267	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases	102,530,233	4,027,500	32,642,289	-	-	-	-
Reclassification of security type (2)	24,129,591	-	-	-	-	-	-
Proceeds from sales	(26,645,804)	(10,399,188)	(13,870,892)	-	-	-	-
Proceeds from settlement	(106,575,361)	(563,102)	(1,105,069)	-	(4,561,672)	-	(98,400)
Total net gains/ (losses) (3)							
Included in net income	4,149,474	1,335,903	486,752	(358,958)	197,118	-	-
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	\$473,132,679	\$61,094,356	\$57,496,354	\$5,766,991	\$80,725,305	\$72,800,000	\$529,900
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2015 (4)	\$5,504,661	\$1,285,375	\$79,904	\$(358,958)	\$631,106	\$-	\$12,800

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

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

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

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Unrealized gain/(loss) on real estate securities and loans, net	5,785,039
Net realized gain/(loss)	25,250
Total	\$5,810,289

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

Unrealized gain/(loss) on real estate securities and loans, net	\$7,154,966
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During the three months ended June 30, 2016, the Company transferred 7 Non-Agency RMBS securities with a total fair market value of \$124.9 million into the Level 3 category from the Level 2 category, and its investment in AG Arc with a total fair market value of \$(0.3) million into the Level 3 category from the Level 1 category under the fair value hierarchy of ASC 820. During the six months ended June 30, 2016, the Company transferred 36 Non-Agency RMBS securities and its securitized debt instrument with a total fair market value of \$466.0 million and \$30.0 million, respectively, into the Level 3 category from the Level 2 category of the fair value hierarchy and its investment in AG Arc with a total fair market value of \$(0.3) million into the Level 3 category from the Level 1 category of the fair value hierarchy under ASC 820 as these instruments exhibited indications of reduced levels of market transparency. During the three and six months ended June 30, 2015, the Company transferred a \$20.3 million Non-Agency RMBS into the Level 3 category from the Level 2 category of the fair value hierarchy under ASC 820 as this security exhibited indications of reduced levels of market transparency. Examples of such indications include a reduction in observable transactions or executable quotes involving these instruments or similar instruments. Changes in these indications could impact price transparency, and thereby cause a change in level designations in future periods.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

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

Asset Class	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-Agency RMBS	\$814,005,282	Discounted Cash Flow	Yield	0.28% - 54.58% (5.53%)
			Projected Collateral Prepayments	0.00% - 20.00% (7.06%)
			Projected Collateral Losses	0.00% - 38.00% (6.88%)
			Projected Collateral Severities	0.00% - 100.00% (40.21%)
Non-Agency RMBS Interest Only	\$2,400,732	Discounted Cash Flow	Yield	-59.52% - 10.03% (-51.41%)
			Projected Collateral Prepayments	25.00% - 25.00% (25.00%)
			Projected Collateral Losses	1.00% - 1.00% (1.00%)
			Projected Collateral Severities	10.00% - 10.00% (10.00%)
ABS	\$75,473,169	Discounted Cash Flow	Yield	3.67% - 7.00% (5.34%)
			Projected Collateral Prepayments	0.00% - 100.00% (73.76%)
			Projected Collateral Losses	0.00% - 8.30% (5.84%)
			Projected Collateral Severities	0.00% - 30.00% (1.19%)
CMBS	\$86,762,706	Discounted Cash Flow	Yield	3.86% - 15.81% (5.57%)
			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%)
CMBS Interest Only	\$43,305,493	Discounted Cash Flow	Yield	3.46% - 11.30% (6.33%)
			Projected Collateral Prepayments	100.00% - 100.00% (100.00%)

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			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	7.20% - 46.81% (10.07%)
			Projected Collateral Prepayments	4.02% - 8.41% (6.60%)
Residential Mortgage Loans	\$55,636,606	Discounted Cash Flow	Projected Collateral Losses	5.36% - 6.64% (5.77%)
			Projected Collateral Severities	10.52% - 27.95% (22.74%)
			Yield	5.52% - 24.18% (9.42%)
Commercial Loans	\$54,800,000	Discounted Cash Flow	Credit Spread	4.75 bps - 13 bps (7.41 bps)
			Recovery Percentage*	100.00% - 100.00% (100.00%)
Excess Mortgage Servicing Rights	\$346,507	Discounted Cash Flow	Yield	4.13% - 4.71% (4.64%)
FHLBC stock	\$2,000	**	Yield	4.00% - 4.00% (4.00%)
AG Arc	\$4,488,281	***	***	***

Liability Class	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	3.11% - 3.11% (3.11%)
			Projected Collateral Prepayments	12.00% - 12.00% (12.00%)
Securitized debt	\$(25,788,283)	Discounted Cash Flow	Projected Collateral Losses	5.50% - 5.50% (5.50%)
			Projected Collateral Severities	43.00% - 43.00% (43.00%)
Loan participation payable	\$(1,800,000)	Discounted Cash Flow	Yield	24.18% - 24.18% (24.18%)
			Credit Spread	10 bps - 10 bps (10 bps)
			Recovery Percentage*	100.00% - 100.00% (100.00%)

* Represents the proportion of the principal expected to be collected relative to the loan balances as of June 30, 2016.

** Fair value of the FHLBC stock approximates outstanding face amount as the Company's wholly-owned subsidiary is restricted from trading the stock and can only put the stock back to the FHLBC, at the FHLBC's discretion, at par.

*** The Company has an equity investment in a limited liability company in the amount of \$4.5 million which is classified as a Level 3 asset. The investment fair value value primarily represents an interest in a residential mortgage origination and investment platform. Cost approximates fair value for AG Arc.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

Asset Class	Fair Value at December 31, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-Agency RMBS	\$451,677,960	Discounted Cash Flow	Yield	0.81% - 16.11% (5.82%)
			Projected Collateral Prepayments	0.00% - 20.00% (6.36%)
			Projected Collateral Losses	0.00% - 38.00% (10.27%)
			Projected Collateral Severities	0.00% - 88.08% (31.22%)
Non-Agency RMBS Interest Only	\$5,553,734	Discounted Cash Flow	Yield	10.59% - 11.40% (10.70%)
			Projected Collateral Prepayments	25.00% - 25.00% (25.00%)
			Projected Collateral Losses	1.00% - 1.00% (1.00%)
			Projected Collateral Severities	10.00% - 10.00% (10.00%)
ABS	\$54,761,837	Discounted Cash Flow	Yield	2.44% - 7.57% (5.62%)
			Projected Collateral Prepayments	20.00% - 100.00% (79.96%)
			Projected Collateral Losses	0.00% - 8.30% (6.06%)
			Projected Collateral Severities	0.00% - 50.00% (10.98%)
CMBS	\$91,024,418	Discounted Cash Flow	Yield	3.94% - 16.87% (5.83%)
			Projected Collateral Prepayments	0.00% - 20.00% (0.37%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
CMBS Interest Only	\$14,077,716	Discounted Cash Flow	Yield	5.78% - 7.28% (6.67%)
			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%)
	\$57,080,227	Discounted Cash Flow	Yield	6.27% - 38.49% (8.70%)

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Residential Mortgage Loans			Projected Collateral Prepayments	3.42% - 7.41% (6.54%)
			Projected Collateral Losses	6.32% - 12.26% (10.17%)
			Projected Collateral Severities	28.10% - 37.47% (34.05%)
			Yield	5.72% - 16.13% (8.30%)
Commercial Loans	\$72,800,000	Discounted Cash Flow	Credit Spread	4.75 bps - 13.25 bps (6.54 bps)
			Recovery Percentage*	100.00% - 100.00% (100.00%)
Excess Mortgage Servicing Rights	\$425,311	Discounted Cash Flow	Yield	5.49% - 11.51% (6.33%)
FHLBC stock	\$8,015,900	**	Yield	4.00% - 4.00% (4.00%)

* Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2015.

** Fair value of the FHLBC stock approximates outstanding face amount as the Company's wholly-owned subsidiary is restricted from trading the stock and can only put the stock back to the FHLBC, at the FHLBC's discretion, at par.

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 securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

6. Repurchase Agreements and FHLBC Advances

The Company pledges certain real estate securities and loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. FHLBC Advances involve loan advances made to the Company by the FHLBC in exchange for real estate securities as collateral. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a "haircut." The Company calculates haircuts disclosed in the tables below by dividing allocated capital on each borrowing by the current fair market value of each investment. Repurchase agreements and FHLBC Advances entered into by the Company are accounted for as financings and require the repurchase of the transferred assets at the end of each agreement's term, typically 30 to 90 days. The carrying amount of the Company's repurchase agreements and FHLBC Advances approximates fair value due to their short-term maturities or floating rate coupons. If the Company maintains the beneficial interest in the specific assets pledged during the term of the borrowing, it receives the related principal and interest payments. If the Company does not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, it will have the related principal and interest payments remitted to it by the lender. 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 borrowing at which time the Company may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. In response to declines in fair value of pledged assets due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically require the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. The fair value of financial instruments pledged as collateral on the Company's repurchase agreements and FHLBC Advances disclosed in the tables below represent the Company's fair value of such instruments which may differ from the fair value assigned to the collateral by its counterparties. The Company maintains a level of liquidity in the form of cash and unpledged Agency RMBS and Agency Interest-Only securities in order to meet these obligations. Under the terms of the Company's master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

In January 2016, the FHFA issued the Final Rule, which prevents MITT Insurance from renewing, extending or receiving any additional FHLBC Advances. As of June 30, 2016, the Company had no outstanding advances with the FHLBC. See Note 2 for more detail. Any FHLBC Advances reflected in the tables below are as of December 31, 2015.

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The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of June 30, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$35,283,000	0.65	% 3.0	% \$36,371,491	\$34,873,258	\$89,034
30 days or less	1,171,972,000	1.37	% 13.3	% 1,370,740,412	1,351,892,160	4,522,969
31-60 days	315,827,000	1.07	% 8.3	% 346,291,157	336,468,981	994,277
61-90 days	106,303,000	2.37	% 22.8	% 139,037,977	142,004,537	295,538
Greater than 90 days	360,072,589	1.70	% 8.4	% 430,208,440	417,881,883	1,254,833
Total / Weighted Average	\$1,989,457,589	1.42	% 11.9	% \$2,322,649,477	\$2,283,120,819	\$7,156,651

The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of December 31, 2015:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
30 days or less	\$1,052,983,000	1.43	% 15.4	% \$1,268,366,695	\$1,256,686,536	\$4,308,583
31-60 days	245,124,000	1.23	% 11.8	% 281,093,633	280,893,609	887,640
61-90 days	76,739,000	1.98	% 21.1	% 98,349,611	97,456,598	222,769
Greater than 90 days	364,352,658	1.57	% 9.4	% 431,942,111	425,617,273	1,315,462
Total / Weighted Average	\$1,739,198,658	1.46	% 13.9	% \$2,079,752,050	\$2,060,654,016	\$6,734,454

The Company had no FHLBC Advances as of June 30, 2016.

The following table presents certain financial information regarding the Company's FHLBC Advances secured by Agency RMBS as of December 31, 2015:

FHLBC Advances Maturing Within:	FHLBC Advances			Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
30 days or less	\$186,449,500	0.36	% 0.2	% \$187,002,677	\$186,972,618	\$550,689
31-60 days	39,750,000	0.44	% 2.7	% 40,857,352	40,726,086	115,211
61-90 days	170,694,500	0.49	% 0.3	% 176,322,379	174,577,627	471,330
Greater than 90 days	-	-	-	-	-	-

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Total / Weighted Average	\$396,894,000	0.42	%	0.5	%	\$404,182,408	\$402,276,331	\$1,137,230
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The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of June 30, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements				Collateral Pledged			
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest	
30 days or less	\$-	-	-	-	\$-	\$-	\$-	
31-60 days	-	-	-	-	-	-	-	
61-90 days	-	-	-	-	-	-	-	
Greater than 90 days	33,627,413	2.97 %	3.11 %	30.7 %	48,921,692	47,478,431	57,117	
Total / Weighted Average	\$33,627,413	2.97 %	3.11 %	30.7 %	\$48,921,692	\$47,478,431	\$57,117	

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of December 31, 2015:

Repurchase Agreements Maturing Within:	Repurchase Agreements					Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut (1)	Fair Value Pledged	Amortized Cost	Accrued Interest	
30 days or less	\$-	-	-	-	\$-	\$-	\$-	
31-60 days	-	-	-	-	-	-	-	
61-90 days	-	-	-	-	-	-	-	
Greater than 90 days	50,606,302	2.93 %	3.18 %	N/A	50,686,922	48,426,156	53,074	
Total / Weighted Average	\$50,606,302	2.93 %	3.18 %	N/A	\$50,686,922	\$48,426,156	\$53,074	

(1) As of December 31, 2015, the Company had a total of \$74.0 million of collateral pledged, comprised of \$50.7 million of financial instruments and \$23.3 million of cash from loan sales, which at December 31, 2015 was held by the Company's broker. The haircut based on total collateral pledged is 31.1% as of December 31, 2015.

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in commercial loans as of June 30, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements					Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest	
30 days or less	\$-	-	-	-	\$-	\$-	\$-	
31-60 days	-	-	-	-	-	-	-	
61-90 days	-	-	-	-	-	-	-	
Greater than 90 days	21,796,000	2.60 %	2.87 %	33.5 %	32,800,000	32,797,411	364,216	
	\$21,796,000	2.60 %	2.87 %	33.5 %	\$32,800,000	\$32,797,411	\$364,216	

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Total / Weighted
Average

The following table presents certain financial information regarding the Company's repurchase agreements secured by commercial loans as of December 31, 2015:

Repurchase Agreements Maturing Within:	Repurchase Agreements				Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
30 days or less	\$-	-	-	-	\$-	\$-	\$-
31-60 days	-	-	-	-	-	-	-
61-90 days	-	-	-	-	-	-	-
Greater than 90 days	42,796,000	2.67 %	3.62 %	31.8 %	62,800,000	62,690,578	941,247
Total / Weighted Average	\$42,796,000	2.67 %	3.62 %	31.8 %	\$62,800,000	\$62,690,578	\$941,247

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in U.S. Treasury securities as of June 30, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements				Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$205,115,000	0.95 %	0.54 %	0.54 %	\$206,222,422	\$201,231,094	\$379,809
30 days or less	-	-	-	-	-	-	-
31-60 days	-	-	-	-	-	-	-
61-90 days	-	-	-	-	-	-	-
Greater than 90 days	-	-	-	-	-	-	-
Total / Weighted Average	\$205,115,000	0.95 %	0.54 %	0.54 %	\$206,222,422	\$201,231,094	\$379,809

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in U.S. Treasury securities as of December 31, 2015:

Repurchase Agreements Maturing Within:	Repurchase Agreements				Collateral Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$202,362,500	0.42 %	0.57 %	0.57 %	\$203,520,859	\$205,763,477	\$693,430
30 days or less	-	-	-	-	-	-	-

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31-60 days	-	-	-	-	-	-	-
61-90 days	-	-	-	-	-	-	-
Greater than 90 days	-	-	-	-	-	-	-
Total / Weighted Average	\$202,362,500	0.42	%	0.57	%	\$203,520,859	\$205,763,477
							\$ 693,430

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

Although repurchase agreements and FHLBC Advances 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. See Note 7 for details on collateral posted/received against certain derivatives. The following table presents information with respect to the Company's posting of collateral under (i) repurchase agreements on June 30, 2016 and (ii) repurchase agreements and FHLBC Advances on December 31, 2015, broken out by investment type:

	June 30, 2016	December 31, 2015
Fair Value of investments pledged as collateral under repurchase agreements and FHLBC advances:		
Agency RMBS (1)	\$1,037,264,912	\$ 1,128,962,588
Non-Agency RMBS	1,039,533,429	1,157,357,871
ABS	75,473,169	54,761,837
CMBS	170,377,967	142,852,162
Residential Mortgage Loans	48,921,692	50,686,922
Commercial Mortgage Loans	32,800,000	62,800,000
U.S. Treasury Securities	206,222,422	203,520,859
Cash pledged (i.e., restricted cash) under repurchase agreements	8,720,493	16,662,156
Total collateral pledged under Repurchase agreements and FHLBC advances	\$2,619,314,084	\$ 2,817,604,395

(1) Collateral for FHLBC advances consist solely of Agency RMBS.

The following table presents information with respect to the Company's total borrowings under (i) repurchase agreements on June 30, 2016 and (ii) repurchase agreements and FHLBC Advances on December 31, 2015, broken out by investment type:

	June 30, 2016	December 31, 2015
Repurchase agreements secured by investments:		
Agency RMBS	\$978,358,000	\$ 676,679,000
Non-Agency RMBS	825,172,589	914,276,658
ABS	59,043,000	43,544,000
CMBS	126,884,000	104,699,000
Residential Mortgage Loans	33,627,413	50,606,302

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Commercial Mortgage Loans	21,796,000	42,796,000
U.S. Treasury Securities	205,115,000	202,362,500
FHLBC advances secured by investments:		
Agency RMBS	-	396,894,000
Gross Liability for Repurchase agreements and FHLBC advances	\$ 2,249,996,002	\$ 2,431,857,460

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheet as of June 30, 2016:

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	\$ 2,249,996,002	\$ -	\$ 2,249,996,002	\$ 2,249,996,002	\$ -	\$ -

The Company had no FHLBC Advances as of June 30, 2016.

The following table presents both gross information and net information about repurchase agreements and FHLBC Advances eligible for offset in the consolidated balance sheet as of December 31, 2015:

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	\$ 2,034,963,460	\$ -	\$ 2,034,963,460	\$ 2,034,963,460	\$ -	\$ -
FHLBC advances	396,894,000	-	396,894,000	396,894,000	-	-
Total	\$ 2,431,857,460	\$ -	\$ 2,431,857,460	\$ 2,431,857,460	\$ -	\$ -

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The Company seeks to obtain financing from several different counterparties in order to reduce the financing risk related to any single counterparty. The Company has entered into master repurchase agreements (“MRAs”) or loan agreements with such financing counterparties. As of June 30, 2016 and December 31, 2015 the Company had 38 financing counterparties under which it had outstanding debt with 22 and 21 counterparties, respectively.

The following table presents information at June 30, 2016 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders’ equity at risk, excluding stockholders’ equity at risk under financing through affiliated entities.

Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Wells Fargo Bank, N.A.	\$ 62,739,237	478	10	%
JP Morgan Securities, LLC	39,941,541	188	6	%
RBC (Barbados) Trading Bank Corporation	35,486,233	43	5	%

The following table presents information at December 31, 2015 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders’ equity at risk, excluding stockholders’ equity at risk under financing through affiliated entities.

Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Wells Fargo Bank, N.A.	\$ 59,863,639	543	9	%
JP Morgan Securities, LLC	45,341,579	187	7	%
RBC (Barbados) Trading Bank Corporation	41,788,752	44	6	%
Credit Suisse Securities, LLC	40,797,732	44	6	%

On April 13, 2015, the Company, AG MIT, LLC (“AG MIT”) and AG MIT CMO, LLC (“AG MIT CMO”), each a subsidiary of the Company, entered into Amendment Number 2 to the Master Repurchase and Securities Contract (the “Second Renewal”) with Wells Fargo Bank, National Association (“Wells Fargo”) to finance both AG MIT’s and AG MIT CMO’s acquisition of certain consumer asset-backed securities and commercial mortgage-backed securities as well as Non-Agency RMBS. The Second Renewal amends the repurchase agreement entered into by the Company, AG MIT

and AG MIT CMO with Wells Fargo in 2014. Each transaction under the Second Renewal will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The Second Renewal includes a 270 day evergreen structure providing for the automatic renewal of the agreement each day for a new term of 270 days unless Wells Fargo notifies AG MIT and AG MIT CMO that it has decided not to renew, at which point the agreement will terminate 270 days after the date of nonrenewal. The Second Renewal also increased the aggregate maximum borrowing capacity to \$200 million and extended the maturity date to April 13, 2017. At the request of AG MIT and AG MIT CMO, Wells Fargo may grant a 90 day extension of the maturity date. The Second Renewal contains representations, warranties, covenants, events of default and indemnities that are substantially identical to those in the previous repurchase agreements and are customary for agreements of this type. As of June 30, 2016, the Company had \$93.4 million of debt outstanding under this facility.

On February 26, 2016, AG MIT WFB1 2014 LLC (“AG MIT WFB1”), a subsidiary of the Company, entered into Amendment Number Four of the Master Repurchase Agreement and Securities Contract (as amended, the “WFB1 Repurchase Agreement”) with Wells Fargo to finance the ownership and acquisition of certain beneficial interests in trusts owning participation interests in one or more pools of residential mortgage loans. Each transaction under the WFB1 Repurchase Agreement has its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The WFB1 Repurchase Agreement provides for a funding period ending February 24, 2017 and a facility termination date of February 23, 2018. The maximum aggregate borrowing capacity available under the WFB1 Repurchase Agreement is \$100.0 million. The WFB1 Repurchase Agreement contains representations, warranties, covenants, events of default and indemnities that are customary for agreements of this type. The WFB1 Repurchase Agreement also contains financial covenants that are the same as those in the Second Renewal. As of June 30, 2016, the Company had \$33.6 million of debt outstanding under the WFB1 Repurchase Agreement.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

On September 17, 2014, AG MIT CREL, LLC (“AG MIT CREL”), a subsidiary of the Company, entered into a Master Repurchase Agreement and Securities Contract (the “CREL Repurchase Agreement”) with Wells Fargo to finance AG MIT CREL’s acquisition of certain beneficial interests in one or more commercial mortgage loans. Each transaction under the CREL Repurchase Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The CREL Repurchase Agreement provides for a funding period ending September 17, 2016 and an initial facility termination date of September 17, 2016 (the “Initial Termination Date”), subject to the satisfaction of certain terms of the extensions described below. AG MIT CREL has three (3) one-year options to extend the term of the CREL Repurchase Agreement: (i) the first for an additional one year period (the “First Extension Period”) ending September 17, 2017 (the “First Extended Termination Date”), (ii) the second for an additional one year period (the “Second Extension Period”) ending September 17, 2018 (the “Second Extended Termination Date”) and (iii) the third for an additional one year period ending September 17, 2019 (the “Third Extended Termination Date”). For each of the Initial Termination Date, the First Extended Termination Date, the Second Extended Termination Date and the Third Extended Termination Date, if such day is not a Business Day, such date shall be the next succeeding Business Day. Each option shall be exercisable in each case no more than ninety (90) days and no fewer than thirty (30) days prior to the initial facility termination date, the First Extended Termination Date or the Second Extended Termination Date, as the case may be.

On August 4, 2015, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the “Omnibus Amendment”) with Wells Fargo. The Omnibus Amendment amended certain terms in the CREL Repurchase Agreement, the Guarantee, dated as of September 17, 2014, delivered by the Company and AG MIT to Wells Fargo and the Fee and Pricing Letter, dated as of September 17, 2014, between AG MIT CREL and Wells Fargo. The Omnibus Amendment lowered the maximum aggregate borrowing capacity available under the CREL Repurchase Agreement from \$150 million to approximately \$42.8 million. The Omnibus Amendment also provided that the CREL Repurchase Agreement become full recourse to the Company and AG MIT, LLC. By amending the recourse of the CREL Repurchase Agreement to the Company and AG MIT, the Company was able to remove certain financial covenants on AG MIT CREL that limited the amount that AG MIT CREL could borrow under the CREL Repurchase Agreement. The Omnibus Amendment also eliminated the fee for the portion of the repurchase facility that was unused. The CREL Repurchase Agreement contains representations, warranties, covenants, events of default and indemnities that are customary for agreements of this type. It also contains financial covenants that are the same as the financial covenants in the Second Renewal. As of June 30, 2016, the Company had \$21.8 million of debt outstanding under this facility.

The Company’s MRAs 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.

7. Derivatives

The Company's derivatives may include interest rate swaps ("swaps"), swaptions, TBAs, MBS options, Eurodollar Futures and U.S. Treasury Futures (collectively, "Futures"), and IO Indexes. Derivatives have not been designated as hedging instruments. The Company may also enter into non-derivative instruments to manage interest rate risk, including Agency Interest-Only securities and long and short positions in U.S. Treasury securities.

The following table presents the fair value of the Company's derivative instruments and their balance sheet location at June 30, 2016 and December 31, 2015.

Derivative Instrument	Designation	Balance Sheet Location	June 30, 2016	December 31, 2015
Interest rate swaps	Non-Hedge	Derivative liabilities, at fair value	\$(22,901,340)	\$ (6,722,170)
Interest rate swaps	Non-Hedge	Derivative assets, at fair value	-	1,755,467
TBAs	Non-Hedge	Derivative liabilities, at fair value	(904,690)	(141,600)
TBAs	Non-Hedge	Derivative assets, at fair value	1,204,336	-
Short positions on Eurodollar Futures	Non-Hedge	Derivative liabilities, at fair value	(148,138)	
Long positions on U.S. Treasury Futures	Non-Hedge	Derivative liabilities, at fair value	(19,921)	
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative assets, at fair value	21,563	
Long positions on U.S. Treasuries	Non-Hedge	U.S. Treasury securities, at fair value	206,222,422	223,434,922
Short positions on U.S. Treasuries	Non-Hedge	Obligation to return securities borrowed under reverse repurchase agreements, at fair value (1)	(45,442,266)	-

(1) The Company's obligation to return securities borrowed under reverse repurchase agreements as of June 30, 2016 relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded in the "Unrealized gain/(loss) on derivatives and other instruments, net" line item in the Company's consolidated statement of operations.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The following table summarizes information related to derivatives:

Non-hedge derivatives held long/(short):	June 30, 2016	December 31, 2015
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	\$ 529,000,000	\$ 969,000,000
Notional amount of TBAs	100,000,000	75,000,000
Notional amount of short positions on Eurodollar Futures (1)	(975,000,000)	-
Notional amount of long positions on U.S. Treasury Futures (2)	22,500,000	-
Notional amount of short positions on U.S. Treasury Futures (2)	(23,000,000)	-
Notional amount of long positions on U.S. Treasuries	200,000,000	226,000,000
Notional amount of short positions on U.S. Treasuries	(45,000,000)	-

(1) Each Eurodollar Future contract embodies \$1.0 million of notional value.

(2) Each U.S. Treasury Future contract embodies \$100,000 of notional value.

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

Non-hedge derivatives gain (loss):		Statement of Operations Location	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest rate swaps, at fair value	Unrealized gain/(loss) on derivative and other instruments, net		\$(1,615,094)	\$9,168,104	\$(19,516,469)	\$(513,854)
Interest rate swaps, at fair value	Net realized gain/(loss)		(2,839,917)	-	(5,733,434)	(12,095,4
Short positions on Eurodollar Futures	Unrealized gain/(loss) on derivative and other instruments, net		(150,547)	-	(150,547)	-
Long positions on U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net		(20,374)	-	(20,374)	-

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Long positions on U.S. Treasury Futures	Net realized gain/(loss)	126,919	-	126,919	-
Short positions on U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	21,123	-	21,123	-
Short positions on U.S. Treasury Futures	Net realized gain/(loss)	15,056	-	15,056	-
TBAs (1)	Unrealized gain/(loss) on derivative and other instruments, net	441,638	(2,776,176)	441,246	(2,089,84)
TBAs (1)	Net realized gain/(loss)	(180,625)	683,399	25,039	2,838,47
Long positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	1,587,306	(649,023)	7,580,039	-
Long positions on U.S. Treasuries	Net realized gain/(loss)	109,062	(1,914,062)	423,828	(3,177,73
Short positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	(200,391)	14,453	(200,391)	(354,688
Short positions on U.S. Treasuries	Net realized gain	-	(708,789)	-	(1,151,75

(1) For the three months ended June 30, 2016, gains and losses from purchases and sales of TBAs consisted of \$7,656 of net TBA dollar roll net interest income and net gains of \$0.3 million due to price changes. For the six months ended June 30, 2016, gains and losses from purchases and sales of TBAs consisted of \$0.1 million of net TBA dollar roll net interest income and net gains of \$0.4 million due to price changes. For the three months ended June 30, 2015, realized and unrealized gains and losses from purchases and sales of TBAs consisted of \$1.0 million of net TBA dollar roll net interest income and net losses of \$(3.1) million due to price changes. For the six months ended June 30, 2015, realized and unrealized gains and losses from purchases and sales of TBAs consisted of \$2.2 million of net TBA dollar roll net interest income and net losses of \$(1.5) million due to price changes.

The following table presents both gross information and net information about derivative and other instruments eligible for offset in the consolidated balance sheet as of June 30, 2016:

Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet			Net Amount
			Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	
Receivable Under Reverse Repurchase Agreements	\$ 45,656,250	\$ -	\$ 45,656,250	\$ 45,442,266	\$ -	\$ 213,984
Derivative Assets						
U.S. Treasury Futures - Short	\$ 21,563	\$ -	\$ 21,563	\$ -	\$ -	\$ 21,563

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TBAs	1,204,336	-	1,204,336	-	-	1,204,336
Total Derivative Assets	\$ 1,225,899	\$ -	\$ 1,225,899	\$-	\$-	\$ 1,225,899
Derivative Liabilities						
(1)						
Interest Rate Swaps	\$ (21,672,658)	\$ -	\$ (21,672,658)	\$-	\$ (21,672,658)	\$-
Eurodollar Futures - Short	(148,138)	-	(148,138)	-	(148,138)	-
U.S. Treasury Futures - Long	(19,921)	-	(19,921)	-	(19,921)	-
TBAs	(904,690)	-	(904,690)	(904,690)	-	-
Total Derivative Liabilities	\$ (22,745,407)	\$ -	\$ (22,745,407)	\$ (904,690)	\$ (21,840,717)	\$-

(1) Included in Derivative Liabilities on the consolidated balance sheet is \$22,745,407 plus accrued interest of \$1,228,682 for a total of \$23,974,089.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

The following table presents both gross information and net information about derivative instruments eligible for offset in the consolidated balance sheet as of December 31, 2015:

Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet			
			Net Amounts of Assets (Liabilities) Consolidated Balance Sheet	Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Derivative Assets (1)						
Interest Rate Swaps	\$ 3,195,522	\$ -	\$ 3,195,522	\$ -	\$ 1,820,022	\$ 1,375,500
Total Derivative Assets	\$ 3,195,522	\$ -	\$ 3,195,522	\$ -	\$ 1,820,022	\$ 1,375,500
Derivative Liabilities (2)						
Interest Rate Swaps	\$ (5,351,711)	\$ -	\$ (5,351,711)	\$ -	\$ (5,351,711)	\$ -
TBAs	(141,600)	-	(141,600)	(141,600)	-	-
Total Derivative Liabilities	\$ (5,493,311)	\$ -	\$ (5,493,311)	\$ (141,600)	\$ (5,351,711)	\$ -

(1) Included in Derivative Assets on the consolidated balance sheet is \$3,195,522 less accrued interest of \$1,440,055 for a total of \$1,755,467.

(2) Included in Derivative Liabilities on the consolidated balance sheet is \$(5,493,311) plus accrued interest of \$(1,370,459) for a total of \$(6,863,770).

The Company must post cash or securities as collateral on its derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. The posting of collateral is generally bilateral, meaning that if the fair value of

the Company's derivatives increases, its counterparty will post collateral to it. On June 30, 2016, the Company pledged real estate securities with a fair value of \$4.9 million and cash of \$31.6 million as collateral against certain derivatives. The Company's counterparties did not post any collateral to it. On December 31, 2015, the Company pledged real estate securities with a fair value of \$4.9 million and cash of \$15.3 million as collateral against certain derivatives. The Company's counterparties posted cash of \$1.8 million to it as collateral for certain derivatives.

Interest Rate Swaps

To help mitigate exposure to higher short-term interest rates, the Company uses currently-paying and may use forward-starting, one- or 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 June 30, 2016:

Maturity	Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88	%	0.64	%	1.34
2019	50,000,000	1.29	%	0.64	%	3.33
2020	250,000,000	1.65	%	0.65	%	3.77
2022	53,000,000	1.69	%	0.68	%	6.19
2023	110,000,000	2.31	%	0.68	%	6.93
2025	30,000,000	2.48	%	0.68	%	8.93
Total/Wtd Avg	\$ 529,000,000	1.75	%	0.66	%	4.76

The following table presents information about the Company's interest rate swaps as of December 31, 2015:

Maturity	Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88	%	0.33	%	1.84
2018	165,000,000	1.06	%	0.50	%	2.20
2019	210,000,000	1.29	%	0.43	%	3.73
2020	295,000,000	1.67	%	0.40	%	4.27
2022	73,000,000	1.75	%	0.42	%	6.53
2023	160,000,000	2.31	%	0.43	%	7.42
2025	30,000,000	2.48	%	0.45	%	9.43
Total/Wtd Avg	\$ 969,000,000	1.59	%	0.43	%	4.56

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016****TBAs**

As discussed in Note 2, the Company has entered into TBAs. As of June 30, 2016, the Company's maximum exposure to loss on TBAs was \$103.5 million. As of December 31, 2015, the Company's maximum exposure to loss on TBAs was \$77.5 million.

The following table presents information about the Company's TBAs for the three and six months ended June 30, 2016 and June 30, 2015:

For the Three Months Ended June 30, 2016

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability	
TBAs	-	\$ -	\$ 232,000,000	\$(132,000,000)	\$ 100,000,000	\$ 103,757,810	\$(103,450,351)	\$ 719,960	\$(412,501)
Long TBAs	-	\$ -	\$ 75,000,000	\$(75,000,000)	\$ -	\$ -	\$(7,813)	\$ 484,376	\$(492,189)
Short									

For the Three Months Ended June 30, 2015

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 180,000,000	\$ 310,000,000	\$(490,000,000)	\$ -	\$ -	\$(609,375)	\$ 144,530	\$(753,905)
TBAs - Short	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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For the Six Months Ended June 30, 2016

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$75,000,000	\$277,000,000	\$(252,000,000)	\$100,000,000	\$103,757,810	\$(103,450,351)	\$719,960	\$(412,501)
TBAs - Short	\$-	\$225,000,000	\$(225,000,000)	\$-	\$-	\$(7,813)	\$484,376	\$(492,189)

For the Six Months Ended June 30, 2015

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$225,000,000	\$915,000,000	\$(1,140,000,000)	\$-	\$-	\$(609,375)	\$144,530	\$(753,905)
TBAs - Short	\$-	\$219,000,000	\$(219,000,000)	\$-	\$-	\$-	\$-	\$-

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 the Company’s common dividends. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock and unvested restricted stock units 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 June 30, 2016 and June 30, 2015, the Company’s outstanding warrants and unvested restricted stock units were as follows:

	June 30, 2016	June 30, 2015
Outstanding warrants	1,007,500	1,007,500
Unvested restricted stock units previously granted to the Manager	40,006	60,000

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. For the three and six months ended June 30, 2016 and June 30, 2015, the Company excluded the effects of such from the computation of diluted earnings per share because their effect would be anti-dilutive.

Restricted stock units granted to the manager do not entitle the participant the rights of a shareholder of the Company’s common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The

restricted stock units are not considered to be participating shares. The dilutive effects of the restricted stock units are only included in diluted weighted average common shares outstanding.

AG Mortgage Investment Trust Inc. and Subsidiaries**Notes to Consolidated Financial Statements (unaudited)****June 30, 2016**

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and six months ended June 30, 2016 and June 30, 2015:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Numerator:				
Net income/(loss) available to common stockholders for basic and diluted earnings per share	\$ 17,709,787	\$ (1,526,910	) \$ 11,898,006	\$ 7,869,178
Denominator:				
Basic weighted average common shares outstanding	28,038,953	28,389,211	28,155,441	28,388,417
Dilutive effect of restricted stock units	15,501	-	14,992	27,575
Diluted weighted average common shares outstanding	28,054,454	28,389,211	28,170,433	28,415,992
Basic Earnings/(Loss) Per Share of Common Stock:	\$ 0.63	\$ (0.05	) \$ 0.42	\$ 0.28
Diluted Earnings/(Loss) Per Share of Common Stock:	\$ 0.63	\$ (0.05	) \$ 0.42	\$ 0.28

Excluded from the computation of diluted earnings per share because its effect would be anti-dilutive were restricted stock units of 29,915 for the three months ended June 30, 2015.

The following tables detail our common stock dividends for the six months ended June 30, 2016, and June 30, 2015:

2016				
Declaration Date	Record Date	Payment Date	Dividend Per Share	
3/10/2016	3/21/2016	4/29/2016	\$ 0.475	
6/9/2016	6/20/2016	7/29/2016	0.475	

2015

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/12/2015	3/23/2015	4/30/2015	\$ 0.60
6/11/2015	6/22/2015	7/31/2015	0.60

The following tables detail our preferred stock dividends during the six months ended June 30, 2016, and June 30, 2015:

2016

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2016	2/29/2016	3/17/2016	\$ 0.51563
8.25% Series A	5/13/2016	5/31/2016	6/17/2016	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2016	2/29/2016	3/17/2016	\$ 0.50
8.00% Series B	5/13/2016	5/31/2016	6/17/2016	0.50

2015

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2015	2/27/2015	3/17/2015	\$ 0.51563
8.25% Series A	5/14/2015	5/29/2015	6/17/2015	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2015	2/27/2015	3/17/2015	\$ 0.50
8.00% Series B	5/14/2015	5/29/2015	6/17/2015	0.50

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 follow U.S. federal income tax treatment of REITs.

For the three months ended June 30, 2016 and June 30, 2015, the Company recorded excise tax expense of \$0.4 million and \$0.4 million, respectively. For the six months ended June 30, 2016 and June 30, 2015, the Company recorded excise tax expense of \$0.8 million and \$0.8 million, respectively. Excise tax represents a four percent tax on the required amount of the Company's ordinary income and net capital gains not distributed during the year. The quarterly expense is calculated in accordance with applicable tax regulations.

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

AG Mortgage Investment Trust Inc. and Subsidiaries

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The Company elected to treat certain domestic subsidiaries 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.

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

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 June 30, 2016 or December 31, 2015. The Company's federal income tax returns for the last three 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.

10. Related Party Transactions

The Company has entered into a management agreement with the Manager, which provided for an initial term and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. As of June 30, 2016 and December 31, 2015, no event of termination had occurred. 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 initial public offering (the "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 of 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 six months ended June 30, 2016, the Company incurred management fees of approximately \$2.4 million and \$4.9 million, respectively. For the three and six months ended June 30, 2015, the Company incurred management fees of approximately \$2.5 million and \$5.0 million, respectively.

Termination fee

The termination fee, payable upon the occurrence of (i) the Company's termination of the management agreement without cause or (ii) the Manager's termination of the management agreement upon a breach 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 June 30, 2016 and December 31, 2015, no event of termination of the management agreement had occurred.

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Expense reimbursement

The Company is required to reimburse the Manager for operating expenses which are incurred by the Manager on behalf of the Company, including expenses relating to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by the Company's board of directors.

The Company reimburses the Manager or its affiliates for the Company's 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 time spent on Company affairs, (ii) the Company's general counsel based on the percentage of 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 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 six months ended June 30 2016, the Company expensed into Other operating expenses \$1.7 million and \$3.5 million, respectively, of reimbursable expenses payable to the Manager. For the three and six months ended June 30 2015, the Company expensed into Other operating expenses \$1.9 million and \$3.7 million, respectively, of reimbursable expenses payable to the Manager.

Restricted stock grants

Pursuant to the Company's Manager Equity Incentive Plan and the Equity Incentive Plan adopted on July 6, 2011, the Company can award up to 277,500 shares of its common stock to the directors, officers, advisors, consultants and other personnel of the Company and to the Manager. As of June 30, 2016, 137,590 shares of common stock were available to be awarded under the equity incentive plans. 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 applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

On July 1, 2014, the Company granted 60,000 restricted stock units to the Manager that represent the right to receive an equivalent number of shares of the Company's common stock to be issued if and when such units vest. Annual vesting of approximately 20,000 units occurred or will occur on each of July 1, 2015, July 1, 2016, and July 1, 2017. The units do not entitle the participant the rights of a holder of the Company's common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by the Manager or the Manager's transferee shall be immediately cancelled and forfeited without consideration. On July 1, 2015, approximately 20,000 restricted stock units vested, and as of June 30, 2016, approximately 40,000 units remained unvested.

Director compensation

The Company pays a \$90,000 annual base director's fee to each independent director. Base director's fees are paid two-thirds in cash and one-third 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 average of the high and low prices of the Company's common stock on the New York Stock Exchange on the last trading 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 by such director during the time of his service as an independent member of the Company's board.

Investments in debt and equity of affiliates

The Company invests in credit sensitive residential and commercial real estate assets through affiliated entities which also hold an ownership interest in the assets. The Company is one investor, amongst other investors managed by the Manager, in such entities and has applied the equity method of accounting for such investments. These assets include investments in unguaranteed portions of CMBS issued by a GSE and secured by mortgages on multifamily properties. These assets also include an investment in a portfolio of non-performing single-family mortgage loans acquired through a competitive auction conducted by the Department of Housing and Urban Development ("HUD"). Our maximum exposure to loss with respect to these investments is generally equal to the amount that we invested. See Note 2 for more detail.

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On December 9, 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into the Amended and Restated Limited Liability Company Agreement (the “LLC Agreement”) of Arc Home LLC (“Arc Home”), a Delaware limited liability company. Arc Home, through its subsidiary, originates conforming, FHA, and Jumbo residential mortgage loans and is led by an external management team. Its investment is reflected on the “Investments in debt and equity of affiliates” line item on its consolidated balance sheet and had a fair value of \$4.5 and \$(0.3) million on June 30, 2016 and December 31, 2015, respectively.

On March 8, 2016, an affiliate of the Manager (the “Affiliate”) became a member of AG Arc. The Affiliate acquired an ownership interest in AG Arc, which resulted in the ownership interest of the Company in AG Arc being reduced on a pro-rata basis. As a result of the Affiliate becoming a member of AG Arc, the Company’s overall commitment to Arc Home was reduced to \$13.4 million.

Transactions with affiliates

In May 2015, the Company completed an arm’s-length securitization with other investors managed by an affiliate of the Manager (the “Related Parties”) by combining the assets of a prior private securitization, in which the Company held a 10.0% ownership interest, with the assets of another private securitization held entirely by the Related Parties. The Company’s investment in this securitization is reflected on the “Non-Agency” line item on the consolidated balance sheet and had a fair value of \$4.0 million and \$3.0 million as of June 30, 2016 and December 31, 2015, respectively. The Company completed another similar arm’s-length securitization in July 2015 with the Related Parties by combining the assets of a private securitization, in which the Company held a 7.5% ownership interest, with the assets of another private securitization held entirely by the Related Parties. The Company’s investment in this securitization is reflected on the “Non-Agency” line item on the consolidated balance sheet and had a fair value of a fair value of \$4.6 million and \$5.2 million as of June 30, 2016 and December 31, 2015, respectively. The remaining interests in each securitization were owned by certain of the Related Parties. Each securitization was backed by collateral consisting of seasoned NPLs and RPLs. The Company obtained third party pricing for each transaction.

In July 2015, the Company completed an arm’s-length purchase at fair value. Certain entities managed by an affiliate of the Company’s Manager (“Related Entities”) had previously formed a joint venture (“Joint Venture”) with an unaffiliated third party. The Joint Venture owns certain multi-family properties for which the mortgages partly collateralize a securitization wherein the Company purchased certain bond tranches. To ensure an arm’s-length

transaction, the Manager delegated its decision making rights with respect to the securitization to a third party servicer. In addition, the members of the Joint Venture agreed to cease sharing material non-public information with the Company's investment team regarding the collateral. The investment by the Company in these bond tranches is reflected on the "Investments in debt and equity of affiliates" and "CMBS" line items on the consolidated balance sheet with fair values of \$7.0 million and \$1.4 million, respectively, on June 30, 2016 and on the "Investments in debt and equity of affiliates" line item with a combined fair value of \$7.6 million on December 31, 2015.

In connection with the Company's investments in residential mortgage loans and residential mortgage loans in securitized form that it purchases from an affiliate (or affiliates) of the Manager ("Securitized Whole Loans"), the Company engages asset managers to provide advisory, consultation, asset management and other services to formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, the Company engaged Red Creek Asset Management LLC ("Asset Manager"), a related party of the Manager and direct subsidiary of Angelo, Gordon, as the asset manager for certain of its residential loans and Securitized Whole Loans. The Asset Manager acknowledges that the Company will at all times have and retain ownership and control of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. The Company pays separate arm's-length asset management fees as assessed and confirmed by a third party valuation firm for (i) non-performing loans and (ii) reperforming loans. For the three and six months ended June 30, 2016, the fees paid by the Company to the Asset Manager totaled less than \$120,000.

In June 2016, in accordance with the Company's Affiliated Transactions Policy, the Company executed two trades whereby the Company acquired real estate securities from two separate affiliates of the Manager (the "Selling Affiliates"). As of June 30, 2016, the securities acquired from the Selling Affiliates had a total fair value of \$6.9 million. In each case, the Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the Selling Affiliates, the Company submitted its bid for the real estate securities to the Selling Affiliates. The Company's pre-submission of its bid allowed the Manager to confirm third-party market pricing and best execution.

11. Equity

On May 6, 2015, the Company filed a shelf registration statement, registering up to \$750.0 million of its securities, including capital stock. On June 30, 2016, the entire \$750.0 million of the Company's securities, including capital stock, was available for issuance under the registration statement.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2016

Concurrently with its IPO, the Company offered a private placement of 3,205,000 units at \$20.00 per share to a limited number of investors qualifying as “accredited investors” under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the “Securities Act”). Each unit consisted of one share of common stock (“private placement share”) and a warrant (“private placement warrant”) to purchase 0.5 of a share of common stock. Each private placement warrant had an exercise price of \$20.50 per share (as adjusted for reorganizations, reclassifications, consolidations, mergers, sales, transfers or other dispositions). No warrants were exercised for the three and six months ended June 30, 2016 and June 30, 2015.

The Company’s Series A and Series B Preferred Stock have no stated maturity and are not subject to any sinking fund or mandatory redemption. Under certain circumstances upon a change of control, the Company’s Series A and Series B Preferred Stock are convertible to shares of the Company’s common stock. Holders of the Company’s Series A and 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 8.25% and 8.00% per annum on the Series A and Series B Preferred Stock, respectively, of the \$25.00 per share liquidation preference before holders of the common stock are entitled to receive any dividends. Shares of the Company’s Series A and 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 August 3, 2017 or September 27, 2017 for the Series A and Series B Preferred Stock, respectively, 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 June 30, 2016, the Company had declared all required quarterly dividends on the Company’s Series A and Series B Preferred Stock.

On November 3, 2015, the Company’s board of directors authorized a stock repurchase program (“Repurchase Program”) to repurchase up to \$25.0 million of its outstanding common stock. Such authorization does not have an expiration date. As part of the Repurchase Program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. Subject to applicable securities laws, the timing, manner, price and amount of any repurchases of common stock under the Repurchase Program may be determined by the Company in its discretion, using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be cancelled and, until reissued by the Company, will be deemed to be authorized but unissued shares of its common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice. The authorization does not obligate the Company to acquire any particular amount of common stock. The Company is incorporated in the State of Maryland and under the laws of that state, shares of its own stock

that are acquired by the Company constitute authorized but unissued shares. The cost of the acquisition by the Company of shares of its own stock in excess of the aggregate par value of the shares first reduces additional paid-in capital, to the extent available, with any residual cost applied against retained earnings. During the six months ended June 30, 2016, the Company repurchased 432,853 shares of common stock at a total cost of approximately \$5.9 million and at an average cost per share of \$13.56. As of June 30, 2016, approximately \$17.5 million of common stock remained authorized for future share repurchases under the Repurchase Program. The Company did not repurchase any shares for the three and six months ended June 30, 2015.

The following table presents a summary of our common stock repurchases under the Repurchase Program for the six months ended June 30, 2016.

Month Purchased (1)	Total Number of Shares Repurchased	Weighted Average Price per Share Paid (2)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under the Program (3)
March 2016	119,606	\$ 12.86	246,321	\$ 21,790,786
May 2016	276,522	13.75	522,843	17,988,891
June 2016	36,725	14.38	559,568	17,460,743
Total	432,853	\$ 13.56	559,568	\$ 17,460,743

(1) Based on trade date. The Program was announced on November 4, 2015. The Program does not have an expiration date.

(2) Includes brokerage commissions and clearing fees.

(3) The maximum dollar amount authorized was \$25.0 million.

AG Mortgage Investment Trust Inc. and Subsidiaries

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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.

On December 9, 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into the LLC Agreement of Arc Home. The capital commitment to Arc Home is \$30.0 million of which the Company's share is \$13.4 million. The Company has contributed \$5.2 million of this commitment as of June 30, 2016.

In the normal course of business, the Company enters into agreements where payment may become due if certain events occur. Management believes that the probability of making such payments is remote.

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 direct 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, 2015.

Forward-Looking Statements

We make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), in this report that are subject to substantial known and unknown 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 actual and 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-looking 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. Some, but not all, of the factors that might cause such a difference include, but are not limited to, changes in interest rates, changes in the yield curve, changes in prepayment rates, the availability and terms of financing, changes in the market value of our assets, general economic conditions, conditions in the market for Agency RMBS, Non-Agency RMBS, ABS and CMBS securities and loans, and legislative and regulatory changes that could adversely affect us. We caution investors not to rely unduly on any forward-looking statements, which speak only as of the date made, and urge you to carefully consider the risks noted above and identified under the captions “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2015 and any subsequent filings. If any change described above occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. 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 forward-looking statements that we make, or that are attributable to us, are expressly

qualified by this cautionary notice.

Our Company

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 as 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 conduct our operations to qualify and be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol MITT. Our 8.25% Series A Cumulative Redeemable Preferred Stock and our 8.00% Series B Cumulative Redeemable Preferred Stock trade on the NYSE under the symbols MITT-PA and MITT-PB, respectively.

Factors impacting our operating results

Our operating results can be affected by a number of factors and primarily depend on, among other things, the size of our investment portfolio, 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 varies primarily as a result of changes in market interest rates and prepayment speeds, as measured by the Constant Prepayment Rate, ("CPR"), on our Agency 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 also be impacted by unanticipated credit events, such as defaults, liquidations, or delinquencies, experienced by borrowers whose mortgage loans are included in our Credit Portfolio, as defined below.

See the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and our subsequent filings, which is available on the Securities and Exchange Commission's website at www.sec.gov, for additional factors that may impact our operating results.

Our Portfolio

The majority of our portfolio is comprised of mortgage-backed securities, specifically residential mortgage-backed securities, or RMBS. Certain of the assets in our RMBS portfolio have an explicit guarantee of principal and interest by a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a government-sponsored entity such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac (collectively, “GSEs”). We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities, securities entitling the holder only to the interest payments made on the mortgages underlying certain MBS (“interest-only strips”), collateralized mortgage obligations (“CMOs”), and certain Agency RMBS for which the underlying collateral is not identified until shortly (generally two days) before the purchase or sale settlement date (“TBAs”).

Our portfolio also includes a significant portion of RMBS that are not issued or guaranteed by Ginnie Mae or a GSE, which we refer to as Non-Agency RMBS. Our Non-Agency RMBS investments may include investment grade and non-investment grade fixed and floating-rate securities. We categorize our Non-Agency RMBS by credit score at origination into Prime, Alt-A and Subprime. Our RMBS Interest-Only securities (Non-Agency RMBS backed by interest-only strips), CRTs (defined below), RPL/NPL MBS, (described below), and Securitized Whole Loans, (described below) represent our Non-Agency RMBS not categorized by credit score at origination.

Credit Risk Transfer securities (“CRTs”) are unguaranteed and unsecured mezzanine, junior mezzanine and first loss securities issued by Fannie Mae and Freddie Mac to decrease their exposure to mortgage default risk. The securities reference a pool of recently acquired single family mortgages from a specified time period. The risk of loss on the reference pool of mortgages is transferred to investors who may experience losses when credit events such as defaults, liquidations or delinquencies occur in the underlying mortgages. These securities pay an uncapped floating rate spread over one-month LIBOR.

RPL/NPL MBS are mortgage-backed securities collateralized by re-performing mortgage loans (“RPL”) or non-performing mortgage loans (“NPL”). The RPL/NPL MBS that we own represent the senior and mezzanine tranches of such securitizations. These RPL/NPL MBS are structured with significant credit enhancement (typically approximately 50% to the senior tranche and 40% to the mezzanine tranche) to mitigate our exposure to credit risk on these securities. “Credit enhancement” refers to the amount of subordination available to absorb all credit losses prior to losses being allocated to more senior tranches. Subordinate tranches typically receive no cash flow (interest or principal) until the senior and mezzanine tranches are paid off. In addition, the RPL/NPL MBS that we own typically contain an “interest rate step-up” feature, whereby the interest rate or “coupon” on the senior tranche increases by typically 300 basis points or typically 400 basis points in the case of mezzanine tranches (a “step up”) that take effect if the security that we hold has not been redeemed or repurchased by the issuer within 36 months of issuance. We expect that the combination of the priority cash flow of the senior and mezzanine tranches and the 36-month step-up feature will result in these securities exhibiting short average lives and, accordingly, reduced interest rate sensitivity.

Securitized Whole Loans are residential mortgage loans (generally RPLs or NPLs) in securitized form that we purchase from an affiliate (or affiliates) of the Manager. The securitizations typically take the form of various classes of notes and a trust certificate. Securitized Whole Loans do not include RPLs or NPLs that we hold through interests in certain consolidated trusts.

We also invest 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 our real estate securities. Our ABS portfolio may include securities collateralized by various asset classes, including automobiles, credit cards and student loans, among others. Our CMBS portfolio includes CMBS interest-only securities (CMBS backed by interest-only strips) and Freddie Mac K-Series CMBS (described below).

Freddie Mac K-Series CMBS (“K-Series CMBS”) include CMBS, CMBS interest-only and CMBS principal-only securities which are regularly-issued structured pass-through securities backed by multifamily mortgage loans. K-Series CMBS feature a wide range of investor options which include guaranteed senior and interest-only bonds as well as unguaranteed senior, mezzanine, subordinate and interest-only bonds, all of which are issued by Freddie Mac. Our K-Series CMBS portfolio includes unguaranteed senior, mezzanine, subordinate and interest-only bonds. In Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations, we have categorized Freddie Mac K-Series CMBS interest-only bonds as part of our “CMBS Interest-Only” assets.

We have also invested in residential and commercial mortgage loans, including RPLs and NPLs, as well as excess mortgage servicing rights (“MSRs”). We have the discretion to invest in other target assets such as other real estate structured finance products, other real estate-related loans and securities and interests in certain types of real estate. Non-Agency RMBS, ABS, CMBS, MSRs and residential and commercial mortgage loans are referred to as our “credit portfolio” or “credit investments,” and residential and commercial mortgage loans are collectively referred to as “loans.” We use the term “credit securities” to refer to our credit portfolio excluding loans and MSRs. Additionally, we use the term “real estate securities” or “securities” to refer to our Agency RMBS and our credit securities.

We also originate conforming, FHA, and Jumbo residential mortgage loans through Arc Home LLC (“Arc Home”), our indirect subsidiary. Arc Home conducts a residential mortgage origination and investment platform. We have a minority investment in Arc Home that was made through AG Arc LLC, one of our subsidiaries (“AG Arc”).

As of June 30, 2016 and per our GAAP consolidated balance sheet, we have a \$2.6 billion investment portfolio comprised of real estate securities, loans and MSRs, which consists of \$1.2 billion, or 44.7%, of Agency RMBS and \$1.4 billion, or 55.3%, of assets in our credit portfolio. Our investment portfolio inclusive of TBAs in the Agency RMBS category and inclusive of investments held within affiliated entities in the credit investments category, but exclusive of AG Arc, is \$2.8 billion, which consists of \$1.3 billion, or 45.9%, of Agency RMBS and \$1.5 billion, or 54.1%, of assets in our credit portfolio. See Note 3 to the Notes to Consolidated Financial Statements (unaudited) for a discussion of investments held within affiliated entities.

This compares with a \$2.8 billion investment portfolio as of December 31, 2015, comprised of real estate securities, loans, and MSRs, which consisted of \$1.2 billion, or 43.4%, of Agency RMBS and \$1.6 billion, or 56.6%, of assets in our credit portfolio per our GAAP consolidated balance sheet. Our investment portfolio including TBAs in the Agency RMBS category and inclusive of investments held within affiliated entities in the credit investments category, but exclusive of AG Arc, was \$2.9 billion, which consisted of \$1.3 billion, or 44.2% of Agency RMBS and \$1.6 billion, or 55.8%, of assets in our credit portfolio as of December 31, 2015.

Throughout Item 2, where we disclose our investment portfolio and the related repurchase agreements and FHLBC Advances that finance it, we have presented this information inclusive of unconsolidated ownership interests in affiliates that are accounted for under GAAP using the equity method, TBAs, which are certain Agency RMBS whose underlying collateral is not identified until shortly (generally two days) before the purchase or sale settlement date, that are accounted for as derivatives under GAAP, and long and short positions in U.S treasury securities. Our investment portfolio does not include our investment in AG Arc. Our investment portfolio is presented along with a reconciliation to GAAP. The presentation inclusive of investments held within affiliated entities and TBAs but exclusive of AG Arc is consistent with how the Company’s management evaluates the business, and the Company believes this presentation provides the most accurate depiction of its investment portfolio and financial condition.

Market and interest rate trends

Inclusive of distressed sales, home prices nationwide increased by 5.9% on a year-over-year basis in May 2016 as compared with May 2015, according to data released by CoreLogic. This marks the 52nd consecutive monthly increase year-over-year in national home prices. The housing market remains strong; however, given the duration and strength of the recovery, additional over-performance is expected to be somewhat muted for the rest of 2016. The U.S. government agencies and the Federal Reserve (the “Fed”) policy sponsorship of housing via lower mortgage rates and the further loosening of credit available to prospective homeowners, coupled with a stable broader domestic economy,

have provided some support for the housing market recovery.

According to CoreLogic, the aggregate value of all residential properties with negative equity decreased to \$299.5 billion in the first quarter of 2016, from \$340 billion in the first quarter of 2015, a decrease of 11.8%. Negative equity means that a homeowner owes more on the home than the home is worth. For much of the country, the negative equity epidemic that developed during the 2008-2009 recession is lifting due to the rise in home prices over the past four years. CoreLogic predicts that if home prices rise an additional 5.0% in 2016, 800,000 homeowners could regain positive equity. Additionally, credit performance in terms of serious delinquencies and subsequent default rates continues to improve in 2016 and is anticipated to remain stable in the near future.

The Fed, in its June 15, 2016 meeting, further tempered its expectations for policy action both in the near and longer-term. With confidence temporarily shaken by a disappointing May employment report and the risks of the referendum in the United Kingdom on whether or not to leave the European Union, the Fed chose to reduce its forecast for the Fed funds rate in 2016 to one further rate increase. Beyond 2016, the projected pace of upward interest rate adjustments was shown to be more gradual, with a reduction in the median number of increases in both 2017 and 2018 from four to three, while the median terminal funds rate was also revised lower from 3.25% to 3.00%. Chairperson Yellen cited a lower estimate of the neutral funds rate and a concern over their ability to raise inflation expectations as driving the convergence of their official forecast with market pricing. Ultimately, the nature of the economic data we receive in the coming quarters, and the market's interpretation of the Fed's response to that data will drive the direction, magnitude and volatility of benchmark interest rates and the related fixed income markets.

The initial reading on second quarter GDP growth underwhelmed consensus estimates of 2.4%, coming in at 1.2%, as compared to 0.8% in the first quarter of 2016. Weighing on growth was continued weakness in fixed investment and a decrease in inventories that shed 1.2 percentage points off overall GDP growth. The rate of personal consumption growth was a healthy 4.2% in the second quarter. Net exports were accretive to growth for the first time in several quarters as U.S. dollar stability has reduced that headwind.

During the second quarter of 2016, the volatility in the prices of risk assets globally from the prior quarter largely subsided. Global central bank support led by tempered Fed forecasts, further improvement in the price of oil, stabilization of Chinese capital outflows and economic data, and improving US economic data helped to allay fears of a global recession that would ultimately extend to the United States. The market rebound extended through the second quarter, only momentarily pausing in response to the surprise outcome of the June 23rd United Kingdom referendum on European Union membership. Despite the momentary uncertainty, risk assets, particularly U.S. dollar based assets, held up very well. Legacy mortgage assets, proved to be especially resilient due to supportive technicals and stable underlying fundamentals. Additionally, U.S. mortgage credit and housing have no direct exposure to Brexit. Most asset classes priced at or near their best levels of the year, as of the end of the second quarter. Mortgage and asset-backed securities regained most, if not all, of the sell-off from the prior two quarters which is reflected by gains on the majority of our credit book during the quarter.

Meanwhile, U.S. Treasury yields closed the quarter near historical lows in response to unprecedented global central bank accommodation that has driven global demand to almost any fixed income market offering a positive yield. The 10-year U.S. Treasury, which began the year at 2.27%, hit a low of 1.44% in late June and closed at 1.47% on June 30, 2016. As a result, Agency RMBS prices moved higher which is reflected by the gains on our Agency RMBS book during the quarter. Prices of Agency RMBS followed the general trend of the bond market as Fannie Mae 30-year 3.5% RMBS rose by 2.24% in the second quarter.

Despite the sharp rally in interest rates, Agency RMBS spreads versus benchmark swap yields finished unchanged quarter over quarter. Interest rates on swaps decreased during the second quarter and since our interest rate derivatives are comprised of pay-fixed interest rate swaps, the result was a decrease in the value of our hedge book. Portfolio rebalancing during the quarter in the form of adding duration was partly accomplished through unwinding existing pay-fixed swap positions that resulted in the shift of previously accrued mark to market losses from the unrealized to realized category. Agency RMBS benefited from the same demand for yield that most U.S. dollar denominated fixed income products have. Exceptional liquidity and attractive yields relative to competing asset classes on a global scale without having to increase credit exposure has resulted in strong demand from domestic banks and money managers as well as overseas investors. Swap spreads were also extremely stable during the quarter, and as a result, swaps proved once again to be an effective hedge.

Non-mortgage consumer credit experienced some divergence in performance between credit card delinquencies, which remained at historical lows, and defaults in auto, equipment and student loans, which continued to increase modestly. Consumer mortgage credit continued its pattern of stable to modest improvement in borrower performance. Home prices also continued to modestly rise and inventory levels remain light to tight in many major markets. Consumer appetite for housing continued to remain stable with expanding mortgage credit availability taking hold in the markets.

The rise in savings rates since the financial crisis, continued low interest rates, steady employment gains and a decline in energy costs have all contributed to significant improvement in the consumer's balance sheet. This continues to fuel our optimism about the prospects of further housing recovery and longer term moderate home price appreciation. The U.S. housing market still benefits from favorable supply/demand dynamics, historically low mortgage rates and a willingness on the part of federal regulators at the Federal Housing Finance Agency ("FHFA") to further credit expansion and assist household formation. However, we expect that, without an increase in median income, the pace of home price appreciation is likely to moderate over the coming years.

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 also believe that current market dynamics may impact the availability and cost of financing. 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 the risk profiles of our business change.

Recent Government Activity

On January 12, 2016, the FHFA issued RIN 2590-AA39, Members of Federal Home Loan Banks (the “Final Rule”). The Final Rule, among other things, expressly excludes captive insurance companies, such as MITT Insurance Company LLC (“MITT Insurance”), from being eligible for membership in the Federal Home Loan Bank (the “FHLB”) system. Under the Final Rule, there is a one-year transition period from the effective date, February 19, 2016 (the “Effective Date”), within which the FHLB must wind down its relationships with any captive insurance companies that had been admitted to membership in the FHLB on or after September 12, 2014, including MITT Insurance (“Excluded Captives”). The Final Rule also prevents the FHLB from making any new advances or extending any existing advances to Excluded Captives after the Effective Date. In addition, upon the termination of membership, the FHLB must liquidate all outstanding advances to Excluded Captives, settle all other business transactions, and repurchase or redeem all FHLB stock held by the terminated Excluded Captive in accordance with the Final Rule. Therefore, MITT Insurance, along with all other Excluded Captives, must completely wind down all business relationships with the FHLB, including the repayment of all outstanding advances, prior to or simultaneously with the termination of MITT Insurance’s membership with the Federal Home Loan Bank of Cincinnati (the “FHLBC”) where it is a member.

The adopting release for the Final Rule expressly invited Congress to address the treatment of Excluded Captives with respect to membership in the FHLB. In October 2015, Reps. Blaine Luetkemeyer (R-Mo.), Denny Heck (D-Wash.), Patrick McHenry (R-N.C.) and John Carney (D-Del.) introduced H.R. 3808, a bill that would have preemptively prevented the FHFA from adopting the Final Rule. There can be no way of predicting if any subsequent legislation addressing the status of Excluded Captives with respect to the FHLB will be proposed in either house of Congress, the likelihood of passage of any such legislation, or the ultimate effects, if any, on the availability of short-term, low-cost funding provided by the FHLBs to Excluded Captives subsequent to the enactment of any such legislation.

Results of operations

The table below presents certain information from our consolidated statement of operations for the three and six months ended June 30, 2016 and June 30, 2015:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statement of Operations Data:				
Net Interest Income				
Interest income	\$ 30,200,296	\$ 37,278,271	\$ 60,897,454	\$ 73,658,536
Interest expense	8,396,997	7,574,429	16,957,296	15,088,607
	21,803,299	29,703,842	43,940,158	58,569,929
Other Income				
Net realized gain/(loss)	(5,317,085)	(2,153,328)	(18,303,743)	(11,803,254)
Realized loss on periodic interest settlements of derivative instruments, net	(1,607,539)	(3,228,729)	(3,985,314)	(6,689,956)
Unrealized gain/(loss) on real estate securities and loans, net	10,958,117	(22,256,001)	19,798,887	(10,996,283)
Unrealized gain/(loss) on derivative and other instruments, net	202,572	5,798,988	(11,753,430)	(3,121,810)
	4,236,065	(21,839,070)	(14,243,600)	(32,611,303)
Expenses				
Management fee to affiliate	2,420,782	2,502,091	4,870,925	5,009,181
Other operating expenses	2,664,252	3,285,942	5,711,064	6,363,940
Servicing fees	104,979	144,999	209,958	319,998
Equity based compensation to affiliate	87,183	36,738	142,154	113,418
Excise tax	375,000	375,000	750,000	750,000
	5,652,196	6,344,770	11,684,101	12,556,537
Income/(loss) before equity in earnings/(loss) from affiliates	20,387,168	1,520,002	18,012,457	13,402,089
Equity in earnings/(loss) from affiliates	689,973	320,442	620,257	1,201,797
Net Income/(Loss)	21,077,141	1,840,444	18,632,714	14,603,886
Dividends on preferred stock	3,367,354	3,367,354	6,734,708	6,734,708
Net Income/(Loss) Available to Common Stockholders	\$ 17,709,787	\$ (1,526,910)	\$ 11,898,006	\$ 7,869,178

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Share Data:

Earnings/(Loss) Per Share of Common
Stock

Basic	\$ 0.63	\$ (0.05) \$ 0.42	\$ 0.28
Diluted	\$ 0.63	\$ (0.05) \$ 0.42	\$ 0.28

Net Income (Loss)

Our operating results depend in large part upon the difference between the yields earned on our investments, the cost of our borrowing, the cost of our interest rate hedging activities, the size and composition of our portfolio and changes in market prices during the period. Net income/(loss) available to common stockholders increased \$19.2 million to \$17.7 million for the three months ended June 30, 2016 from \$(1.5) million for the three months ended June 30, 2015, and net income/(loss) available to common stockholders increased \$4.0 million to \$11.9 million for the six months ended June 30, 2016 from \$7.9 million for the six months ended June 30, 2015 primarily due to higher security prices, which increase our unrealized income on real estate securities, offset by lower derivative prices, which lower our unrealized income on derivative instruments, and lower net interest income. The major components of these changes are detailed below.

Investment income, financing and hedging costs

Our primary source of income is the net interest earned on our investment portfolio of real estate securities, loans and MSR, inclusive of assets owned through affiliates, exclusive of any assets owned through AG Arc. Our investment portfolio has been financed with repurchase agreements and FHLBC Advances.

The decrease in the net interest income earned on our investment portfolio of real estate securities, loans and MSR, inclusive of assets owned through affiliates, and exclusive of assets owned through AG Arc inclusive of hedging costs from the three and six months ended June 30, 2015 to June 30, 2016 is primarily due to a smaller investment portfolio period over period. Our investment portfolio declined from a weighted average cost of \$3.2 billion and \$3.3 billion for the three and six months ended June 30, 2015, respectively, to a weighted average cost of \$2.7 billion and \$2.7 billion for the three and six months ended June 30, 2016, respectively, exclusive of TBAs in the Agency RMBS category. This decrease was primarily due to (i) the increase in our investment allocation to less levered credit assets and the organic amortization of our Agency RMBS, (ii) our decreased leverage and rotation out of certain agency derivatives in the face of a lower yielding environment starting in Q3 of 2015 and (iii) our Repurchase Program, pursuant to which we have purchased \$7.5 million of our common stock since December 2015.

Our credit portfolio as a percentage of our total portfolio increased from 48.4% as of June 30, 2015 to 56.2% as of June 30, 2016, exclusive of TBAs in our total investment portfolio. Credit investments have lower allowable leverage ratios than Agency RMBS, and allocating a greater amount of capital to credit investments limits the size of our portfolio.

As a result of deteriorating market technicals in Q3 2015, fears of a global slowdown and a decrease in liquidity across markets, we took a defensive stance toward the lower yielding environment, lowering leverage and therefore decreasing the size of our investment portfolio. Our non-GAAP leverage decreased from 3.64 to 1 as of June 30, 2015 to 3.22 to 1 as of June 30, 2016. In addition to lower leverage, we also adjusted the risk profile of the portfolio by rotating out of certain agency derivatives.

The financing on our portfolio declined from a weighted average of \$2.7 billion and \$2.7 billion for the three and six months ended June 30, 2015, respectively, to a weighted average of \$2.1 billion and \$2.2 billion for the three and six months ended June 30, 2016, respectively. These figures exclude repurchase agreement financing on our U.S. Treasury securities and include repurchase agreement financing on our investments in debt and equity of affiliates except for AG Arc. Despite a decrease in the amount of our total weighted average financing, the costs associated with our financing have increased. Credit investments necessitate a higher cost of financing as the underlying securities are inherently riskier than Agency RMBS. In addition, three month LIBOR increased from 0.283 at June 30, 2015 to 0.646 at June 30, 2016, which contributed to the increase in interest expense.

During the three months ended June 30, 2016, the weighted average cost of our yield generating investments and related financing was \$2.7 billion and \$2.1 billion, respectively, excluding financing on U.S. Treasury securities. On an annualized basis, the average yield earned on our assets was 4.60%. On an annualized basis, the average rate paid on our repurchase agreements, securitized debt, loan participation payable, FHLBC Advances and hedges was 1.71%, which is comprised of (i) the average rate paid on our financing of 1.60% and (ii) the average rate paid on our swaps and U.S. Treasury securities of 0.11%. The increase in the average rate paid on our financing contributes to our higher interest expense, period over period, offset by a decreased financing balance.

During the six months ended June 30, 2016, the weighted average cost of our yield generating investments and related financing was \$2.7 billion and \$2.2 billion, respectively, excluding financing on U.S. Treasury securities. On an annualized basis, the average yield earned on our assets was 4.53%. On an annualized basis, the average rate paid on our repurchase agreements, securitized debt, loan participation payable, FHLBC Advances and hedges was 1.74%, which is comprised of (i) the average rate paid on our financing of 1.58% and (ii) the average rate paid on our swaps and U.S. Treasury securities of 0.16%. The increase in the average rate paid on our financing contributes to our higher interest expense, period over period, offset by a decreased financing balance.

During the three months ended June 30, 2015, the weighted average cost of our yield generating investments and related financing was \$3.2 billion and \$2.7 billion, respectively. On an annualized basis, the average yield earned on our assets was 4.74%, and the average rate paid on our repurchase agreements, securitized debt and hedges was 1.61%, which is comprised of (i) the average rate paid on our financing as a percentage of the average repurchase agreement and securitized debt balance outstanding of 1.17% and (ii) the average rate paid on our swaps and U.S. Treasury Securities as a percentage of the average repurchase agreement and securitized debt balance outstanding of 0.44%.

During the six months ended June 30, 2015, the weighted average cost of our yield generating investments and related financing was \$3.3 billion and \$2.7 billion, respectively. On an annualized basis, the average yield earned on our assets was 4.64%, and the average rate paid on our repurchase agreements, securitized debt and hedges was 1.61%, which is comprised of (i) the average rate paid on our financing as a percentage of the average repurchase agreement and securitized debt balance outstanding of 1.14% and (ii) the average rate paid on our swaps and U.S. Treasury Securities as a percentage of the average repurchase agreement and securitized debt balance outstanding of 0.47%.

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

During the three months ended June 30, 2016, we sold certain real estate securities, realizing a net gain of \$0.6 million. Additionally, we recognized \$2.5 million of realized loss due to the settlement of certain derivatives, \$0.2 million of realized loss due to the settlement of TBAs and \$3.2 million of realized loss due to other-than-temporary-impairment, or OTTI, charges on certain securities. All of these items contributed to the decrease in the “Net realized gain/(loss)” line item for the three months ended June 30, 2016.

During the six months ended June 30, 2016, we sold certain real estate securities, realizing a net loss of \$0.8 million. Additionally, we recognized \$5.1 million of realized loss due to the settlement of certain derivatives, \$0.0 million of realized gain due to the settlement of TBAs and \$12.4 million of realized loss due to other-than-temporary-impairment, or OTTI, charges on certain securities. All of these items contributed to the decrease in the “Net realized gain/(loss)” line item for the six months ended June 30, 2016.

During the three months ended June 30, 2015, we sold certain real estate securities, realizing a net gain of \$1.4 million, and settled TBAs, realizing a net gain of \$0.6 million. Additionally, we recognized \$2.6 million of realized loss due to the settlement of certain derivatives and \$3.3 million of realized loss due to other-than-temporary-impairment, or OTTI, charges on certain securities.

During the six months ended June 30, 2015, we sold certain real estate securities, realizing a net gain of \$6.1 million, and settled TBAs, realizing a net gain of \$2.8 million. Additionally, we recognized \$16.4 million of realized loss due to the settlement of certain derivatives and \$6.0 million of realized loss due to other-than-temporary-impairment, or OTTI, charges on certain securities.

Refer to the “Market and Interest Rate Trends” section of this Item 2 for a discussion of the changes in market pricing which drive our “Unrealized gain/(loss) on real estate securities and loans, net” and “Unrealized gain/(loss) on derivatives and other instruments, net” line items. Realized gains and losses on sale also impact unrealized gains and losses.

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 are unpredictable and will be impacted by these portfolio management decisions.

As mentioned above, we recognized a \$3.2 million and \$12.4 million OTTI charge on certain real estate securities for the three and six months ended June 30, 2016, respectively, due to an adverse change in cash flows, where the fair values of the investments were less than their carrying amounts. The decline in value of the remaining investments where we did not take an OTTI charge is solely due to market conditions and not the quality of the assets. The remaining investments in our portfolio are not considered other than temporarily impaired because we currently have 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 we are not required to sell the investments for regulatory or other reasons.

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.

We have elected the fair value option on our real estate securities, our mortgage loan portfolios, our securitized debt and our loan participation payable. Changes in the market value of these assets will affect the unrealized gains or losses on real estate securities or other instruments and are included as a component of our net income/(loss).

Management fees and other expenses

For the three and six months ended June 30, 2016 our management fees were \$2.4 million and \$4.9 million, respectively. For the three and six months ended June 30, 2015 our management fees were \$2.5 million and \$5.0 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. See the "Contractual obligations" section of this Item 2 for further detail on the calculation of our management fee.

For the three and six months ended June 30, 2016, other operating costs were \$2.7 million and \$5.7 million, respectively. For the three and six months ended June 30, 2015, other operating costs were \$3.3 million and \$6.4 million, respectively. These amounts were primarily comprised of professional fees, insurance and director's fees, as well as certain expenses reimbursable to the Manager.

We are required to reimburse our Manager for operating expenses which are incurred by our Manager on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Of the \$2.7 million and \$5.7 million of Other operating expenses for the three and six months ended June 30, 2016, respectively, the Company has expensed \$1.7 million and \$3.5 million, respectively, paid to the Manager as a reimbursement of expenses. Of the \$3.3 million and \$6.4 million of Other operating expenses for the three and six months ended June 30, 2015, respectively, the Company has expensed \$1.9 million and \$3.7 million, respectively, paid to the Manager as a reimbursement of expenses.

For the three and six months ended June 30, 2016, we recorded excise tax expense of \$0.4 million and \$0.8 million, respectively. For the three and six months ended June 30, 2015, we recorded excise tax expense of \$0.4 million and \$0.8 million, respectively. Excise tax represents a four percent tax on the required amount of our ordinary income and net capital gains not distributed during the year. The quarterly expense is calculated in accordance with applicable tax regulations.

Book value per share

As of June 30, 2016, December 31, 2015 and June 30, 2015, our book value per common share was \$17.42, \$17.88 and \$19.21, respectively.

Core Earnings

We define core earnings, a non-GAAP financial measure, as net income excluding both unrealized and realized gains/(losses) on the sale or termination of securities and the related tax expense/benefit or disposition expense, if any, on such sale, including (i) investments held in affiliated entities and (ii) derivatives. As defined, Core Earnings include the net interest earned on these investments on a yield adjusted basis, including credit derivatives, investments in debt and equity of affiliates, inverse Agency Interest-Only securities, interest rate derivatives, TBA drop income or any other investment activity that may earn or pay net interest or its economic equivalent. One of our objectives is to generate net income from net interest margin on the portfolio, and management uses Core Earnings to measure this objective. Management believes that this non-GAAP measure, when considered with the Company's GAAP financials, provides supplemental information useful for investors in evaluating our results of operations. Our presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. This non-GAAP measure should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated.

A reconciliation of GAAP net income to Core Earnings for the three and six months ended June 30, 2016 and June 30, 2015 is set forth below:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net Income/(loss) available to common stockholders	\$ 17,709,787	\$ (1,526,910	) \$ 11,898,006	\$ 7,869,178
Add (Deduct):				
Net realized (gain)/loss	5,317,085	2,153,328	18,303,743	11,803,254
Drop income	7,656	962,240	87,044	2,167,016
Equity in (earnings)/loss from affiliates	(689,973	) (320,442	) (620,257	) (1,201,797
Net interest income and expenses from equity method investments	742,080	835,071	1,565,317	1,751,792
Unrealized (gain)/loss on real estate securities and loans, net	(10,958,117	) 22,256,001	(19,798,887	) 10,996,283
Unrealized (gain)/loss on derivative and other instruments, net	(202,572	) (5,798,988	) 11,753,430	3,121,810
Core Earnings	\$ 11,925,946	\$ 18,560,300	\$ 23,188,396	\$ 36,507,536
Core Earnings, per Diluted Share	\$ 0.43	\$ 0.65	\$ 0.82	\$ 1.28

Investment activities

In 2011, the risk-reward profile of investment opportunities available to us supported the deployment of the vast 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 during this period.

In 2012, we began increasing our exposure to credit investments and leveraging the broader Angelo, Gordon platform. Throughout the first quarter 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 of 2013 however, we concurrently elected to increase our hedging activity, perceiving the potential for an increase in interest rate volatility and benchmark interest rates. We subsequently reduced our hedging activity, rotated into shorter duration Agency RMBS and continued rotating assets away from Agency RMBS into credit investments, basing our decisions on a variety of factors, including liquidity, duration, interest rate expectations and hedging. As a result, the mix of assets in our portfolio may accordingly shift over time. As of June 30, 2016, we had a portfolio that consisted of 45.9% of Agency RMBS and 54.1% of credit investments inclusive of TBAs in the Agency RMBS category and inclusive of investments held within affiliated entities in the credit investments category but exclusive of AG Arc.

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The following table presents a reconciliation of certain information related to investments inclusive of investments held within affiliated entities, but exclusive of AG Arc, to investments on a GAAP basis as of June 30, 2016:

Instrument	Current Face	Amortized Cost	Unrealized Mark-to- Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (8)
Agency RMBS:							
30 Year Fixed Rate	\$ 752,439,005	\$ 784,406,425	\$ 26,015,065	\$ 810,421,490	3.75 %	2.98 %	6.90
Fixed Rate CMO	70,784,803	71,329,453	2,490,574	73,820,027	3.00 %	2.78 %	3.81
ARM	231,078,143	228,559,458	9,538,833	238,098,291	2.36 %	2.79 %	4.71
Inverse Interest Only	44,001,032	8,432,705	1,304,845	9,737,550	5.93 %	9.64 %	5.02
Interest Only	428,516,731	37,314,890	(2,775,333)	34,539,557	2.38 %	4.51 %	3.74
Fixed Rate 30 Year TBA	100,000,000	103,465,820	291,990	103,757,810	3.00 %	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (2) (3)	710,215,486	576,431,656	9,858,844	586,290,500	4.01 %	5.45 %	10.02
Alt A (2) (4)	241,279,160	204,569,766	1,678,284	206,248,050	4.13 %	5.09 %	8.45
Subprime (2) (5)	104,923,044	101,041,125	(321,824)	100,719,301	4.53 %	5.11 %	5.17
RMBS Interest Only	432,881,867	3,507,300	(1,106,570)	2,400,730	0.16 %	3.97 %	3.48
Credit Risk Transfer	30,367,703	30,148,814	163,276	30,312,090	5.93 %	6.69 %	8.02
RPL/NPL (6)	112,573,185	111,592,405	(2,346,734)	109,245,671	4.41 %	5.03 %	1.60
Securitized Whole Loans (7)	81,449,198	59,304,634	(1,995,565)	57,309,069	4.13 %	11.27 %	2.07
Residential Mortgage Loans Excess	80,422,687	56,614,557	1,961,503	58,576,060	5.43 %	9.94 %	5.05
Mortgage Servicing Rights	65,110,507	331,990	14,517	346,507	N/A	4.64 %	1.43
Commercial Investments							

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CMBS Freddie Mac K-Series	200,823,276	130,320,817	(3,781,390)	126,539,427	5.21 %	6.09 %	3.78
CMBS Interest Only	121,641,527	41,058,375	781,341	41,839,716	5.41 %	13.32 %	9.65
Commercial Loans	2,335,088,264	45,835,330	1,089,232	46,924,562	0.29 %	6.39 %	3.80
ABS	54,800,000	53,787,489	1,012,511	54,800,000	7.87 %	9.42 %	0.86
Total:	77,273,481	76,852,386	(1,379,217)	75,473,169	5.19 %	5.34 %	4.93
Non-GAAP Basis	\$ 6,275,669,099	\$ 2,724,905,395	\$ 42,494,182	\$ 2,767,399,577	2.17 %	4.82 %	5.17
Investments in Debt and Equity of Affiliates	\$ 593,289,888	\$ 52,735,759	\$ 706,047	\$ 53,441,806	0.37 %	13.79 %	6.87
TBAs	\$ 100,000,000	\$ 103,465,820	\$ 291,990	\$ 103,757,810	3.00 %	N/A	N/A
Total: GAAP Basis	\$ 5,582,379,211	\$ 2,568,703,816	\$ 41,496,145	\$ 2,610,199,961	2.31 %	4.63 %	4.99

(1) Equity residuals, principal only securities and MSRs with a zero coupon rate are excluded from this calculation.

(2) Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified as Prime, Alt A, and Subprime, respectively. The weighted average credit scores of our Prime, Alt-A and Subprime Non-Agency RMBS were 724, 673 and 599, respectively.

(3) Included in Prime is \$147.1 million fair market value of new issue securities. New issue is defined as being issued after 2010. Included in new issue prime is \$85.4 million fair market value of Prime Jumbo securities. Prime Jumbo is defined as being all of the following: a prime security, an issuance year after 2010, an original rating of AAA and a weighted average original loan balance greater than the conforming loan limits published by the FHFA.

(4) Included in Alt-A is \$64.9 million fair market value of new issue securities. New issue is defined as being issued after 2010.

(5) Included in Subprime is \$34.3 million fair market value of new issue securities. New issue is defined as being issued after 2010.

(6) RPL/NPL MBS are collateralized by re-performing or non-performing loans whose deal structures contain an interest rate step-up feature.

(7) Whole loans purchased by an affiliate of our manager in securitized form.

(8) Actual maturities of investments and loans 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.

The following table presents a reconciliation of certain information related to investments inclusive of TBAs and investments held within affiliated entities, but exclusive of AG Arc, to investments on a GAAP basis as of December 31, 2015:

Instrument	Current Face	Amortized Cost	Unrealized Mark-to- Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield (2)	Weighted Average Life (Years) (2)(9)
Agency RMBS:							
30 Year Fixed Rate	\$ 782,276,607	\$ 817,182,510	\$ 2,954,782	\$ 820,137,292	3.76 %	3.10 %	8.58
Fixed Rate CMO	76,098,478	76,770,854	1,254,658	78,025,512	3.00 %	2.81 %	5.26
ARM	248,169,781	245,510,904	4,298,463	249,809,367	2.37 %	2.84 %	5.44
Inverse Interest Only	47,861,112	9,382,636	826,972	10,209,608	5.96 %	9.30 %	5.41
Interest Only	474,197,132	43,998,722	(738,849)	43,259,873	2.37 %	7.15 %	4.08
Fixed Rate 30 Year TBA	75,000,000	77,502,930	(141,600)	77,361,330	3.50 %	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (3) (4)	783,496,575	659,470,180	10,330,014	669,800,194	4.09 %	5.58 %	10.29
Alt A (3) (5)	258,855,964	221,414,910	2,043,783	223,458,693	3.98 %	5.25 %	9.43
Subprime (3) (6)	113,943,920	109,867,883	1,734,214	111,602,097	4.49 %	5.32 %	5.36
RMBS Interest Only	465,387,354	5,489,775	63,958	5,553,733	0.12 %	11.05 %	6.40
Credit Risk Transfer	36,993,762	36,916,025	39,725	36,955,750	5.75 %	6.83 %	8.17
RPL/NPL (7)	135,725,197	134,351,745	(698,090)	133,653,655	4.36 %	5.03 %	1.77
Securitized Whole Loans (8)	86,722,548	62,025,088	(1,557,289)	60,467,799	4.19 %	7.60 %	4.35
Residential Mortgage Loans	88,980,522	60,963,511	2,657,226	63,620,737	5.47 %	8.71 %	5.23
Excess Mortgage Servicing Rights	72,155,804	411,372	13,939	425,311	N/A	6.33 %	1.61

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Commercial Investments									
CMBS	220,742,772	131,308,112	(545,260)	130,762,852	5.12 %	6.26 %	4.36		
Freddie Mac K-Series	88,154,185	35,018,421	(390,121)	34,628,300	4.83 %	12.88 %	8.04		
CMBS Interest Only	1,774,907,989	17,994,891	576,062	18,570,953	0.20 %	7.33 %	3.18		
Commercial Loans	72,800,000	72,660,971	139,029	72,800,000	6.80 %	8.30 %	0.58		
ABS	56,264,253	55,910,560	(1,148,723)	54,761,837	5.26 %	5.62 %	4.24		
Total:									
Non-GAAP Basis	\$ 5,958,733,955	\$ 2,874,152,000	\$ 21,712,893	\$ 2,895,864,893	2.38 %	4.86 %	5.75		
Investments in Debt and Equity of Affiliates	\$ 750,815,986	\$ 53,077,015	\$ 157,813	\$ 53,234,828	0.36 %	11.32 %	4.89		
TBAs	\$ 75,000,000	\$ 77,502,930	\$ (141,600)	\$ 77,361,330	3.50 %	N/A	N/A		
Total: GAAP Basis	\$ 5,132,917,969	\$ 2,743,572,055	\$ 21,696,680	\$ 2,765,268,735	2.64 %	4.73 %	5.88		

(1) Equity residuals, principal only securities and MSR's with a zero coupon rate are excluded from this calculation.

(2) Fixed Rate 30 Year TBA are excluded from this calculation.

(3) Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified as Prime, Alt A, and Subprime, respectively. The weighted average credit scores of our Prime, Alt-A and Subprime Non-Agency RMBS were 725, 674 and 599, respectively.

(4) Included in Prime is \$169.5 million fair market value of new issue securities. New issue is defined as being issued after 2010. Included in new issue prime is \$108.3 million fair market value of Prime Jumbo securities. Prime Jumbo is defined as being all of the following: a prime security, an issuance year after 2010, an original rating of AAA and a weighted average original loan balance greater than the conforming loan limits published by the FHFA.

(5) Included in Alt-A is \$65.9 million fair market value of new issue securities. New issue is defined as being issued after 2010.

(6) Included in Subprime is \$35.4 million fair market value of new issue securities. New issue is defined as being issued after 2010.

(7) RPL/NPL MBS are collateralized by re-performing or non-performing loans whose deal structures contain an interest rate step-up feature.

(8) Whole loans purchased by an affiliate of our manager in securitized form.

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(9) Actual maturities of investments and loans 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.

The following table presents certain information grouped by vintage as it relates to our credit securities portfolio inclusive of securities held within affiliated entities as of June 30, 2016. We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to- Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (2)
Pre 2005	\$ 90,466,614	\$ 87,017,658	\$ 1,183,472	\$ 88,201,130	3.35 %	5.85 %	4.79
2005	203,320,734	163,724,100	2,726,117	166,450,217	4.15 %	5.37 %	11.54
2006	327,772,002	214,309,511	3,077,454	217,386,965	4.40 %	5.99 %	8.93
2007	200,705,419	158,718,089	1,368,911	160,087,000	4.06 %	5.71 %	11.60
2008	16,424,000	13,563,812	370,007	13,933,819	7.00 %	5.83 %	9.44
2010	56,496,534	46,401,340	1,322,595	47,723,935	N/A	6.02 %	7.02
2011	6,861,303	5,631,778	-	5,631,778	4.94 %	5.59 %	8.59
2012	81,928,364	20,715,775	(493,344)	20,222,431	2.44 %	5.81 %	3.26
2013	151,944,927	112,092,596	(390,315)	111,702,281	3.56 %	4.95 %	3.66
2014	1,247,742,175	207,551,650	(3,143,554)	204,408,096	0.83 %	6.89 %	2.12
2015	1,430,691,837	297,540,384	(4,140,959)	293,399,425	1.05 %	5.94 %	4.41
2016	634,162,282	53,395,915	759,293	54,155,208	0.70 %	6.52 %	7.19
Total: Non-GAAP Basis	\$ 4,448,516,191	\$ 1,380,662,608	\$ 2,639,677	\$ 1,383,302,285	1.64 %	5.93 %	5.17
Investments in Debt and Equity of Affiliates	\$ 588,644,404	\$ 49,730,537	\$ 771,815	\$ 50,502,352	0.32 %	13.79 %	6.87
Total: GAAP Basis	\$ 3,859,871,787	\$ 1,330,932,071	\$ 1,867,862	\$ 1,332,799,933	1.81 %	5.62 %	4.90

(1) Equity residual investments and principal only securities are excluded from this calculation.

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

The following table presents certain information grouped by vintage as it relates to our credit securities portfolio inclusive of investments held within affiliated entities as of December 31, 2015. We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to- Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (2)
Pre 2005	\$ 103,593,089	\$ 99,567,269	\$ 2,563,406	\$ 102,130,675	3.33 %	6.23 %	4.81
2005	207,457,651	173,524,833	3,605,565	177,130,398	4.33 %	5.57 %	11.83
2006	392,439,663	258,661,802	3,403,637	262,065,439	4.20 %	6.03 %	8.76
2007	216,970,753	178,714,834	1,434,094	180,148,928	4.17 %	5.76 %	11.62
2008	16,424,000	13,499,033	429,317	13,928,350	7.00 %	5.80 %	9.90
2010	55,625,323	45,042,515	1,094,741	46,137,256	N/A	6.05 %	7.83
2011	6,936,188	5,533,202	114,100	5,647,302	5.32 %	6.69 %	9.60
2012	81,928,364	21,147,817	202,330	21,350,147	2.39 %	5.87 %	3.58
2013	175,615,818	135,450,104	(406,855)	135,043,249	3.78 %	4.78 %	6.17
2014	1,284,072,165	219,023,610	(1,549,522)	217,474,088	0.83 %	6.24 %	2.54
2015	1,480,131,505	319,602,571	(442,540)	319,160,031	1.06 %	5.93 %	5.64
Total: Non-GAAP Basis	\$ 4,021,194,519	\$ 1,469,767,590	\$ 10,448,273	\$ 1,480,215,863	1.85 %	5.85 %	5.61
Investments in Debt and Equity of Affiliates	\$ 740,670,238	\$ 46,534,959	\$ 159,359	\$ 46,694,318	0.28 %	11.32 %	4.89
Total: GAAP Basis	\$ 3,280,524,281	\$ 1,423,232,631	\$ 10,288,914	\$ 1,433,521,545	2.18 %	5.66 %	5.77

(1) Equity residual investments and principal only securities are excluded from this calculation.

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

The following table presents the fair value of our credit securities by credit rating as of June 30, 2016 and December 31, 2015:

Credit Rating - Credit Securities (1) June 30, 2016 December 31, 2015

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AAA	\$ 100,512,693	\$ 112,107,249
A	149,451,545	119,939,358
BBB	29,541,670	20,468,267
BB	36,105,859	43,576,568
B	39,450,955	110,878,213
Below B	533,727,041	527,154,975
Not Rated	494,512,522	546,091,233
Total: Non-GAAP Basis	\$ 1,383,302,285	\$ 1,480,215,863
Investments in Debt and Equity of Affiliates	\$ 50,502,352	\$ 46,694,318
Total: GAAP Basis	\$ 1,332,799,933	\$ 1,433,521,545

(1) Represents the minimum rating for rated assets of S&P, Moody and Fitch credit ratings, stated in terms of the S&P equivalent.

Our credit investments 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. We maintain a comprehensive portfolio management process that generally includes day-to-day oversight by the portfolio management team and a quarterly credit review process for each investment that examines the need for a potential reduction in accretable yield, missed or late contractual payments, significant declines in collateral performance, prepayments, projected defaults, loss severities and other data which may indicate a potential issue in our ability to recover our capital from the investment. These processes are designed to enable our Manager to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. Nevertheless, we cannot be certain that our review will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets. Therefore, potential future losses may also stem from investments that are not identified by our credit reviews.

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. Prepayment speeds, as reflected by the CPR, and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Agency RMBS portfolio increase, the related purchase premium amortization increases, thereby reducing the net yield on such assets.

The following table presents the CPR experienced on our Agency RMBS portfolio (excluding TBAs), on an annualized basis, for the quarterly periods presented:

Agency RMBS	Three Months Ended (1) (2)			
	June 30, 2016		June 30, 2015	
20 Year Fixed Rate	N/A		11	%
30 Year Fixed Rate	9	%	11	%
Fixed Rate CMO	7	%	8	%
ARM	12	%	13	%
Interest Only	15	%	13	%
Weighted Average	10	%	11	%

(1) Represents the weighted average monthly CPRs published during the quarter for our in-place portfolio during the same period.

(2) Source: Bloomberg

Financing activities

We use leverage to complete the purchase of real estate securities and loans in our investment portfolio. Through June 30, 2016, leverage has been in the form of repurchase agreements, securitized debt, loan participations payable and, for a portion of the first quarter of 2016, FHLBC Advances. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. FHLBC Advances involved loan advances made to us by the FHLBC in exchange for the pledge of our real estate securities as collateral. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a “haircut.” The size of the haircut reflects the perceived risk associated with the pledged asset. Haircuts may change as our repurchase agreements mature or roll and are sensitive to governmental regulations. We have not experienced fluctuations in our haircuts that altered our business and financing strategies for the three and six months ended June 30, 2016, but we continue to monitor the regulatory environment, which may influence the timing and amount of our repurchase agreement activity.

In January 2016, the FHFA issued the Final Rule, which expressly excludes captive insurance companies, including our captive insurance subsidiary from being eligible for membership in the FHLBC and prevents the FHLBC from making any new advances or extending any existing advances to MITT Insurance. Under the Final Rule, MITT Insurance must wind down its membership with the FHLBC by February 19, 2017. As of June 30, 2016, we had no FHLBC Advances outstanding.

Our repurchase agreements and FHLBC Advances are accounted for as financings and require the repurchase of the transferred securities or loans or repayment of the advance at the end of each agreement's term, typically 30 to 90 days. If we maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we receive the related principal and interest payments. If we do not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we will have the related principal and interest payments remitted to us by the lender. Interest rates on borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time we may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. In response to declines in fair value of pledged assets due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically require us to post additional assets 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. As of June 30, 2016 and December 31, 2015, the Company has met all margin call requirements.

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 swaps, swaption agreements, synthetic IO Indexes, Futures, and certain non-derivative financial instruments such as Agency Interest-Only securities and 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 and hedging.

The following table presents the quarter-end balance, average quarterly balance and maximum balance at any month-end for the Company's repurchase agreements and FHLBC Advances inclusive of unlinked repurchase agreements and repurchase agreements through affiliated entities, excluding any financing utilized in our investment in AG Arc, with a reconciliation of all quarterly figures to GAAP.

Quarter Ended	Quarter-End Balance	Average Quarterly Balance	Maximum Balance at Any Month-End
June 30, 2016			
Non-GAAP Basis	\$2,263,590,848	\$2,305,132,749	\$2,368,334,965
Less: Investments in Debt and Equity of Affiliates	13,594,846	14,627,811	15,534,683
GAAP Basis	\$2,249,996,002	\$2,290,504,939	\$2,352,800,282
March 31, 2016			
Non-GAAP Basis	\$2,573,321,330	\$2,559,321,654	\$2,582,943,709
Less: Investments in Debt and Equity of Affiliates	16,405,130	17,168,967	17,982,309
GAAP Basis	\$2,556,916,200	\$2,542,152,687	\$2,564,961,400
December 31, 2015			
Non-GAAP Basis	\$2,450,495,579	\$2,611,418,224	\$2,737,440,514
Less: Investments in Debt and Equity of Affiliates	18,638,119	19,119,157	19,643,832
GAAP Basis	\$2,431,857,460	\$2,592,299,067	\$2,717,796,682
September 30, 2015			
Non-GAAP Basis	\$2,585,828,163	\$2,509,992,155	\$2,585,828,163
Less: Investments in Debt and Equity of Affiliates	20,212,522	20,566,999	20,876,667
GAAP Basis	\$2,565,615,641	\$2,489,425,156	\$2,564,951,496
June 30, 2015			
Non-GAAP Basis	\$2,534,309,367	\$2,618,201,220	\$2,689,179,519
Less: Investments in Debt and Equity of Affiliates	21,091,153	21,209,044	21,267,990
GAAP Basis	\$2,513,218,214	\$2,596,992,176	\$2,667,911,529
March 31, 2015			
Non-GAAP Basis	\$2,691,920,394	\$2,713,017,544	\$2,807,851,545
Less: Investments in Debt and Equity of Affiliates	21,305,161	21,305,161	21,305,161
GAAP Basis	\$2,670,615,233	\$2,691,712,383	\$2,786,546,384
December 31, 2014			
Non-GAAP Basis	\$2,779,624,982	\$2,809,867,811	\$2,838,591,258
Less: Linked Transactions	113,363,873	130,264,304	142,279,249
Less: Investments in Debt and Equity of Affiliates	21,305,161	18,880,600	21,305,161
GAAP Basis	\$2,644,955,948	\$2,660,722,907	\$2,675,006,848
September 30, 2014			
Non-GAAP Basis	\$2,871,453,629	\$2,956,548,421	\$3,102,782,512
Less: Linked Transactions	131,106,935	142,459,846	149,986,999
GAAP Basis	\$2,740,346,694	\$2,814,088,575	\$2,952,795,513
June 30, 2014			
Non-GAAP Basis	\$3,134,086,525	\$3,094,449,312	\$3,134,086,525
Less: Linked Transactions	158,275,177	170,448,011	187,381,609
GAAP Basis	\$2,975,811,348	\$2,924,001,301	\$2,946,704,916
March 31, 2014			

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Non-GAAP Basis	\$3,255,756,359	\$ 3,178,572,989	\$ 3,255,756,359
Less: Linked Transactions	186,578,959	193,237,584	206,433,270
GAAP Basis	\$3,069,177,400	\$ 2,985,335,405	\$ 3,049,323,089
December 31, 2013			
Non-GAAP Basis	\$3,114,480,731	\$ 3,119,928,016	\$ 3,145,191,941
Less: Linked Transactions	222,846,315	237,576,633	249,165,657
GAAP Basis	\$2,891,634,416	\$ 2,882,351,383	\$ 2,896,026,284
September 30, 2013			
Non-GAAP Basis	\$3,194,360,409	\$ 3,294,030,740	\$ 3,495,343,985
Less: Linked Transactions	229,265,000	246,331,778	259,343,915
GAAP Basis	\$2,965,095,409	\$ 3,047,698,962	\$ 3,236,000,070
June 30, 2013			
Non-GAAP Basis	\$4,226,403,356	\$ 4,380,568,623	\$ 4,613,620,097
Less: Linked Transactions	404,759,166	418,500,534	431,172,099
GAAP Basis	\$3,821,644,190	\$ 3,962,068,089	\$ 4,182,447,998

As noted, we finance the purchase of our investments with repurchase agreements. It can be reasonably expected that our repurchase agreement balance will increase if we raise equity capital and decrease as a result of our portfolio decreasing due to asset sales, principal paydowns, and through the gradual increase of our investment allocation to credit investments. In the third quarter of 2013, in response to a sharp increase in interest rates resulting from the market's reaction to the announcement that tapering of QE3 could occur earlier than expected, we sold a significant amount of our fixed-rate Agency RMBS and subsequently terminated the related repurchase agreements, accounting for the reduction in the repurchase agreement balance from the second to the third quarter of 2013. Our credit portfolio, inclusive of investments held within affiliated entities in the credit investments category but exclusive of AG Arc, as a percentage of our total portfolio, increased from 34.9% as of December 31, 2013 to 54.1% as of June 30, 2016. Due to their elevated risk profile, credit investments have lower allowable leverage ratios than Agency RMBS, which restricts our financing counterparties from providing as much repurchase agreement financing to us as they had previously and lowers our total repurchase agreement balance.

Master Repurchase Agreements

As of June 30, 2016 and December 31, 2015, we have entered into master repurchase agreements, either directly or through equity method investments in affiliates, excluding any financing counterparties through AG Arc, with 38 counterparties, under which we had outstanding debt with 22 and 21 counterparties, respectively, inclusive of repurchase agreements in affiliated entities. See Note 6 to the Notes to Consolidated Financial Statements (unaudited) for a description of our material master repurchase agreements.

Our MRAs 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.

The following table presents the reconciliation of certain financial information related to repurchase agreements secured by real estate securities, inclusive of repurchase agreements through affiliated entities exclusive of AG Arc to information on a GAAP basis as of June 30, 2016:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Days to Maturity	Weighted Average Haircut	
Overnight	\$ 35,283,000	0.65	% 1	3.0	%
30 days or less	1,171,972,000	1.37	% 13	13.3	%
31-60 days	315,827,000	1.07	% 40	8.3	%
61-90 days	106,303,000	2.37	% 78	22.8	%
Greater than 90 days	365,887,619	1.72	% 308	8.6	%
Total: Non-GAAP Basis	\$ 1,995,272,619	1.43	% 75	12.0	%
Investments in Debt and Equity of Affiliates	\$ 5,815,030	3.20	% 534	24.8	%
Total: GAAP Basis	\$ 1,989,457,589	1.42	% 73	11.9	%

The following table presents the reconciliation of certain financial information related to repurchase agreements secured by real estate securities, inclusive of repurchase agreements through affiliated entities exclusive of AG Arc to information on a GAAP basis as of December 31, 2015:

Repurchase Agreements Maturing Within: Balance

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		Weighted Average Rate		Weighted Average Days to Maturity	Weighted Average Haircut	
30 days or less	\$ 1,052,983,000	1.43	%	14	15.4	%
31-60 days	245,124,000	1.23	%	47	11.8	%
61-90 days	76,739,000	1.98	%	74	21.1	%
Greater than 90 days	372,341,865	1.60	%	380	9.8	%
Total: Non-GAAP Basis	\$ 1,747,187,865	1.46	%	99	14.0	%
Investments in Debt and Equity of Affiliates	\$ 7,989,207	3.00	%	314	28.7	%
Total: GAAP Basis	\$ 1,739,198,658	1.46	%	98	13.9	%

The primary difference between our repurchase agreements at December 31, 2015 and June 30, 2016 pertains to the financing we received from the FHLB in the form of advances. At December 31, 2015, these advances were included in the chart shown below. At June 30, 2016, this financing is now in the form of repurchase agreements. We did not have any FHLBC Advances as of June 30, 2015.

The following table presents certain financial information related to FHLBC Advances secured by Agency RMBS, as of December 31, 2015:

FHLBC Advances Maturing Within:	Balance	Weighted Average Rate		Weighted Average Days to Maturity	Weighted Average Haircut	
30 days or less	\$ 186,449,500	0.36	%	10	0.2	%
31-60 days	39,750,000	0.44	%	54	2.7	%
61-90 days	170,694,500	0.49	%	66	0.3	%
Greater than 90 days	-	-		-	-	
Total / Weighted Average	\$ 396,894,000	0.42	%	39	0.5	%

The following table presents the reconciliation of certain financial information related to repurchase agreements secured by residential mortgage loans and real estate owned, inclusive of repurchase agreements through affiliated entities exclusive of AG Arc, to information on a GAAP basis as of June 30, 2016:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
30 days or less	\$ -	-	-	-	-
31-60 days	-	-	-	-	-
61-90 days	-	-	-	-	-
Greater than 90 days	41,407,229	3.01	% 3.13	% 590	30.5 %
Total: Non-GAAP Basis	\$ 41,407,229	3.01	% 3.13	% 590	30.5 %
Investments in Debt and Equity of Affiliates	\$ 7,779,816	3.20	% 3.20	% 534	29.9 %
Total: GAAP Basis	\$ 33,627,413	2.97	% 3.11	% 603	30.7 %

The following table presents the reconciliation of certain financial information related to repurchase agreements secured by residential mortgage loans and real estate owned, inclusive of repurchase agreements through affiliated entities exclusive of AG Arc, to information on a GAAP basis as of December 31, 2015:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut (1)
30 days or less	\$ -	-	-	-	-
31-60 days	-	-	-	-	-
61-90 days	-	-	-	-	-
Greater than 90 days	61,255,214	2.94	% 3.15	% 390	N/A
Total: Non-GAAP Basis	\$ 61,255,214	2.94	% 3.15	% 390	N/A
Investments in Debt and Equity of Affiliates	\$ 10,648,912	3.00	% 3.00	% 314	25.0 %
Total: GAAP Basis	\$ 50,606,302	2.93	% 3.18	% 406	N/A

(1) As of December 31, 2015, we had a total of \$88.2 million of collateral pledged, comprised of \$64.9 million of financial instruments and \$23.3 million of cash from loan sales, which at December 31, 2015 was held by our broker. The Non-GAAP and GAAP haircut based on total collateral pledged is 30.1% and 31.1%, respectively, as of December 31, 2015.

The primary difference between our repurchase agreements at December 31, 2015 and June 30, 2016 pertains to financing repaid in January 2016 on certain residential mortgage loans sold in December of 2015.

The following table presents certain financial information related to repurchase agreements secured by commercial loans as of June 30, 2016:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
30 days or less	\$ -	-	-	-	-
31-60 days	-	-	-	-	-
61-90 days	-	-	-	-	-
Greater than 90 days	21,796,000	2.60	% 2.87	% 1,174	33.5 %
Total / Weighted Average	\$ 21,796,000	2.60	% 2.87	% 1,174	33.5 %

The following table presents certain financial information related to repurchase agreements secured by commercial loans as of December 31, 2015:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
30 days or less	\$ -	-	-	-	-
31-60 days	-	-	-	-	-
61-90 days	-	-	-	-	-
Greater than 90 days	42,796,000	2.67	% 3.62	% 1,356	31.8 %
Total / Weighted Average	\$ 42,796,000	2.67	% 3.62	% 1,356	31.8 %

Outstanding repurchase agreements on commercial loans declined from December 31, 2015 to June 30, 2016 with the pay-off of a commercial mortgage loan during the three months ended June 30, 2016.

The following table presents certain financial information related to repurchase agreements secured by interests in U.S. Treasury securities as of June 30, 2016:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Days to Maturity	Weighted Average Haircut	
Overnight	\$ 205,115,000	0.95	% 1	0.54	%
30 days or less	-	-	-	-	
31-60 days	-	-	-	-	
61-90 days	-	-	-	-	
Greater than 90 days	-	-	-	-	
Total / Weighted Average	\$ 205,115,000	0.95	% 1	0.54	%

The following table presents certain financial information related to repurchase agreements secured by interests in U.S. Treasury securities as of December 31, 2015:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Days to Maturity	Weighted Average Haircut	
Overnight	\$ 202,362,500	0.42	% 4	0.57	%
30 days or less	-	-	-	-	
31-60 days	-	-	-	-	
61-90 days	-	-	-	-	
Greater than 90 days	-	-	-	-	
Total / Weighted Average	\$ 202,362,500	0.42	% \$ 4	0.57	%

Other financing transactions

In 2014, we entered into a securitization transaction, pursuant to which we created a special purpose entity (“SPE”) to facilitate the transaction (the “Resecuritization”). We determined that the SPE was a variable interest entity (“VIE”) and that the VIE should be consolidated by us under ASC 810-10 and treated as a secured borrowing (the “Consolidated VIE”). As of June 30, 2016 and December 31, 2015, the principal balance of the consolidated tranche was \$26.2

million and \$30.4 million, respectively. As of June 30, 2016 and December 31, 2015, the fair value of the consolidated tranche issued by the Consolidated VIE was \$25.8 million and \$30.0 million, respectively, which is classified as an asset in the “Non-Agency” line item and as a liability in the “Securitized debt, at fair value” line item on our consolidated balance sheet. The cost of financing on June 30, 2016 and December 31, 2015 on the consolidated tranche was 3.11% and 3.67%, respectively. See Note 2 to the Notes to Consolidated Financial Statements (unaudited) for more detail.

In February 2016, we originated a \$12.0 million commercial loan and, at closing, transferred a 15.0% or \$1.8 million participation interest in the loan (the “Participation Interest”) to an unaffiliated third party. The Participation Interest bears interest at a rate of LIBOR+ 10.00% with a LIBOR floor of 0.25%. We determined that the Participation Interest should be consolidated under ASC 860 due to the fact that the sale of the Participation Interest did not meet the sales criteria established under ASC 860. As of June 30, 2016, the commercial loan had a balance of \$12.0 million, which is classified as an asset in the “Commercial loans, at fair value” line item, and a \$1.8 million liability was recorded in the “Loan participation payable, at fair value” line item on our consolidated balance sheet representing the transfer of the Participation Interest. On June 30, 2016, the cost of financing on the Participation Interest was 24.18%.

Leverage

We define “non-GAAP leverage” as the sum of: (i) our repurchase agreements, inclusive of repurchase agreements held through affiliated entities but exclusive of any financing utilized through AG Arc, (ii) FHLBC Advances, if any, (iii) the amount payable on purchases that have not yet settled less the financing remaining on sales that have not yet settled, (iv) the consolidated tranche issued by the Consolidated VIE, and (v) the Participation Interest. Our calculations of each type of leverage exclude repurchase agreements and net receivables/payables on unsettled trades pertaining to U.S. Treasury securities due to the highly liquid and temporary nature of these investments. We define “non-GAAP ‘at risk’” leverage as non-GAAP leverage inclusive of our net TBA position (at cost). The calculations in the tables below divide our leverage calculations by our GAAP stockholders equity to derive our leverage ratios. The following tables present a reconciliation of our leverage ratios on a GAAP basis at June 30, 2016 and December 31, 2015 to both our non-GAAP leverage ratio and our non-GAAP “at risk” leverage ratio.

		Stockholders’		
June 30, 2016	Leverage	Equity	Leverage Ratio	
GAAP Leverage	\$ 2,069,725,285	\$ 646,521,130	3.20	x
Repurchase agreements through affiliated entities	13,594,846	-		
Non-GAAP Leverage	\$ 2,083,320,131	\$ 646,521,130	3.22	x
Net TBA payable adjustment	103,465,820	-		
Non-GAAP “At Risk” Leverage	\$ 2,186,785,951	\$ 646,521,130	3.38	x

		Stockholders’		
December 31, 2015	Leverage	Equity	Leverage Ratio	
GAAP Leverage	\$ 2,259,541,821	\$ 666,944,713	3.39	x
Repurchase agreements through affiliated entities	18,638,119	-		
Non-GAAP Leverage	\$ 2,278,179,940	\$ 666,944,713	3.42	x
Net TBA payable adjustment	77,502,930	-		
Non-GAAP “At Risk” Leverage	\$ 2,355,682,870	\$ 666,944,713	3.53	x

We seek to obtain financing from several different counterparties in order to reduce our financing risk related to any single counterparty. We had outstanding debt with 22 and 21 counterparties at June 30, 2016 and December 31, 2015, respectively, on a GAAP basis.

Hedging activities

We utilize multiple hedging instruments as a means to mitigate the interest rate risk of our Agency RMBS and credit portfolios. As of June 30, 2016 we had entered into \$529 million notional amount of interest rate swaps, \$200 million

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notional amount of long positions in U.S. Treasury securities, \$45 million notional amount of short positions in U.S. Treasury securities, \$22.5 million notional amount of long positions in U.S. treasury futures, \$23.0 million of short positions in U.S. treasury futures and \$975.0 million notional amount of short positions in Eurodollar futures.

Interest rate swaps

To help mitigate exposure to higher short-term interest rates, we use currently-paying and may use forward-starting, one-or 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 our 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 June 30, 2016:

Maturity	Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88	%	0.64	%	1.34
2019	50,000,000	1.29	%	0.64	%	3.33
2020	250,000,000	1.65	%	0.65	%	3.77
2022	53,000,000	1.69	%	0.68	%	6.19
2023	110,000,000	2.31	%	0.68	%	6.93
2025	30,000,000	2.48	%	0.68	%	8.93
Total/Wtd Avg	\$ 529,000,000	1.75	%	0.66	%	4.76

The following table presents information about the Company's interest rate swaps as of December 31, 2015:

Maturity	Notional Amount	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88	%	0.33	%	1.84
2018	165,000,000	1.06	%	0.50	%	2.20
2019	210,000,000	1.29	%	0.43	%	3.73
2020	295,000,000	1.67	%	0.40	%	4.27
2022	73,000,000	1.75	%	0.42	%	6.53
2023	160,000,000	2.31	%	0.43	%	7.42
2025	30,000,000	2.48	%	0.45	%	9.43
Total/Wtd Avg	\$ 969,000,000	1.59	%	0.43	%	4.56

U.S. Treasury securities

We may purchase and sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates on the performance of our portfolio.

As of June 30, 2016, we had a long position in U.S. treasury securities with a fair value of \$206.2 million and a notional amount of \$200.0 million. The U.S. treasury securities were financed with repurchase agreements with a fair value of \$205.1 million and a cost of financing of 0.95%. This liability is included in the "Repurchase agreements" line item on the consolidated balance sheet. As of June 30, 2016, the U.S. Treasury securities had a weighted average maturity of 4.89 years. As of June 30, 2016, the repurchase agreements had a weighted average maturity of July 1, 2016.

As of December 31, 2015, we had a long position in U.S. Treasury securities with a fair value of \$223.4 million and a notional amount of \$226.0 million. Certain U.S. Treasury securities were financed with repurchase agreements with a fair value of \$202.4 million and a cost of financing of 0.42%. This liability is presented in the "Repurchase agreements" line item on the consolidated balance sheet. As of December 31, 2015, the U.S. Treasury securities had a weighted average maturity of 4.1 years. As of December 31, 2015, the repurchase agreements had a weighted average maturity of January 4, 2016.

We may borrow securities to cover short sales of U.S. Treasury securities through overnight reverse repurchase agreements.

As of June 30, 2016, we 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 of \$45.4 million and \$45.0 million, respectively. This liability is presented as “Obligation to return securities borrowed under reverse repurchase agreements, at fair value” on the consolidated balance sheet. As of June 30, 2016, the U.S. Treasury securities had a weighted average maturity of 7.28 years. The borrowed securities were collateralized by cash loaned under reverse repurchase agreements of \$45.7 million at June 30, 2016, which is presented as “Receivable under reverse repurchase agreements” on the consolidated balance sheet. As of June 30, 2016, the reverse repurchase agreements had a weighted average maturity of July 1, 2016. We had no short positions in U.S. Treasury securities as of December 31, 2015.

During the three months and six months ended June 30, 2016, we recorded realized gains of \$0.1 million and \$0.4 million, respectively, on long positions in U.S. Treasury securities. During the three months and six months ended June 30, 2015, we recorded realized losses of \$1.9 million and \$3.2 million, respectively, on long positions in U.S. Treasury securities. Realized gains and losses are recorded on the “Net realized gain/(loss)” line item on our consolidated statement of operations. During the three months and six months ended June 30, 2016, we recorded unrealized gains of \$1.6 million and \$7.6 million, respectively, on long positions in U.S. Treasury securities. During the three months ended June 30, 2015, we recorded unrealized losses of \$0.6 million on long positions in U.S. Treasury securities. We did not have any unrealized gains or losses on long positions in U.S. Treasury securities for the six months ended June 30, 2015. Unrealized gains and losses are recorded on the “Unrealized gain (loss) on derivative and other instruments, net” line item on our consolidated statement of operations.

During the three and six months ended June 30, 2016, we recorded unrealized losses of \$0.2 million on borrowed securities. We did not have any realized gains or losses on borrowed securities for the three and six months ended June 30, 2016. During the three and six months ended June 30, 2015, we recorded unrealized gains and losses of \$0.0 and \$0.4 million, respectively, on borrowed securities. During the three and six months ended June 30, 2015, we recorded realized losses of \$0.8 and \$1.2 million, respectively, on the borrowed securities.

Futures

We may purchase and sell short Eurodollar and U.S. Treasury Futures to help mitigate the potential impact of changes in interest rates on the performance of our portfolio.

As of June 30, 2016, we had long positions in U.S. Treasury Futures with a fair value of \$(19,921) and a notional amount of \$22.5 million. As of June 30, 2016, the long positions in U.S. Treasury Futures had a weighted average maturity of 10.09 years.

As of June 30, 2016, we had short positions in U.S. Treasury Futures with a fair value of \$21,563 and a notional amount of \$23.0 million. As of June 30, 2016, the short positions in U.S. Treasury Futures had a weighted average maturity of 5.09 years.

As of June 30, 2016, we had short positions in Eurodollar Futures with a fair value of \$(0.1) million and a notional amount of \$975.0 million. As of June 30, 2016, the short positions in Eurodollar Futures had a weighted average maturity of 0.52 years.

We had no positions in any Futures as of December 31, 2015.

During the three and six months ended June 30, 2016, we recorded realized gains of \$0.1 million on long positions in U.S. Treasury Futures. Realized gains and losses are recorded on the "Net realized gain/(loss)" line item on our consolidated statement of operations. During the three and six months ended June 30, 2016, we recorded unrealized losses of \$20,374 on long positions in U.S. Treasury Futures. Unrealized gains and losses are recorded on the "Unrealized gain (loss) on derivative and other instruments, net" line item on our consolidated statement of operations. We had no long positions in U.S. Treasury Futures for the three or six months ended June 30, 2015.

During the three and six months ended June 30, 2016, we recorded realized gains of \$15,056 on short positions in U.S. Treasury Futures. During the three and six months ended June 30, 2016, we recorded unrealized gains of \$21,123 on short positions in U.S. Treasury Futures. We had no short positions in U.S. Treasury Futures for the three or six months ended June 30, 2015.

We had no realized gains on short positions in Eurodollar Futures for the three or six months ended June 30, 2016. During the three and six months ended June 30, 2016, we recorded unrealized losses of \$0.2 million on short positions in Eurodollar Futures. We had no short positions in Eurodollar Futures for the three or six months ended June 30, 2015.

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 (i) 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 (ii) 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.

As mentioned above, our distribution requirements are based on taxable income rather than GAAP net income. The primary differences between taxable income and GAAP net income include (i) unrealized gains and losses associated with investment and derivative portfolios which are marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) temporary differences related to amortization of premiums and discounts paid on investments, (iii) the timing and amount of deductions related to stock-based compensation, (iv) temporary differences related to the recognition of certain terminated derivatives and (v) taxes. Undistributed taxable income is based on current estimates and is not finalized until we file our annual tax return, typically in September of the following fiscal year. As of June 30, 2016 the Company had undistributed taxable income of approximately \$1.86 per share.

The following table details our common stock dividends during the six month ended June 30, 2016 and June 30, 2015:

2016			
Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2016	3/21/2016	4/29/2016	\$ 0.475
6/9/2016	6/20/2016	7/29/2016	0.475
2015			
Declaration Date	Record Date	Payment Date	Dividend Per Share
3/12/2015	3/23/2015	4/30/2015	\$ 0.60
6/11/2015	6/22/2015	7/31/2015	0.60

The following table details our preferred stock dividends during the six months ended June 30, 2016 and June 30, 2015:

2016

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2016	2/29/2016	3/17/2016	\$ 0.51563
8.25% Series A	5/13/2016	5/31/2016	6/17/2016	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2016	2/29/2016	3/17/2016	\$ 0.50
8.00% Series B	5/13/2016	5/31/2016	6/17/2016	0.50

2015

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2015	2/27/2015	3/17/2015	\$ 0.51563
8.25% Series A	5/14/2015	5/29/2015	6/17/2015	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2015	2/27/2015	3/17/2015	\$ 0.50
8.00% Series B	5/14/2015	5/29/2015	6/17/2015	0.50

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 as of June 30, 2016 consist of borrowings under repurchase agreements, payments of principal and interest we receive on our Agency RMBS and credit portfolio, 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, to purchase real estate securities, loans and other real estate related assets, to make dividend payments on our capital stock, and to fund our operations. Refer to the “Contractual obligations” section of this Item 2 for additional obligations that could impact our liquidity.

At June 30, 2016, we had \$166.3 million available to support our liquidity needs, comprised of \$41.9 million of cash, \$80.1 million of Agency RMBS, and \$44.3 million of Agency Interest-Only securities that have 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. 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 the cost of any hedging activities. Subject to maintaining both 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.

Additionally during the quarter, we received cash of \$9.6 million as a result of the pay-off of one of our commercial loans, net of its financing, \$8.0 million due to the redemption of a majority of our FHLBC stock and approximately \$3.2 million of net equity as a result of the settlement by Bank of America with RMBS investors related to mortgages sold by its Countrywide unit.

We, either directly or through our equity method investments in affiliates, have entered into MRAs with 38 counterparties, allowing us to utilize leverage in our operations. As of June 30, 2016, we had debt outstanding of \$2.3 billion from 22 counterparties, inclusive of repurchase agreements through affiliated entities. The borrowings under repurchase agreements have maturities between July 1, 2016 and September 17, 2019. These agreements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each lending agreement, 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. As of June 30, 2016 our Non-GAAP “at risk”, Non-GAAP and GAAP debt-to-equity leverage ratios were 3.38 to 1, 3.22 to 1 and 3.20 to 1, respectively.

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. Certain securities that are pledged as collateral under our repurchase agreements are in unrealized loss positions.

The following table presents contractual maturity information for our repurchase agreements, including those accounted for through affiliated entities but excluding any financing utilized through AG Arc, and including FHLBC Advances, if applicable, at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Overnight	\$240,398,000	\$ 202,362,500
30 days or less	1,171,972,000	1,239,432,500
31 to 60 days	315,827,000	284,874,000
61 to 90 days	106,303,000	247,433,500
91 to 119 days	127,629,000	32,109,000
Greater than or equal to 120 days	301,461,848	444,284,079
Total: Non-GAAP Basis	\$2,263,590,848	\$ 2,450,495,579
Less: Investments in Debt and Equity of Affiliates	\$13,594,846	\$ 18,638,119
Total: GAAP Basis	\$2,249,996,002	\$ 2,431,857,460

As of June 30, 2016, we had no advances outstanding with the FHLBC, and as a result of the Final Rule, can no longer rely on FHLBC Advances for liquidity. The Final Rule has not had a material impact on our liquidity or our ability to satisfy our financial obligations as they become due.

As described above in the “Financing activities” section of this Item 2, we entered into the Resecuritization in 2014 that resulted in consolidation of the VIE created with the SPE. We recorded the proceeds from the issuance of the secured financing in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. See Note 3 to the Notes to Consolidated Financial Statements (unaudited) for more detail.

As described above in the “Financing activities” section of this Item 2, we originated a \$12.0 million commercial loan and transferred the Participation Interest to an unaffiliated third party. We recorded proceeds from the transfer in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. As of June 30, 2016, the commercial loan had a balance of \$12.0 million.

The following table presents information at June 30, 2016 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders’ equity at risk, including stockholders’ equity at risk under financing through affiliated entities but excluding any stockholders’ equity at risk under financing through AG Arc.

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Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Wells Fargo Bank, N.A.	\$ 62,739,237	478	10	%
JP Morgan Securities, LLC	39,941,541	188	6	%
RBC (Barbados) Trading Bank Corporation	35,486,233	43	5	%

The following table presents information at December 31, 2015 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders' equity at risk, including stockholders' equity at risk under financing through affiliated entities but excluding any stockholders' equity at risk under financing through AG Arc.

Counterparty	Amount at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity	
Wells Fargo Bank, N.A.	\$ 59,863,639	543	9	%
JP Morgan Securities, LLC	45,341,579	187	7	%
RBC (Barbados) Trading Bank Corporation	41,788,752	44	6	%
Credit Suisse Securities, LLC	40,797,732	44	6	%

Effects of margin requirements, leverage and credit spreads

Our real estate securities and loans have values that fluctuate according to market conditions and, as discussed above, the market value of these assets will decrease as prevailing interest rates or credit spreads increase. When the value of the assets 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 reflects a demand for additional collateral that may take the form of additional assets or cash. Under our repurchase facilities, our lenders have full discretion to determine the value of the securities we pledge to them. Our lenders will value assets 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 Agency RMBS. 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 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.

Similar to the margin calls that we receive on our borrowing agreements, we may also receive margin calls on our derivative instruments when their values decline. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. Our posting of collateral with our counterparties can be done in cash or securities, and is generally bilateral, which means that if the value of our interest rate hedges increases, our counterparty will be required to post collateral with us.

Stock Repurchase Program

In November 2015, our board of directors authorized a stock repurchase program (the “Repurchase Program”) to repurchase up to \$25.0 million of our outstanding common stock. Such authorization does not have an expiration date. As part of the Repurchase Program, shares may be purchased in open market transactions, including through block

purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. Subject to applicable securities laws, the timing, manner, price and amount of any repurchases of common stock under the Repurchase Program may be determined by us in our discretion, using available cash resources. Shares of common stock repurchased by us under the Repurchase Program, if any, will be cancelled and, until reissued by us, will be deemed to be authorized but unissued shares of our common stock. The Repurchase Program may be suspended or discontinued by us at any time and without prior notice. The authorization does not obligate us to acquire any particular amount of common stock. During the six months ended June 30, 2016, we repurchased 432,853 shares of common stock at a total cost of approximately \$5.9 million and at an average cost per share of \$13.56. As of June 30, 2016, approximately \$17.5 million of common stock remained authorized for future share repurchases under the Repurchase Program. Like other investments we may make, any repurchases of our common stock under this authorization would reduce our available capital described above. We did not repurchase any shares for the six months ended June 30, 2015.

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 our 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

Management Agreement

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 our 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 we pay for repurchases of our common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in our 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 our independent directors and after approval by a majority of our independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our financial statements. For the three and six months ended June 30, 2016, we incurred management fees of approximately \$2.4 million and \$4.9 million, respectively. For the three and six months ended June 30, 2015, we incurred management fees of approximately \$2.5 million and \$5.0 million, respectively.

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 compensation directly from us. We are required to reimburse our Manager for operating expenses which are incurred by our Manager on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by our board of directors. Of the \$2.7 million and \$5.7 million of Other operating expenses for the three and six months ended June 30, 2016, respectively, we have expensed \$1.7 million and \$3.5 million, respectively, which will be paid to the Manager as a reimbursement of expenses. Of the \$3.3 million and \$6.4 million of Other operating expenses for the three and six months ended June 30, 2015, respectively, we have expensed \$1.9 million and \$3.7 million, respectively, which will be paid to the Manager as a reimbursement of expenses.

Share-based compensation

Pursuant to the Manager Equity Incentive Plan and the Equity Incentive Plan, we can award up to 277,500 shares of common stock to our directors, officers, advisors, consultants and other personnel and to our Manager. As of June 30, 2016, 137,590 shares of common stock were available to be awarded under the equity incentive plans. 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 applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

As of June 30, 2016, we have granted an aggregate of 39,660 shares of restricted common stock to our independent directors and 100,250 shares of restricted common stock to our Manager under our equity incentive plans. As of June 30, 2016, 99,904 shares of restricted common stock granted to our Manager and independent directors have vested.

On July 1, 2014, we granted 60,000 restricted stock units to our Manager that represent the right to receive an equivalent number of shares of our common stock to be issued if and when such units vest. Annual vesting of approximately 20,000 units occurred or will occur on each of July 1, 2015, July 1, 2016, and July 1, 2017. The units do not entitle the participant the rights of a holder of the Company's common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by our Manager or its transferee shall be immediately cancelled and forfeited without consideration. On July 1, 2015, approximately 20,000 restricted stock units vested, and as of June 30, 2016, approximately 40,000 units remained unvested.

On December 9, 2015, we, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into the LLC Agreement of Arc Home. The capital commitment to Arc Home is \$30.0 million of which our share is \$13.4 million. We have contributed \$5.2 million of this commitment as of June 30, 2016.

Other

We have presented a table that details the contractual maturity of our financing arrangements at June 30, 2016. See the “Liquidity and capital resources” section of this Item 2. As of June 30, 2016 and December 31, 2015, we are obligated to pay accrued interest on our repurchase agreements in the amount of \$2.9 million and \$2.7 million, respectively, inclusive of accrued interest accounted for through investments in debt and equity of affiliates, and exclusive of accrued interest on any financing utilized through AG Arc.

Off-balance sheet arrangements

We have entered into TBA positions to facilitate the future purchase or sale of Agency RMBS. 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 related to our TBAs is the net payable amount on our TBA transactions until the settlement date. As of June 30, 2016, our maximum exposure to loss on TBAs was \$103.5 million.

Our investments in debt and equity of affiliates are primarily comprised of real estate securities and loans, associated repurchase agreements and interest receivable/payable on such accounts. Investments in debt and equity of affiliates are accounted for using the equity method of accounting. As of June 30, 2016, our maximum exposure to loss on investments in debt and equity of affiliates was \$61.7 million.

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 any related person transaction and all material facts about the transaction. Our Secretary or Assistant Secretary, in consultation with outside counsel, to the extent appropriate, 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, the audit committee will review, approve or ratify such transactions as appropriate. The audit committee will not approve or ratify a related person transaction unless it shall have determined that such transaction is in, or is not inconsistent with, our best interests and does not create a conflict of interest. If we become aware of an existing related person transaction that has not been approved under this policy, the transaction will be referred to the audit 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.

Red Creek

In connection with our investments in residential loans and Securitized Whole Loans, we engage asset managers to provide advisory, consultation, asset management and other services to formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, we engaged Red Creek Asset Management LLC (“Asset Manager”), an affiliate of the Manager and direct subsidiary of Angelo, Gordon, as the asset manager for certain of our residential loans and Securitized Whole Loans. The Asset Manager acknowledges that we will at all times have and retain ownership and control of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. We pay separate arm’s-length asset management fees (as assessed and confirmed by a third party valuation firm) for the Asset Manager’s services related to non-performing loans and reperforming loans. For the three and six months ended June 30, 2016, the fees paid by us to the Asset Manager totaled less than \$120,000.

Certain securitizations

In May 2015, we completed an arm’s-length securitization with other investors managed by an affiliate of the Manager (the “Related Parties”) by combining the assets of a prior private securitization, in which we held a 10.0% ownership interest, with the assets of another private securitization held entirely by the Related Parties. Our investment in this securitization is reflected on the “Non-Agency” line item on the consolidated balance sheet and had a fair value of \$4.0

million and \$3.0 million as of June 30, 2016 and December 31, 2015, respectively. We completed another similar arm's-length securitization in July 2015 with the Related Parties by combining the assets of a private securitization, in which we held a 7.5% ownership interest, with the assets of another private securitization held entirely by the Related Parties. Our investment in this securitization is reflected on the "Non-Agency" line item on the consolidated balance sheet and had a fair value of \$4.6 million and \$5.2 million as of June 30, 2016 and December 31, 2015, respectively. The remaining interests in each securitization were owned by certain of the related parties. Each securitization was backed by collateral consisting of seasoned NPLs and RPLs. We obtained third party pricing for each transaction.

In July 2015, we completed an arm's-length investment purchase at fair value. Certain entities managed by an affiliate of our Manager ("Related Entities") had previously formed a joint venture ("Joint Venture") with an unaffiliated third party. The Joint Venture owns certain multi-family properties for which the mortgages partly collateralize a securitization wherein we purchased certain bond tranches. To ensure an arm's-length transaction, the Manager delegated its decision making rights with respect to the securitization to a third party servicer. In addition, the members of the Joint Venture agreed to cease sharing material non-public information with our investment team regarding the collateral. Our investment in these bond tranches is reflected on the "Investments in debt and equity of affiliates" and "CMBS" line items on the consolidated balance sheet with fair values of \$7.0 million and \$1.4 million, respectively, on June 30, 2016 and on the "Investments in debt and equity of affiliates" line item with a combined fair value of \$7.6 million on December 31, 2015.

In June 2016, in accordance with our Affiliated Transactions Policy, we executed two trades whereby we acquired real estate securities from two separate affiliates of the Manager (the "Selling Affiliates"). As of June 30, 2016, the securities acquired from the Selling Affiliates had a total fair value of \$6.9 million. In each case, the Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the Selling Affiliates, we submitted our bid for the real estate securities to the Selling Affiliates. Our pre-submission of our bid allowed our Manager to confirm third-party market pricing and best execution.

Arc Home

On December 9, 2015, we, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into the Amended and Restated Limited Liability Company Agreement of Arc Home LLC ("Arc Home"), a Delaware limited liability company. Arc Home, through its subsidiary, originates conforming, FHA, and Jumbo residential mortgage loans and is led by an external management team. Our investment in Arc Home, which is conducted through AG Arc, one of our subsidiaries, is reflected on the "Investments in debt and equity of affiliates" line item on our consolidated balance sheet and had a fair value of \$4.5 and \$(0.3) million on June 30, 2016 and December 31, 2015, respectively.

On March 8, 2016, an affiliate of the Manager (“the Affiliate”) became a member of AG Arc. The Affiliate acquired an ownership interest in AG Arc which resulted in our ownership interest being reduced on a pro-rata basis. As a result of the Affiliate becoming a member of AG Arc, our overall commitment to Arc Home was reduced to \$13.4 million.

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. For further detail on the Management Agreement, see the “Contractual Obligations–Management Agreement” section of this Item 2.

Grants of restricted common stock

As of June 30, 2016, we have granted an aggregate of 39,660 shares of restricted common stock to our independent directors and 100,250 shares of restricted common stock to our Manager under our equity incentive plans. As of June 30, 2016, 99,904 shares of restricted common stock granted to our Manager and independent directors have vested. See Note 10 to the Notes to Consolidated Financial Statements (unaudited) for further detail on restricted stock grants.

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 the 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. Investments in real estate securities are recorded in accordance with ASC 320-10, "Investments – Debt and Equity Securities," ASC 325-40, "Beneficial Interests in Securitized Financial Assets", or ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." Real estate securities are recorded at fair market value on our consolidated balance sheet and the periodic 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." Real estate securities acquired through securitizations are shown in the line item "Purchase of real estate securities" on the consolidated statement of cash flows.

Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner.

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, defaults, recoveries 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. See Note 5 of the Notes to Consolidated Financial Statements (unaudited) for more detail.

Investments in mortgage loans

We have chosen to make a fair value election pursuant to ASC 825 for our mortgage loans. Loans are recorded at fair market value on the consolidated balance sheet and any 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.” Electing the fair value option allows us to record changes in fair value in the consolidated statement of operations, which, in management’s view, more appropriately reflects the results of our operations for a particular reporting period as all loan 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, model-based pricing, or 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 overall valuation 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, defaults, recoveries and prepayment speeds. These valuations also require significant judgments, which include assumptions regarding capitalization rates, reperformance rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently estimated. Analyses provided by valuation service providers are reviewed and considered by the Manager. See Note 5 of the Notes to Consolidated Financial Statements (unaudited) for more detail.

Investments in debt and equity of affiliates

Our unconsolidated ownership interests in affiliates are accounted for using the equity method. Except as described below, the underlying entities have chosen to make a fair value election on its financial instruments pursuant to ASC 825. As a result, we will treat these investments consistently with this election.

In December 2015, we, alongside private funds under the management of Angelo, Gordon, through AG Arc, formed Arc Home to originate conforming, FHA and Jumbo loans. We invest in Arc Home through AG Arc, one of our subsidiaries, and have chosen to make a fair value election on AG Arc pursuant to ASC 825.

Our investments in debt and equity of affiliates are recorded at fair market value on our consolidated balance sheet in the “Investments in debt and equity of affiliates” line item and periodic changes in fair market value are recorded in

current period earnings on our consolidated statement of operations as a component of “Equity in earnings/(loss) from affiliates.” 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 portfolios is accrued based on the actual coupon rate and the outstanding principal balance of such securities. We have elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all securities and loans 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 our real estate securities accounted for under ASC 320-10 and ASC 310-20, “Nonrefundable Fees and Other Costs” (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 our real estate securities accounted for under ASC 325-40, “Beneficial Interests in Financial Assets” (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 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 real estate securities for OTTI on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.”

When a real estate 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 real estate 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 real estate securities accounted for under ASC 325-40, 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 include observations of current information and events and assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of potential credit losses. Cash flows 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 on which the Company previously recorded OTTI 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 our 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.

Real estate securities in an unrealized loss position as of the balance sheet date are not considered other than temporarily impaired as we have 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 we are not required to sell the security for regulatory or other reasons.

Interest income and other-than-temporary impairment recognition on mortgage loans and real estate securities acquired with deteriorated credit quality

When we purchase mortgage loans and real estate securities that have shown evidence of credit deterioration since origination, we will analyze such investments to determine if the application of ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” is warranted. If it is determined that it is probable we will not collect all contractual cash flows on those assets, we will apply the guidance found in ASC 310-30. For purposes of mortgage loan income recognition, we aggregate loans acquired that have common risk characteristics into a pool and use a composite interest rate and expectation of cash flows expected to be collected for such pool.

Interest income is recognized on a level-yield basis over the life of the loan or security as long as cash flows can be reasonably estimated. The level-yield is determined by the excess of our initial estimate of undiscounted expected principal, interest, and other cash flows expected to be collected over our initial investment in the mortgage loan or security (accretable yield). The excess of contractually required cash flows over cash flows expected to be collected (nonaccretable difference) is not recognized as an adjustment of yield.

On at least a quarterly basis, we update our estimate of the cash flows expected to be collected for loans and real estate securities. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, we will recognize these changes prospectively through an adjustment of the investment's yield over its remaining life. We will adjust the amount of accretable yield by reclassification from the nonaccretable difference. The adjustment is accounted for as a change in estimate in conformity with ASC 250 with the amount of periodic accretion adjusted over the remaining life of the loan. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, are recognized as impairment.

Derivatives

We enter into various types of derivative instruments to hedge our exposure to market risk. We may use derivative instruments such as interest rate swaps, interest rate swaptions and credit derivatives as instruments to reduce such exposure, and non-derivative instruments including Agency Interest-Only securities and long and short positions in U.S. Treasury securities to manage interest rate risk. We account for derivative financial instruments in accordance with ASC 815-10, "Derivatives and Hedging."

In valuing our derivatives, we consider both our own creditworthiness and the creditworthiness of our counterparties, along with collateral provisions contained in each derivative agreement, from both our and our counterparties' perspective. All of our derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Act. For swaps cleared under the Dodd Frank Act, a Central Counterparty Clearing House now stands between us and the over-the-counter derivative counterparties. In order to access such clearing, we have entered into clearing agreements with futures commissions merchants ("FCMs"). We present derivative assets and liabilities on a gross basis.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. The new standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. We have concluded the guidance does not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued or ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this ASU affect all entities that hold financial assets or owe financial liabilities, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The classification and measurement guidance of investments in debt securities and loans are not affected by the amendments in this ASU. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is not permitted for public business entities, except for a provision related to financial statements of fiscal years or interim periods that have not yet been issued, to recognize in other comprehensive income, the change in fair value of a liability resulting from a change in the instrument-specific credit risk measured using the fair value option. Entities should apply the amendments in this ASU by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. We are currently evaluating the method of adoption and the impact this ASU will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718),” (“ASU 2016-09”). ASU 2016-09 requires all income tax effects of share-based payment awards to be recognized in the income statement when the awards vest or are settled. ASU 2016-09 also allows an employer to repurchase more of an employee’s shares for tax withholding purposes than is permitted under current guidance without triggering liability accounting. Finally, ASU 2016-09 allows a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We are currently evaluating our method of adoption and the impact this ASU will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses,” (“ASU 2016-13”). ASU 2016-13 introduces a new model related to the accounting for credit losses on instruments, specifically, financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. ASU 2016-13 amends the current guidance, requiring an OTTI charge only when fair value is below the amortized cost of an asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer

impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security's amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. The new guidance also expands the disclosure requirements regarding an entity's assumptions, and models. In addition, public entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. We are currently evaluating our method of adoption and the impact this ASU will have on our consolidated financial statements.

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, 2015, 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, 2015. 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, 2015. 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, 2015, 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 derivatives 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 determined at the outset of each transaction by reference to prevailing short-term 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 have obtained term financing on certain borrowing arrangements. 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 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 and loan portfolios with fixed-rate coupons would be expected to decrease in value more severely than that portion with a floating-rate coupon. This is because fixed-rate coupon assets tend to have significantly more duration or price sensitivity to changes in interest rates, than floating-rate coupon assets. Fixed-rate assets currently comprise a majority of our portfolio.

The fair value of our investment portfolio could change at a different rate than the fair value of our liabilities when interest rates change. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities. In order to reduce this exposure we use hedging instruments to reduce the gap in duration between our assets and liabilities.

We calculate estimated effective duration (i.e., the price sensitivity to changes in risk-free interest rates) to measure the impact of changes in interest rates on portfolio value. We estimate duration based on third-party models. Different models and methodologies can produce different effective duration estimates for the same securities. We allocate the net duration by asset type based on the interest rate sensitivity. Over time, our credit investments have experienced significant price appreciation. In addition, we have allocated greater capital towards higher dollar price Non-Agency MBS, ABS and CMBS positions. Higher dollar price credit securities may exhibit greater duration than lower priced credit investments. In addition, we have observed that, in the wake of massive intervention by global central banks since the financial crisis of 2008-2009, the historical inverse relationship between credit spreads and interest rates has begun to become less reliable. This means that it is becoming less likely that periods of rising interest rates will be accompanied by tightening credit spreads which can offset some of the downward pressure on the prices of credit bonds. This has served to make effective duration on credit investments a more meaningful statistic over time.

On June 30, 2016, we computed an estimated net effective duration of 1.63 years, comprised of 1.19 Agency RMBS duration, 1.26 of credit investment duration, (0.71) hedge duration and (0.11) liability duration.

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 spot and forward interest rates, which existed as of June 30, 2016. Actual results could differ materially from these estimates.

Agency RMBS assumptions attempt to predict default and 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 table below reflects the estimated impact of interest rate increases and decreases on a static portfolio as of June 30, 2016, 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) (1)(2)	Percentage Change in GAAP Equity	Percentage Change in Projected Net Interest Income (3)
+100	-10.0	% -12.3 %
+50	-4.5	% -5.9 %
-50	3.4	% 4.8 %
-100	4.7	% 2.4 %

(1) Includes investments held through affiliated entities that are reported as “Investments in debt and equity of affiliates” on our consolidated balance sheet.

(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 June 30, 2016.

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 or mortgage loans and cash as collateral to secure our repurchase transactions. Should the fair value of our real estate securities or mortgage loans 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 or mortgage loans 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 funding conditions tighten as they did in 2007 - 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.

In January 2016, the FHFA issued the Final Rule, which expressly excludes captive insurance companies, including our captive insurance company, from being eligible for membership in the FHLBC and prohibits the FHLBC from making any more advances or extending any existing advances to our captive insurance company. Under the Final Rule, the FHLBC must wind down its relationships with our captive insurance company by February 19, 2017. The FHLBC cannot make any new advances or extend any existing advances to our captive insurance company. On June 30, 2016, we had no advances outstanding with the FHLBC.

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 transactions during periods of rising interest rates.

Initial margin works 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 TBA dollar roll contracts are also subject to margin requirements governed by the Mortgage-Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corporation and by our prime brokerage agreements, which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA contract, which is subject to increase if the estimated fair value of our TBA contract or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBA contracts and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral, either securities or cash, on the same business day.

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 assets at a price in excess of the principal balance of the mortgages securing such assets (i.e., par value). Conversely, discounts arise when we acquire assets at a price below the principal balance of the mortgages securing such assets. Premiums paid on our assets are amortized against interest income and accretible purchase discounts on our assets are accreted to interest income. Purchase premiums on our assets, which are primarily carried on our Agency RMBS, are amortized against interest income over the life of each respective asset 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 or interest income earned on such assets. Generally, if prepayments on our Non-Agency RMBS or mortgage loans 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 for securities accounted for under ASC 320-10 (generally, Agency RMBS) or adjusted prospectively through an adjustment of the yield over the remaining life of the investment for investments accounted for under ASC 325-40 (generally, Non-Agency RMBS, ABS, CMBS and interest-only securities) and mortgage loans accounted for under ASC 310-30.

In addition, our interest rate hedges are structured in part based upon assumed levels of future prepayments within our real estate securities or mortgage loan portfolio. If prepayments are slower or faster than assumed, the life of the real estate securities or mortgage loans 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 assets 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 loans as well as Non-Agency RMBS, ABS 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 collateral which is 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 decline in our book value 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; and

• 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 June 30, 2016. 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.

We are at times subject to various legal proceedings arising in the ordinary course of business. As of the date of this report, we are not party to any litigation or legal proceedings, or to our knowledge, any threatened litigation or legal proceedings, which we believe, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS.

Arc Home's mortgage business is highly dependent upon programs administered by GSEs, such as Fannie Mae and Freddie Mac, and Ginnie Mae, to generate revenues through mortgage loan sales to institutional investors. Any changes in existing U.S. government-sponsored mortgage programs could materially and adversely affect Arc Home's mortgage business and the value of our investment in Arc Home.

There is uncertainty regarding the future of Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will have. The future roles of Fannie Mae and Freddie Mac could be reduced or eliminated and the nature of their guarantees could be limited or eliminated relative to historical measurements. The elimination or modification of the traditional roles of Fannie Mae or Freddie Mac could adversely affect Arc Home's mortgage business and the value of our investment in Arc Home. Furthermore, any discontinuation of, or significant reduction in, the operation of these GSEs and Ginnie Mae, or any significant adverse change in the level of activity of these agencies in the primary or secondary mortgage markets or in the underwriting criteria of these agencies could materially and adversely affect Arc Home's business, financial condition and results of operations.

The residential mortgage loans which Arc Home's mortgage business originates may be subject to delinquency, foreclosure and loss, which could result in losses to Arc Home and, as a result, in the diminution in the value of our investment in Arc Home.

Residential mortgage loans are secured by residential property and those that are not guaranteed by a U.S. Government agency or a GSE are subject to risks of delinquency, foreclosure and loss during the period of time that loans are held pending sale, generally 20-30 days. The ability of a borrower to repay a loan secured by a residential property depends upon the income or assets of the borrower as well as a number of other factors. In the event of any default or underwriting flaw under a mortgage loan held directly by Arc Home's mortgage business, it may bear, or be

required to indemnify against, a risk of loss of principal to the extent of any deficiency between the value of the collateral on the one hand and the principal and accrued interest of the mortgage loan on the other, which could have a material adverse effect on its cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on Arc Home's anticipated return on the foreclosed mortgage loan.

The underwriting practices in Arc Home's mortgage business may not adequately capture the risk inherent in its mortgage lending operations and failures in its underwriting process may result in loans that expose it to a greater risk of loss.

Arc Home's mortgage business seeks to mitigate the risks inherent in its mortgage lending operations by adhering to specific underwriting practices. These practices will often include, among other things, analysis of a borrower's prior credit history, credit score, employment, income verification, financial statements, tax returns and cash flow projections; valuation of collateral; and verification of liquid assets. If Arc Home's underwriting process fails to capture accurate information or proves to be inadequate, Arc Home may incur losses on mortgage loans that meet its underwriting criteria, and those losses may exceed the amounts set aside as reserves. In addition, should the mortgage loans Arc Home originates sustain higher levels of delinquencies and/or defaults, Arc Home may lose the ability to originate and/or sell FHA loans, or to do so profitably. Any of these outcomes could negatively affect the value of our investment in Arc Home.

Refer to the risks identified under the captions "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2015 and our subsequent filings, which are available on the Securities and Exchange Commission's website at www.sec.gov, and in the "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections herein.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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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.
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*10.1	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.

- *10.10 Amended and Restated Master Repurchase and Securities Contract dated as of February 11, 2014 between AG MIT WFB1 2014 LLC 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 February 21, 2014.
- *10.11 Guarantee Agreement dated as of February 11, 2014 by AG MIT, LLC and 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 February 21, 2014.
- *10.12 Master Repurchase and Securities Contract dated as of September 17, 2014, as amended by Omnibus Amendment No.1, dated as of August 4, 2015, between AG MIT CREL LLC 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 September 18, 2014.
- *10.13 Guarantee Agreement dated as of September 17, 2014 as amended by Omnibus Amendment No.1, dated as of August 4, 2015, by AG MIT, LLC and AG Mortgage Investment 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 September 18, 2014.
- *10.14 Form of Restricted Stock Unit Award Agreement, dated July 1, 2014, incorporated by reference to Exhibit 10.14 on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2014.**
- *10.15 Omnibus Amendment No.1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter dated as of August 4, 2015 between AG MIT CREL, LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.15 of Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2015.
- 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.
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- 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

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.

August 5, 2016 By: /s/ David N. Roberts
David N. Roberts
Chief Executive Officer
(principal executive
officer)

August 5, 2016 By: /s/ Brian C. Sigman
Brian C. Sigman
Chief Financial Officer
and Treasurer (principal
financial officer and
principal accounting
officer)

AG MORTGAGE INVESTMENT TRUST, INC.

FORM 10-Q
June 30, 2016

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** * Fully or partly previously filed.
 Management contract or compensatory plan or arrangement.