ARLINGTON | ASSET INVESTMENT

Investor Presentation

Third Quarter 2017

Information Related to Forward-Looking Statements

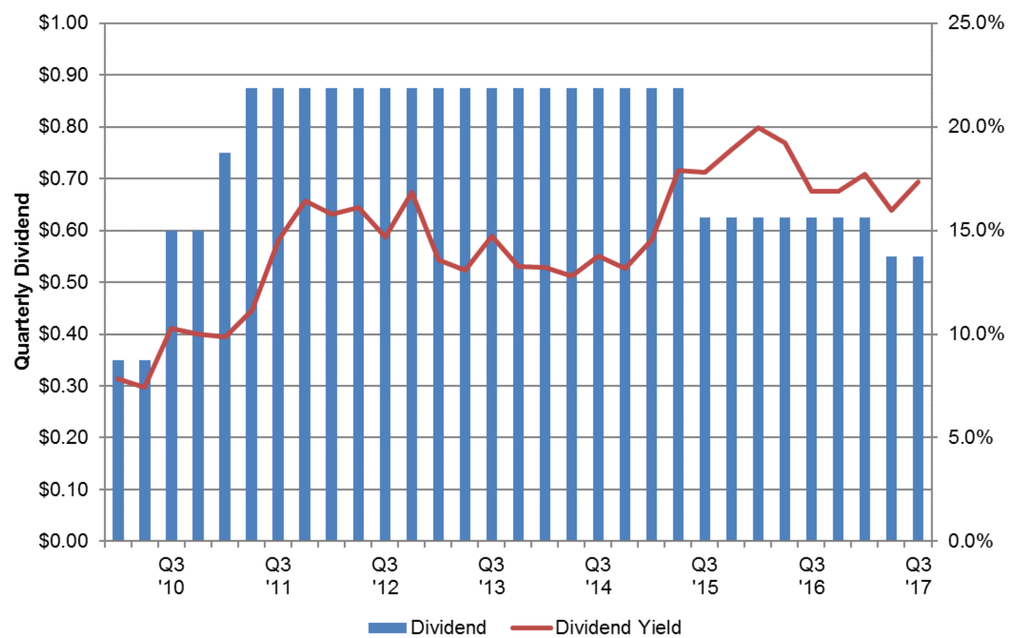
This presentation contains “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements regarding future results or expectations about our investments, interest rates, portfolio allocation, dividends, financing agreements, returns on invested capital, investment strategy, taxes, portfolio, earnings, book value, housing market, compensation, growth in capital, agency MBS spreads, prepayments, hedging instruments, duration, credit performance of private-label MBS, cash flow and benefit of deferred tax asset value. Forward-looking statements can be identified by forward-looking language, including words such as “believes,” “anticipates,” “views,” “expects,” “estimates,” “intends,” “may,” “plans,” “projects,” “potential,” “prospective,” “will” and similar expressions, or the negative of these words. Such forward-looking statements are based on facts and conditions as they exist at the time such statements are made. Forward-looking statements are also based on predictions as to future facts and conditions, the accurate prediction of which may be difficult and involve the assessment of events beyond our control. Forward-looking statements are further based on various operating and return assumptions. Caution must be exercised in relying on forward-looking statements. Due to known and unknown risks, actual results may differ materially from expectations or projections.

You should carefully consider these risks when you make a decision concerning an investment in our common stock or senior notes, along with the following factors, among others, that may cause our actual results to differ materially from those described in any forward-looking statements: availability of, and our ability to deploy, capital; growing our business primarily through our current strategy of focusing on acquiring primarily agency mortgage-backed securities (“MBS”); our ability to forecast our tax attributes, which are based upon various facts and assumptions, and our ability to protect and use our net operating losses, and net capital losses to offset future taxable income, including whether our shareholder rights plan will be effective in preventing an ownership change that would significantly limit our ability to utilize such losses; our business, acquisition, leverage, asset allocation, operational, investment, hedging and financing strategies and the success of these strategies; the effect of changes in prepayment rates, interest rates and default rates on our portfolio; the effect of governmental regulation and actions; our ability to roll our repurchase agreements on favorable terms, if at all; our liquidity; our asset valuation policies; our decisions with respect to, and ability to make, future dividends; investing in assets other than MBS or pursuing business activities other than investing in MBS; our ability to maintain our exclusion from the definition of “investment company” under the Investment Company Act of 1940, as amended; our decision to not elect to be taxed as a real estate investment trust under the Internal Revenue Code; competition for investment opportunities, including competition from the U.S. Department of Treasury and the U.S. Federal Reserve, for investments in agency MBS, as well as the timing of the termination by the U.S. Federal Reserve of its purchases of agency MBS; the federal conservatorship of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government; mortgage loan prepayment activity, modification programs and future legislative action; changes in, and success of, our acquisition, hedging and leverage strategies, changes in our asset allocation and changes in our operational policies, all of which may be changed by us without shareholder approval; failure of sovereign or municipal entities to meet their debt obligations or a downgrade in the credit rating of such debt obligations; fluctuations of the value of our hedge instruments; fluctuating quarterly operating results; changes in laws and regulations and industry practices that may adversely affect our business; volatility of the securities markets and activity in the secondary securities markets in the United States and elsewhere; our ability to successfully expand our business into areas other than investing in MBS; changes in, and our ability to remain in compliance with, law, regulations or governmental policies affecting our business; and the factors described in the sections entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, subsequent Quarterly Reports on Form 10-Q and other documents filed by the Company with the SEC from time to time. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. Except as required by law, the Company is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Company Overview

- Investment firm focused on securitized residential mortgage assets
  - Invests in high quality liquid assets with substantial interest rate hedges to protect long-term capital and to produce predictable cash flows to support consistent dividends to shareholders
  - Internally-managed
  - Structured as a C-corp to enhance shareholder returns and optimize investment strategy
- Flexible investment allocation approach to achieve highest risk-adjusted returns
  - Invest in interest rate sensitive agency MBS issued by Fannie Mae and Freddie Mac
  - Invest opportunistically in other asset classes

NYSE Ticker	AI
Share Price (10/23/17)	$12.67
Dividend Yield (10/23/17)	17.4%
Market Cap (10/23/17)	$357 million
Total Assets (9/30/17)	$4.2 billion
Book Value Per Common Share (9/30/17)	$13.71
Tangible Book Value Per Share (9/30/17)	$12.88



Publicly Traded Capital

ARLINGTON ASSET INVESTMENT

Class A Common Stock
Ticker: AI
Exchange: NYSE

Market Capitalization: $357 million (1)
Annual Dividend Yield: 17.4% (1)

ARLINGTON ASSET INVESTMENT

Senior Notes Due 2023
Ticker: AIW
Exchange: NYSE

Per Annum Interest Rate:
6.625% Payable Quarterly
Maturity Date: May 1, 2023

ARLINGTON ASSET INVESTMENT

Senior Notes Due 2025
Ticker: AIC
Exchange: NYSE

Per Annum Interest Rate:
6.75% Payable Quarterly
Maturity Date: March 15, 2025

ARLINGTON ASSET INVESTMENT

Series B Cumulative Perpetual Redeemable Preferred Stock
Ticker: AI PrB
Exchange: NYSE

Per Annum Dividend Rate:
7.00% Payable Quarterly

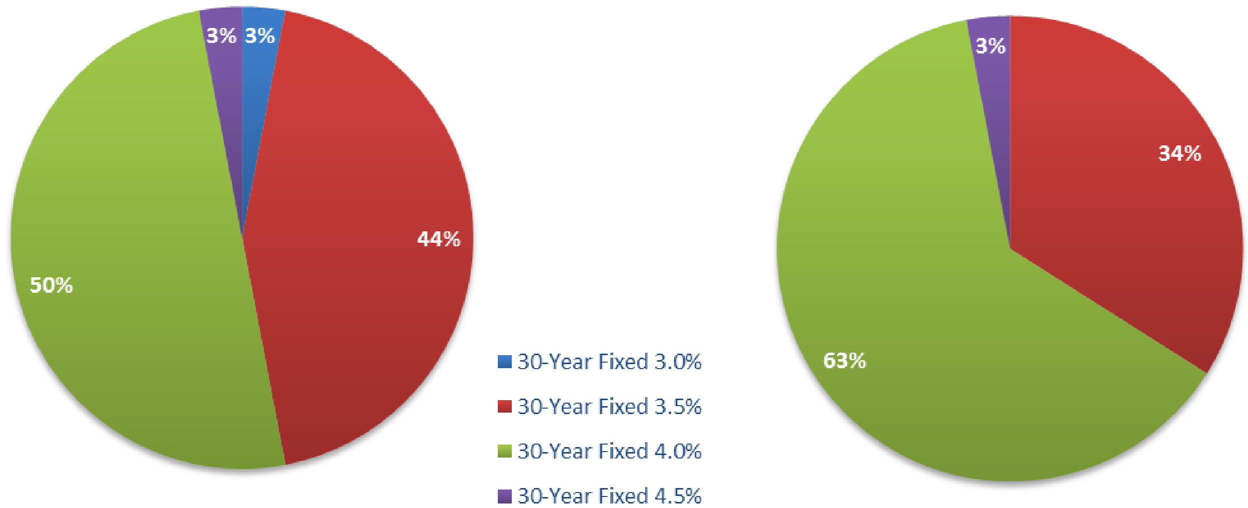
(1) As of October 23, 2017.

Agency MBS Investment Portfolio Allocation

By Fixed Coupon Rate [1]

As of September 30, 2017: $5.39 Billion Fair Value

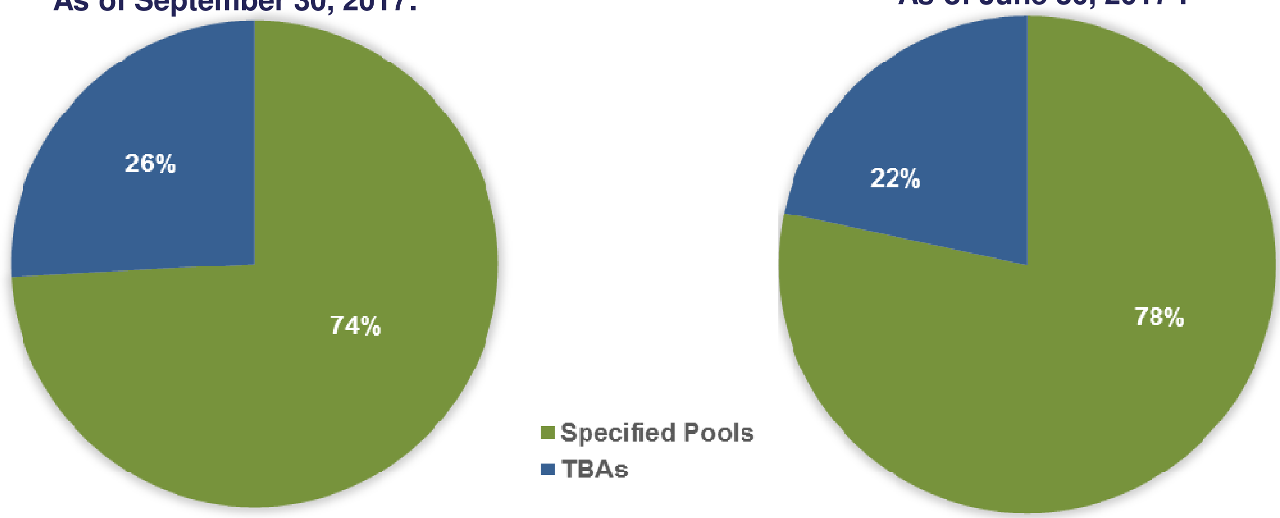
As of June 30, 2017: $5.34 Billion Fair Value



Specified Pool vs. TBA Allocation [1]

As of September 30, 2017:

As of June 30, 2017 :



(1) *Includes the fair value of the agency MBS underlying forward-settling "to-be-announced ("TBA") purchase or sale commitments that are accounted for as derivative instruments in accordance with GAAP. The difference between the contractual forward price of the Company's TBA commitments and the fair value of the underlying MBS is reflected on the Company's consolidated balance sheets as a component of "derivative assets, at fair value" or "derivative liabilities, at fair value."*

Agency MBS Quarterly Balances and Yields

Third Quarter 2017

Specified Agency MBS

Coupon Rate	Amortized Cost Basis	Weighted-average: Amort. Cost / UPB	Weighted-average: CPR	Weighted-average: Asset Yield	Interest Income
3.5%	$ 1,286,504	$ 104.85	9.53%	2.63%	$ 8,461
4.0%	2,600,307	105.70	10.64%	2.87%	18,646
4.5%	217,252	108.00	10.72%	3.06%	1,664
5.5%	20	99.98	4.90%	5.46%	-
TOTAL	**$ 4,104,083**	**$ 105.56**	**10.29%**	**2.80%**	**$ 28,771**

TBA Dollar Rolls [1]

Coupon Rate	Weighted-average Implied: Cost Basis [2]	Weighted-average Implied: Net Interest Spread	Dollar Roll Income
3.0%	$ 38,320	1.74%	$ 167
3.5%	649,125	2.21%	3,582
4.0%	537,686	1.99%	2,675
TOTAL	**$ 1,225,131**	**2.10%**	**$ 6,424**

TBA Dollar Roll Advantage

	Specified Agency MBS Funded with Repo	TBA Dollar Roll	Dollar Roll Advantage
Agency MBS yield / dollar roll net interest spread	2.80%	2.10%	
Repurchase agreement cost [3]	-1.31%	-	
Interest rate swap cost [4]	-0.36%	-0.36%	
Economic net interest margin	**1.13%**	**1.74%**	**0.61%**

Second Quarter 2017

Specified Agency MBS

Coupon Rate	Amortized Cost Basis	Weighted-average: Amort. Cost / UPB	Weighted-average: CPR	Weighted-average: Asset Yield	Interest Income
3.5%	$1,635,081	$ 104.75	8.00%	2.68%	$ 10,955
4.0%	2,658,279	105.80	9.76%	2.94%	19,513
4.5%	111,418	108.25	8.36%	3.33%	928
5.5%	20	99.99	4.72%	5.46%	1
TOTAL	**$4,404,798**	**$ 105.47**	**9.03%**	**2.85%**	**$ 31,397**

TBA Dollar Rolls [1]

Coupon Rate	Weighted-average Implied: Cost Basis [2]	Weighted-average Implied: Net Interest Spread	Dollar Roll Income
3.0%	$ -	-	$ -
3.5%	171,033	2.27%	972
4.0%	540,157	2.46%	3,326
TOTAL	**$ 711,190**	**2.42%**	**$ 4,298**

TBA Dollar Roll Advantage

	Specified Agency MBS Funded with Repo	TBA Dollar Roll	Dollar Roll Advantage
Agency MBS yield / dollar roll net interest spread	2.85%	2.42%	
Repurchase agreement cost [3]	-1.08%	-	
Interest rate swap cost [4]	-0.44%	-0.44%	
Economic net interest margin	**1.33%**	**1.98%**	**0.65%**

(1) TBA dollar roll transactions involve delaying, or "rolling," the settlement of a forward-settling purchase of a TBA agency MBS by entering into an offsetting "spot" sale prior to the settlement date, net settling the "paired-off" positions in cash, and contemporaneously entering another forward-settling purchase of a TBA agency MBS of the same essential characteristics for a later settlement date at a price discount relative to the "spot" sale.

(2) Cost basis is based upon the contractual price of the initial TBA purchase trade of each individual series of dollar roll transactions.

(3) For comparative purposes, this illustration assumes that a specified agency MBS is 100% financed with a repurchase agreement.

(4) Represents the weighted average net pay rate on the Company's interest rate swap agreements multiplied by the weighted average interest rate swap notional to repurchase agreement and TBA financing ratio.

Financing Summary

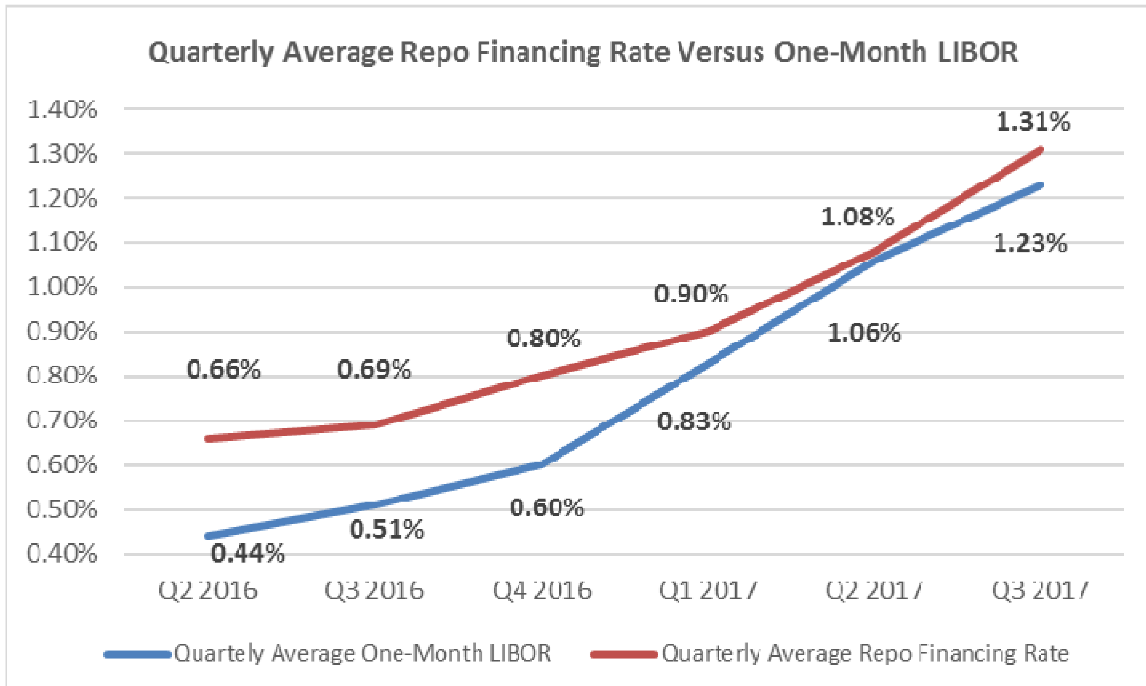
Diversified Funding Sources

- 16 counterparties with access to 19 total counterparties
- Less than 10% of equity at risk with any one counterparty
  - 5.3% of equity at risk with largest counterparty
  - 21.5% of equity at risk with five largest counterparties
- Favorable repo financing costs
  - Spread between average one-month LIBOR and average repo financing rate remains low relative to recent historical periods

As of September 30, 2017 (dollars in thousands):

	Outstanding Borrowing	Collateral Fair Value	Average Interest Rate	Average Days to Maturity
Agency MBS repo	$ 3,694,838	$ 3,873,154	1.33%	11.9

Counterparty Region	Number of Counterparties	Outstanding Borrowing	Percent of Total
North America	11	$ 2,649,900	71.8%
Europe	1	293,719	7.9%
Asia	4	751,219	20.3%
Total	16	$ 3,694,838	100.0%



Hedging Summary

Hedge Position Helps Mitigate Impact of Rising Rates on Agency Portfolio

Interest Rate Swaps as of September 30, 2017 (dollars in thousands):

		Weighted-average				
	Notional Amount	Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)	Duration (1)
Interest rate swaps currently effective:						
Less than 3 years to maturity	$ 1,300,000	1.26%	1.32%	0.06%	1.7	(1.5)
3 to less than 7 years to maturity	700,000	1.87%	1.32%	(0.55)%	4.1	(3.5)
7 to 10 years to maturity	1,600,000	1.90%	1.32%	(0.58)%	8.5	(7.6)
Total / weighted average	$ 3,600,000	1.66%	1.32%	(0.34)%	5.2	(4.6)
Forward starting interest rate swaps:						
Effective October 2017	$ 250,000	1.12%	—	—	2.0	(1.7)
						(4.5)

Other Hedges as of September 30, 2017 (dollars in thousands):

***Futures*:**

10-year U.S. Treasury Note Futures

Maturity Date	Notional Amount	Weighted-average Implied Rate	Duration (1)
December 2017	$ 350,000	2.10%	(7.8)

Options:

Purchased Call Options on 10-year U.S. Treasury Note Futures

Expiration Date	Notional Amount	Implied Strike Rate (2)
October 2017	$ 150,000	1.49%

Purchased Put Options on Agency MBS

Expiration Date	Notional Amount	Underlying Agency MBS Coupon	Weighted-averag Strike Price
October 2017	$ 500,000	4.0%	$ 102.5
November 2017	200,000	4.0%	103.5
Total	$ 700,000	4.0%	$ 102.8

(1) *Duration is calculated based upon each interest rate swap's "DV01" (a valuation metric illustrating the dollar value of a one basis point increase in interest rates) as reported by the Chicago Mercantile Exchange, the clearinghouse through which those instruments were centrally cleared. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a parallel manner.*

(2) *The implied strike rate is estimated based upon the weighted average strike price per option contract and the price of an equivalent 10-year U.S. Treasury note futures contract.*

Portfolio Weighted Average Statistics

(dollars in thousands)	2017			2016
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Specified agency MBS:				
Constant prepayment rate	10.29%	9.03%	8.17%	12.90%
GAAP asset yield	2.80%	2.85%	2.85%	2.55%
Weighted average GAAP amortized cost basis	$ 4,104,083	$ 4,404,798	$ 4,250,758	$ 3,774,344
TBA dollar rolls:				
Implied net interest spread	2.10%	2.42%	2.45%	2.36%
Weighted average implied cost basis	$ 1,225,131	$ 711,190	$ 554,846	$ 1,087,337
Total agency MBS weighted average cost basis	$ 5,329,214	$ 5,115,988	$ 4,805,604	$ 4,861,660
Specified agency MBS allocation	77%	86%	88%	78%
TBA dollar roll allocation	23%	14%	12%	22%
Repurchase agreements:				
Weighted average financing rate	1.31%	1.08%	0.90%	0.80%
Weighted average balance	$ 3,819,095	$ 4,125,631	$ 3,925,011	$ 3,552,597
Interest rate swaps:				
Weighted average fixed pay rate	(1.74)%	(1.76)%	(1.69)%	(1.53)%
Weighted average variable receive rate	1.27%	1.14%	1.03%	0.90%
Weighted average net pay rate	(0.47)%	(0.62)%	(0.66)%	(0.63)%
Weighted average notional amount	$ 3,561,667	$ 3,342,473	$ 3,211,944	$ 2,754,839
Interest rate hedge notional / repo and TBA ratio (1)	78%	74%	72%	59%
Total agency MBS economic net interest margin (2)	**1.37%**	**1.49%**	**1.62%**	**1.56%**

(1) For the third and second quarters of 2017, includes a weighted average notional of futures on 10-year U.S. Treasury Notes of $350,000 and $234,722, respectively.
(2) Calculated as the total of the following, expressed as an annualized percentage of the total agency MBS weighted average cost basis for the period: GAAP interest income from agency MBS, plus TBA dollar roll income, less agency MBS repurchase agreement interest expense, less interest rate swap net interest expense.

MBS Portfolio Economics

MBS Portfolio Net Spread Income Return on Investable Capital (1):

	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
MBS asset yield	2.80%	2.85%	2.85%	2.59%
Economic cost of funds (2)	(1.67)%	(1.52)%	(1.40)%	(1.20)%
Economic net interest margin	1.13%	1.33%	1.45%	1.39%
Leverage ratio (3)	8.6	10.0	10.0	8.2
Leveraged economic net interest margin	9.76%	13.27%	14.45%	11.44%
Plus: Asset yield	2.80%	2.85%	2.85%	2.59%
Gross spread income return on average capital excluding TBAs	12.56%	16.12%	17.30%	14.03%
TBA dollar roll income, net of hedge financing costs (4)(5)	5.35%	3.69%	2.93%	5.47%
Gross spread income return on average capital including TBAs	17.91%	19.81%	20.23%	19.50%
Long-term unsecured debt interest and preferred stock dividend (4)	(1.27)%	(1.29)%	(1.25)%	(1.21)%
Core general and administrative expenses (4)(6)	(3.10)%	(3.81)%	(4.18)%	(3.33)%
Net spread income return on average investable capital	13.53%	14.71%	14.80%	14.96%

(1) *Total investable capital is calculated as stockholders' equity determined in accordance with GAAP, less the net deferred tax asset, plus long-term unsecured debt.*

(2) *Includes interest expense incurred from repurchase agreement financing and net interest expense incurred from interest rate swap agreements that have been allocated to the Company's specified agency MBS portfolio based upon the relative average cost basis of agency MBS during the period. Excludes the economic cost or benefit of hedging instruments other than interest rate swap agreements.*

(3) *Calculated based upon weighted average repurchase agreement and average investable capital balances for the period. Excludes implied financing of TBA dollar rolls.*

(4) *Expressed as an annualized percentage of average investable capital for the period.*

(5) *Expressed as an annualized percentage of average investable capital for the period. For example, for the third quarter of 2017, calculated as $6.4 million in dollar roll income (representing an implied net interest spread of 2.10% on a weighted average cost basis of $1.2 billion) less the net interest expense incurred during the period from interest rate swaps allocated to the Company's TBA dollar roll portfolio (allocated based upon the relative average cost basis of TBAs during the period) divided by average investable capital for the period (annualized). All else being equal, as the average balance of the Company's TBA dollar roll portfolio increases, the calculated annualized return on average investable capital will increase (and vice versa).*

(6) *Core general and administrative expenses represent non-interest expenses reported within the line item "total general and administrative expenses" of the consolidated statements of comprehensive income less stock-based compensation expense.*

Corporate Tax Structure Provides Enhanced Shareholder Returns and Flexibility

Our C-corp structure benefits stockholders by providing a tax-advantaged dividend as we continue to utilize our net operating loss and net capital loss carry-forwards

- Common and preferred stock dividends of a C-corp are qualified dividends whereas similar dividends of a REIT are non-qualified dividends [(1)]
- Net operating loss carry-forward of $70MM as of September 30, 2017
- Net capital loss carry-forward of $310MM as of September 30, 2017
- AMT credit carry-forward of $9MM as of September 30, 2017
- Net deferred tax asset of $24MM or $0.83 per common share as of September 30, 2017
  - Full valuation allowance against net deferred tax assets that are capital in tax nature

Structure provides flexibility as we are not required to distribute taxable earnings to stockholders

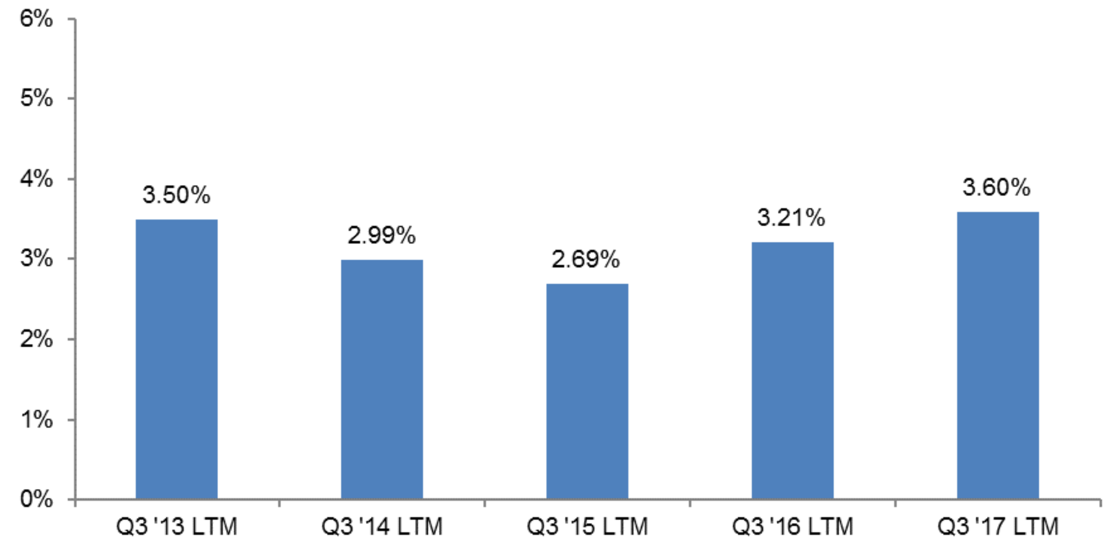
- Provides option to reinvest earnings and opportunistically benefit from market dislocation
- Allows investment flexibility as we are not bound by any substantial restrictions

(1) *The Company's distributions to shareholders of current or accumulated earnings and profits ("E&P") are qualified dividends eligible for the 23.8% maximum federal income tax rate whereas similar distributions to shareholders by a REIT of current or accumulated E&P are nonqualified dividends subject to the higher 43.4% maximum federal income tax rate on ordinary income, each inclusive of the 3.8% Medicare tax. Any distributions in excess of current or accumulated E&P would be reported as a return of capital instead of qualified dividends. Distributions that are classified as returns of capital are nontaxable to the extent they do not exceed a shareholder's adjusted tax basis in the stock, or as a capital gain to the extent that the amount of the distribution exceeds a shareholder's adjusted tax basis in the common stock.*

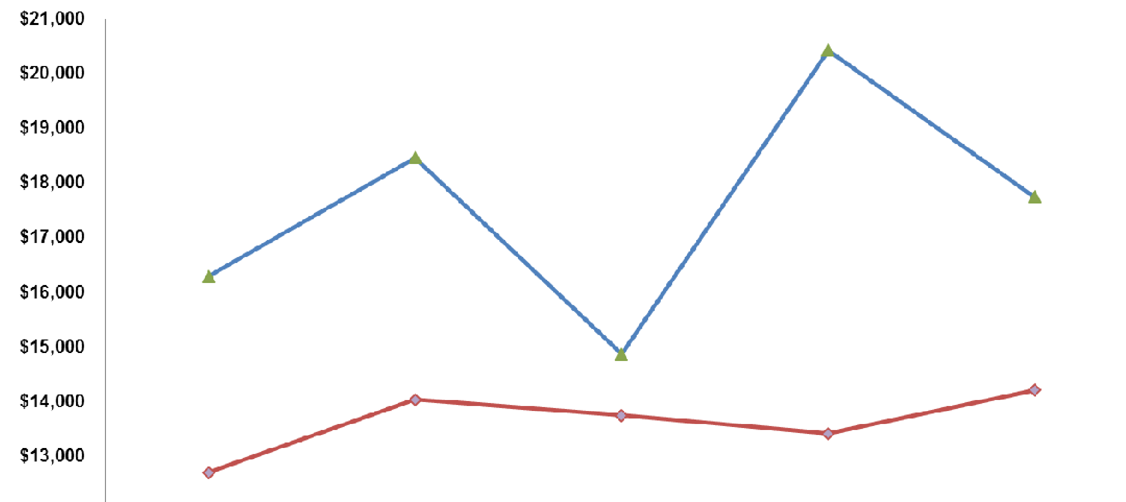
Internally Managed Structure

- Internally-managed structure provides operating leverage
- Alignment of interest between shareholders and management
  - Eliminates inherent conflicts of interest of externally managed structures
- Alignment of management compensation to Company performance
  - Annual cash incentive compensation and long-term incentive stock compensation earned based on Company and stock performance

Core G&A Expenses as % of Investable Capital(1)(2) – Last 12 Months



Annual GAAP and Core G&A Expenses(1)(3) – Last 12 Months (in thousands)



	Q3 2013 LTM	Q3 2014 LTM	Q3 2015 LTM	Q3 2016 LTM	Q3 2017 LTM
GAAP Expenses	$16,284	$18,454	$14,864	$20,420	$17,742
Core Expenses	12,699	14,031	13,739	13,406	14,202

(1) *Core general and administrative expense is calculated as expenses determined in accordance with GAAP less stock compensation, 2016 proxy contest fees that are in excess of those normally incurred for an annual meeting of shareholders and legacy litigation expenses in 2012 through 2014.*

(2) *Average investable capital is composed of shareholders' equity plus long-term unsecured debt less deferred tax assets, net.*

(3) *2016 GAAP general and administrative expenses include a total of $3,979 in non-recurring proxy contest expenses.*

Appendix

Market Data (1)(2)

	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17	Q3 17 Δ to Q2 17
30-Year FNMA Fixed Rate MBS						
3.0%	$ 103.98	$ 99.20	$ 99.23	$ 99.83	$ 100.27	$ 0.44
3.5%	$ 105.55	$ 102.33	$ 102.36	$ 102.67	$ 103.05	$ 0.38
4.0%	$ 107.42	$ 104.98	$ 104.95	$ 105.14	$ 105.27	$ 0.13
4.5%	$ 109.55	$ 107.39	$ 107.30	$ 107.27	$ 107.33	$ 0.06
U.S. Treasury Rates (UST)						
2 Yr UST	0.76%	1.19%	1.26%	1.38%	1.48%	0.10
3 Yr UST	0.88%	1.45%	1.49%	1.55%	1.62%	0.07
5 Yr UST	1.15%	1.93%	1.92%	1.89%	1.94%	0.05
7 Yr UST	1.42%	2.25%	2.21%	2.14%	2.17%	0.03
10 Yr UST	1.60%	2.45%	2.39%	2.31%	2.33%	0.02
2 Yr to 10 Yr UST Spread	0.84	1.26	1.13	0.93	0.85	-0.08
Interest Rate Swap Rates						
2 Yr Swap	1.01%	1.45%	1.62%	1.62%	1.74%	0.12
3 Yr Swap	1.07%	1.69%	1.81%	1.75%	1.86%	0.11
5 Yr Swap	1.18%	1.98%	2.05%	1.96%	2.00%	0.04
7 Yr Swap	1.30%	2.16%	2.22%	2.11%	2.14%	0.03
10 Yr Swap	1.46%	2.34%	2.38%	2.28%	2.29%	0.01
2 Yr Swap to 2 Yr UST Spread	0.25	0.26	0.36	0.24	0.26	0.02
10 Yr Swap to 10 Yr UST Spread	(0.14)	(0.11)	(0.01)	(0.03)	(0.04)	-0.01
London Interbank Offered Rates (LIBOR)						
1 Month LIBOR	0.53%	0.77%	0.98%	1.22%	1.23%	0.01
3 Month LIBOR	0.85%	1.00%	1.15%	1.30%	1.33%	0.03

(1) *30-Year FNMA fixed rate price information is provided for illustrative purposes only and represents generic FNMA TBA prices and is not meant to be reflective of securities held by the Company.*

(2) *Source: Bloomberg*

Balance Sheet

(In thousands, except per share amounts)

	September 30, 2017	June 30, 2017
ASSETS		
Cash and cash equivalents	$ 26,368	$ 73,308
Interest receivable	12,428	12,785
Sold securities receivable	92,882	—
Agency MBS	3,994,515	4,182,529
Private-label MBS	54	74
Derivative assets, at fair value	4,177	7,965
Deferred tax assets, net	23,453	24,162
Deposits	59,317	65,339
Other assets	2,405	2,729
Total assets	**$ 4,215,599**	**$ 4,368,891**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 3,694,838	$ 3,913,699
Purchased securities payable	21,962	-
Dividend payable	17,044	15,548
Derivative liabilities, at fair value	7,146	4,038
Other liabilities	8,213	7,211
Long-term unsecured debt	73,824	73,768
Total liabilities	**3,823,027**	**4,014,264**
Common stockholders' equity	**385,197**	**350,719**
Preferred stock liquidation preference	**7,375**	**3,908**
Total equity	**392,572**	**354,627**
Total liabilities and stockholders' equity	**$ 4,215,599**	**$ 4,368,891**
Book value per common share (1)	**$ 13.71**	**$ 13.48**
Tangible book value per common share (2)	**$ 12.88**	**$ 12.55**
Shares outstanding (in thousands) (3)	28,094	26,026

ARLINGTON ASSET INVESTMENT

(1) Book value per common share is calculated as total equity less the preferred stock liquidation preference divided by common shares outstanding.

(2) Tangible book value represents total stockholders' equity less net deferred tax assets and the preferred stock liquidation preference.

(3) Represents shares of common stock outstanding plus vested restricted stock units convertible into common stock less unvested restricted common stock.

Statement of Comprehensive Income

(In thousands, except per share amounts)

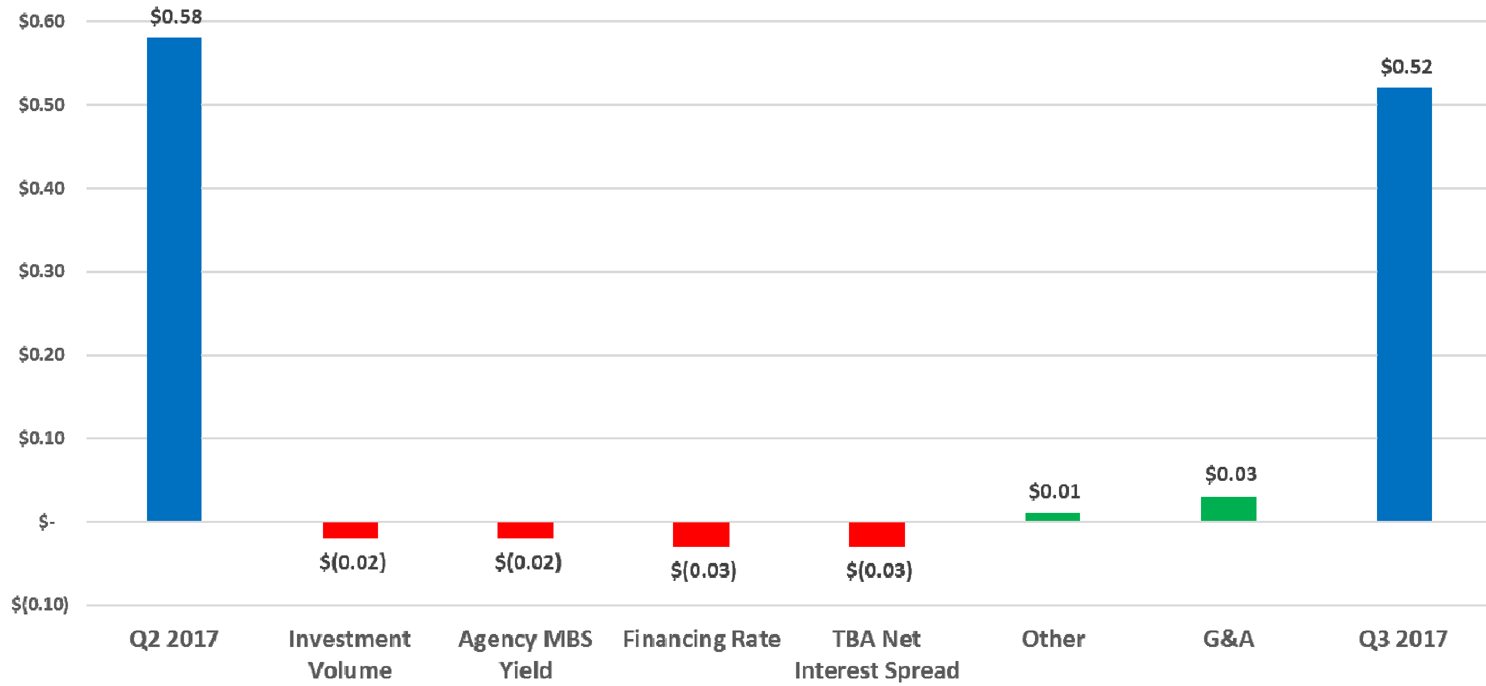
	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
Interest income				
Agency mortgage-backed securities	$ 28,771	$ 31,397	$ 30,286	$ 24,073
Private-label mortgage-backed securities	2	43	37	473
Other	62	21	20	31
Total interest income	28,835	31,461	30,343	24,577
Interest expense				
Short-term secured debt	12,748	11,314	8,859	7,231
Long-term unsecured debt	1,220	1,214	1,207	1,205
Total interest expense	13,968	12,528	10,066	8,436
Net interest income	14,867	18,933	20,277	16,141
Investment gain (loss), net	13,368	(15,970)	(1,762)	(31,203)
General and administrative expenses				
Compensation and benefits	3,449	2,804	3,445	2,776
Other general and administrative expenses	1,095	1,350	1,480	1,343
Total general and administrative expenses	4,544	4,154	4,925	4,119
Income (loss) before income taxes	23,691	(1,191)	13,590	(19,181)
Income tax provision	823	16,737	8,336	22,255
Net income (loss)	22,868	(17,928)	5,254	(41,436)
Dividend on preferred stock	(83)	(35)	—	—
Net income (loss) available (attributable) to common stock	$ 22,785	$ (17,963)	$ 5,254	$ (41,436)
Basic earnings (loss) per common share	$ 0.86	$ (0.74)	$ 0.22	$ (1.79)
Diluted earnings (loss) per common share	$ 0.85	$ (0.74)	$ 0.22	$ (1.79)
Weighted-average common shares outstanding (in thousands)				
Basic	26,377	24,319	23,652	23,167
Diluted	26,856	24,319	23,897	23,167
Other comprehensive income (loss)				
Reclassifications related to available-for-sale securities, net of tax	$ —	$ —	$ —	$ (4,685)
Comprehensive income (loss)	$ 22,868	$ (17,928)	$ 5,254	$ (46,121)

Non-GAAP Core Operating Income [1]

(In thousands, except per share amounts)

	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
GAAP net interest income	$ 14,867	$ 18,933	$ 20,277	$ 16,141
TBA dollar roll income	6,424	4,298	3,398	6,426
Interest rate swap net interest expense	(4,198)	(5,293)	(5,409)	(4,326)
Economic net interest income	17,093	17,938	18,266	18,241
Core general and administrative expenses	(3,171)	(3,681)	(4,024)	(3,326)
Preferred stock dividend	(83)	(35)	—	—
Non-GAAP core operating income	$ 13,839	$ 14,222	$ 14,242	$ 14,915
Non-GAAP core operating income per diluted common share	$ 0.52	$ 0.58	$ 0.60	$ 0.64
Weighted average diluted common shares outstanding	26,856	24,552	23,897	23,343

Non-GAAP Core Operating Income Per Diluted Share Rollforward – Q3 2017 vs. Q2 2017



(1) Core operating income and economic net interest income are non-GAAP financial measures. These non-GAAP measures are used by management to evaluate the financial performance of the Company's long-term investment strategy and core business activities over periods of time as well as assist with the determination of the appropriate level of periodic dividends to stockholders. The Company believes that non-GAAP core operating income and economic net interest income assist investors in understanding and evaluating the financial performance of the Company's long-term investment strategy and core business activities over periods of time as well as its earnings capacity. A limitation of utilizing these non-GAAP financial measures is that the effect of accounting for "non-core" events or transactions in accordance with GAAP does, in fact, reflect the financial results of our business and these effects should not be ignored when evaluating and analyzing our financial results. The Company believes that net income and comprehensive income determined in accordance with GAAP should be considered in conjunction with non-GAAP core operating income and economic net interest income.

Non-GAAP Core Operating Income, Continued (1)

Reconciliation of GAAP pre-tax net income to non-GAAP core operating income:

(In thousands)

	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
GAAP income (loss) before income taxes	$ 23,691	$ (1,191)	$ 13,590	$ (19,181)
Less:				
Total investment (gain) loss, net	(13,368)	15,970	1,762	31,203
Stock-based compensation expense	1,373	473	901	793
Preferred stock dividend	(83)	(35)	—	—
Add back:				
TBA dollar roll income	6,424	4,298	3,398	6,426
Interest rate swap net interest expense	(4,198)	(5,293)	(5,409)	(4,326)
Non-GAAP core operating income	$ 13,839	$ 14,222	$ 14,242	$ 14,915

(1) *Core operating income and economic net interest income are non-GAAP financial measures. These non-GAAP measures are used by management to evaluate the financial performance of the Company's long-term investment strategy and core business activities over periods of time as well as assist with the determination of the appropriate level of periodic dividends to stockholders. The Company believes that non-GAAP core operating income and economic net interest income assist investors in understanding and evaluating the financial performance of the Company's long-term investment strategy and core business activities over periods of time as well as its earnings capacity. A limitation of utilizing these non-GAAP financial measures is that the effect of accounting for "non-core" events or transactions in accordance with GAAP does, in fact, reflect the financial results of our business and these effects should not be ignored when evaluating and analyzing our financial results. The Company believes that net income and comprehensive income determined in accordance with GAAP should be considered in conjunction with non-GAAP core operating income and economic net interest income.*

Book Value Per Share Rollforward – Third Quarter 2017

	Tangible Book Value [1] Per Common Share	GAAP Book Value Per Common Share
At June 30, 2017	$ 12.55	$ 13.48
Non-GAAP core operating income [2]	0.52	0.52
Dividend to common shareholders	(0.55)	(0.55)
Agency MBS and TBA gain, net [2][3]	0.56	0.56
Interest rate derivative loss, net [2][4]	(0.14)	(0.14)
Issuance of common stock	0.04	(0.04)
Other, net	(0.10)	(0.10)
Decrease in gross deferred tax asset	-	(0.32)
Decrease in deferred tax asset valuation allowance	-	0.30
At September 30, 2017	$ 12.88	$ 13.71

(1) Tangible book value represents total stockholders' equity less net deferred tax assets and the preferred stock liquidation preference.
(2) Calculated based upon weighted average diluted shares outstanding during the quarter.
(3) Excludes TBA dollar roll income, which is included in non-GAAP core operating income.
(4) Excludes net interest expense incurred from interest rate swap agreements, which is included in non-GAAP core operating income.

Specified Agency MBS Investment Portfolio

30-Year Fixed-Rate Agency MBS Selected for Prepayment Characteristics

As of September 30, 2017:

						Weighted Average:				
(Dollars in thousands)	MBS Coupon	Face Amount	Amortized Cost	Fair Value	Market Price	WAC [5]	Loan Age (Months) [6]	Actual 3-Month CPR [7]	Remaining Life (Years) [8]	Duration (Years) [9]
Low Loan Balance <= $150K [1]										
	4.0%	$ 59,804	$ 105.58	$ 63,690	$ 106.50	4.65%	38	21.19%	5.7	3.5
Low Loan Balance <= $175K [2]										
	3.5%	$ 320,382	$ 104.84	$ 332,033	$ 103.64	4.10%	14	8.26%	7.1	4.8
	4.0%	1,159,966	105.67	1,232,071	106.22	4.56%	23	10.59%	6.1	3.7
		$ 1,480,348	$ 105.59	$ 1,564,104	$ 105.66	4.46%	21	10.09%	6.3	3.9
Low Loan Balance <= $200K [3]										
	3.5%	$ 871,258	$ 104.93	$ 901,495	$ 103.47	4.16%	16	8.29%	6.9	4.6
	4.0%	954,925	105.94	1,011,076	105.88	4.49%	11	8.99%	6.2	3.7
	4.5%	59,480	108.17	64,278	108.07	5.13%	8	5.63%	5.1	2.7
		$ 1,885,663	$ 105.50	$ 1,976,849	$ 104.84	4.36%	13	8.56%	6.5	4.1
Other Specified Pools [4]										
	3.5%	$ 84,668	$ 104.05	$ 87,528	$ 103.38	4.19%	23	10.86%	6.0	4.1
	4.0%	204,935	105.70	216,575	105.68	4.55%	18	7.17%	5.7	3.7
	4.5%	79,648	107.68	85,748	107.66	4.97%	8	12.91%	3.9	1.9
	5.5%	20	99.97	22	111.73	5.93%	114	5.46%	5.6	4.1
		$ 369,271	$ 105.69	$ 389,873	$ 105.58	4.56%	17	9.25%	5.4	3.4
Total										
	3.5%	$ 1,276,307	$ 104.85	$ 1,321,056	$ 103.51	4.15%	16	8.45%	6.9	4.6
	4.0%	2,379,630	105.78	2,523,412	106.04	4.53%	18	9.92%	6.1	3.7
	4.5%	139,128	107.67	150,026	107.83	5.04%	8	9.80%	4.5	2.2
	5.5%	20	99.97	21	111.73	5.93%	114	5.46%	5.6	4.1
		$ 3,795,085	**$ 105.54**	**$ 3,994,515**	**$ 105.25**	**4.42%**	**17**	**9.42%**	**6.3**	**4.0**

(1) Specified pools of loans with original balances of up to $150K.
(2) Specified pools of loans with original balances between $150K and $175K.
(3) Specified pools of loans with original balances between $175K and $200K.
(4) Other specified pools include pools of loans refinanced through the Home Affordable Refinance Program ("HARP"), low FICO loans, 100% investor occupancy status loans, high LTV loans, and seasoned loans.
(5) WAC represents the weighted average coupon of the underlying collateral.
(6) Loan age represents the weighted average age of the underlying collateral.
(7) Actual 3-month constant prepayment rate ("CPR") represents annualized 3-month CPR published in October 2017 for securities held as of September 30, 2017.
(8) Remaining life represents the weighted average expected remaining life of the security based on expected future CPR as estimated by Citi's "The Yield Book" model.
(9) Duration is derived from the Citi's "The Yield Book" model. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a parallel manner and is dependent upon several subjective inputs and assumptions. Actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions.

TBA Agency MBS Investment Portfolio

Net Long TBA Position [1] as of September 30, 2017 (dollars in thousands):

	Notional Amount	Implied Cost Basis	Implied Fair Value	Net Carrying Amount	Duration (Years) [2]
30-year 3.0% coupon purchase commitments	$ 200,000	$ 202,258	$ 200,563	$ (1,695)	5.7
30-year 3.5% coupon purchase commitments	1,005,000	1,040,762	1,036,092	(4,670)	4.2
30-year 4.0% coupon purchase commitments	250,000	263,929	263,164	(765)	3.0
30-year 4.0% coupon sale commitments	(100,000)	(105,250)	(105,266)	(16)	3.0
Total/weighted average	$ 1,355,000	$ 1,401,699	$ 1,394,553	$ (7,146)	4.3
Freddie Mac	$ 1,355,000	$ 1,401,699	$ 1,394,553	$ (7,146)	4.3
Fannie Mae	-	-	-	-	-
Total/weighted average	$ 1,355,000	$ 1,401,699	$ 1,394,553	$ (7,146)	4.3

(1) *Net long position in TBA securities represents forward-settling contracts to purchase or sell agency MBS on a generic pool basis. TBA commitments are accounted for as derivative instruments in accordance with GAAP. The difference between the contractual forward price of the Company's TBA commitments and the fair value of the underlying MBS is reflected on the Company's consolidated balance sheets as a component of "derivative assets, at fair value" or "derivative liabilities, at fair value." Excludes TBA securities entered into for economic hedging purposes.*

(2) *Duration is derived from the Citi's "The Yield Book" model. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a parallel manner and is dependent upon several subjective inputs and assumptions. Actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions.*

Book Value Sensitivity to Rates and MBS Spreads

Interest Rate Sensitivity as of September 30, 2017 [1]	
Interest Rate Change (bps)	**Estimated Change in Book Value Per Common Share**
-100	-15.9%
-50	-3.2%
+50	-6.1%
+100	-16.5%

Agency MBS Spread Sensitivity as of September 30, 2017 [2]	
Agency MBS Spread Change (bps)	**Estimated Change in Book Value Per Common Share**
-25	18.9%
-10	7.6%
+10	-7.1%
+25	-18.3%

Net Duration Gap as of September 30, 2017 (dollars in thousands)

	Fair Value / Notional	Duration [3]
Agency MBS	$ 3,994,515	4.0
Net long agency TBA position	$ 1,394,553	4.3
Total agency MBS	$ 5,389,068	4.1
Agency repo [4]	$ (3,694,838)	(0.1)
Interest rate swap agreements [4][5]	$ (3,600,000)	(4.5)
10-year U.S. Treasury Note Futures	$ (350,000)	(7.8)
Total		(3.8)
Net Duration Gap [6]		0.3

(1) *Interest rate sensitivity of agency MBS and TBA commitments is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. Interest rate sensitivity is based on assumptions resulting in certain limitations, including (i) an instantaneous shift in rates with no changes to the slope of the yield curve, (ii) no changes in agency MBS spreads, (iii) no changes to the investment or hedge portfolio, (iv), may reflect an interest rate of less than 0% in certain portions of the curve, and (v) no changes to the deferred tax asset.*

(2) *Agency MBS spread sensitivity is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. The estimated change in book value reflects an assumed spread weighted average duration of 5.4 years, which is a model-based assumption that is dependent upon the size and composition of our portfolio as well as economic conditions present as of September 30, 2017. The agency MBS spread sensitivity is based on assumptions resulting in certain limitations, including (i) no changes in interest rates, (ii) no changes to the investment or hedge portfolio, (iii) and no changes to the deferred tax asset.*

(3) *Duration is derived from the Citi's "The Yield Book" model. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a parallel manner and is dependent upon several subjective inputs and assumptions. Actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions.*

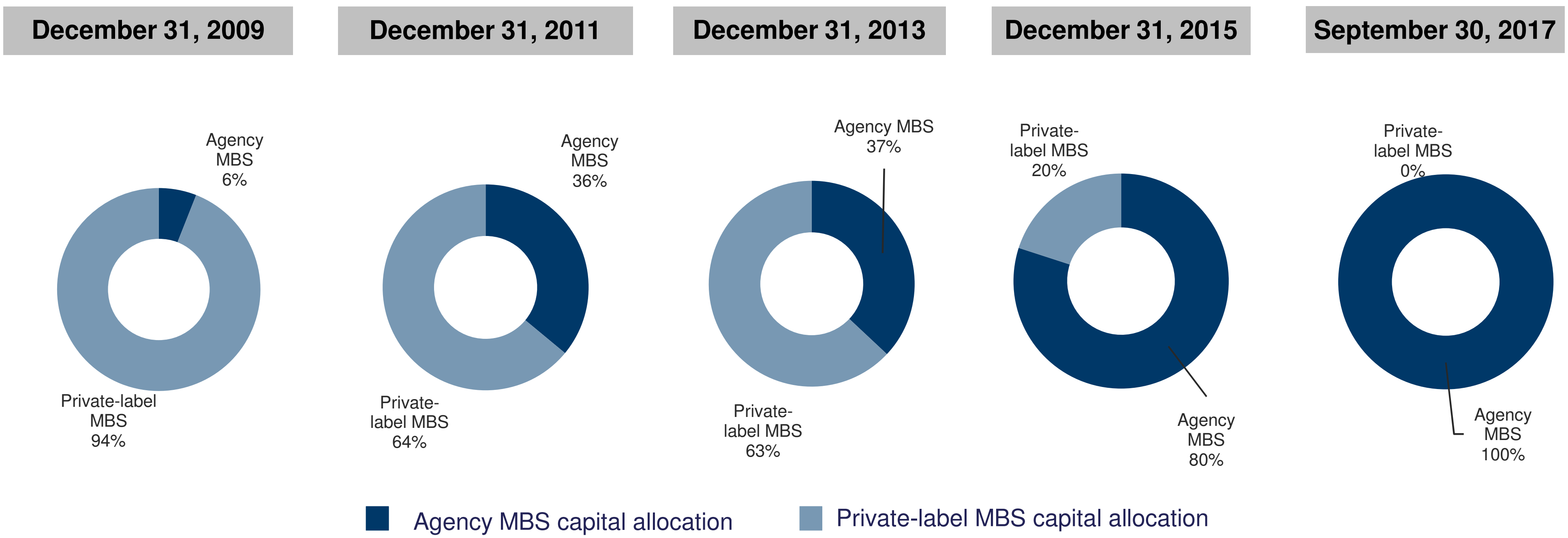
(4) *Total liability and hedge duration is expressed in asset units. Long-term debt is excluded.*

(5) *Weighted average duration for interest rate swap agreements includes the Company's forward-starting interest rate swap agreements, which have an aggregate notional amount of $250 million.*

(6) *Hedged duration gap does not reflect the economic effects of options on U.S. Treasury note futures.*

Arlington has transitioned its portfolio from private-label to agency assets to achieve the highest risk adjusted returns

- **Arlington constantly evaluates different investment opportunities to allocate capital in order to achieve the highest risk adjusted returns**
- **Arlington has actively transitioned the allocation of capital towards agency MBS as levered returns, paired with Arlington's hedging strategy, have become more attractive**
- **As markets and housing have recovered, private-label MBS returns have fallen relative to agency MBS**
- **Arlington's increased concentration of agency MBS has enhanced its ability to prudently leverage its balance sheet**



(1) Agency MBS allocated capital is composed of MBS and its related interest receivable, repo, derivative instruments, deposits, net receivable or payable for unsettled securities and cash. Private-label MBS allocated capital is composed of MBS and its related repo.

Experienced Management Team Through Numerous Cycles

Eric F. Billings
Executive Chairman

- Served as a Director of AI since co-founding the Company in 1989
- Served as Vice Chairman and Chief Operating Officer from 1989 to 1999, Vice Chairman and Co-Chief Executive Officer from 1999 to 2003, Co-Chairman and Co-Chief Executive Officer from 2003 to 2005, Chairman and Chief Executive Officer from 2005 to 2014 and as Executive Chairman since 2014
- Over 30 years of experience

J. Rock Tonkel, Jr.
President and
Chief Executive Officer

- Served as Chief Executive Officer since 2014, Chief Operating Officer since 2007, and a Director of AI since March 2007
- From 2004 to 2007, Mr. Tonkel served as President and Head of Investment Banking at FBR & Co.
- Over 30 years of experience

Richard E. Konzmann
EVP and
Chief Financial Officer

- Mr. Konzmann joined the Company in March 2015
- Previously, he was with American Capital, Ltd., a publicly traded private equity firm and global asset manager of alternative investment funds including residential mortgage REITs, from 2002 until March 2015, most recently as Senior Vice President, Accounting
- Over 25 years of experience

Brian J. Bowers
Chief Investment Officer
and Portfolio Manager

- Mr. Bowers joined the Company in 2000
- Previously, he was the Chief Portfolio Strategist for BB&T Capital Markets and the Portfolio Manager/Plan Sponsor of CareFirst, Inc.
- Over 30 years of experience