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ARLINGTON

ASSET  
INVESTMENT

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**Investor Presentation**

Second Quarter 2019

# Information Related to Forward-Looking Statements

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Statements concerning interest rates, portfolio allocation, financing costs, portfolio hedging, prepayments, dividends, book value, utilization of loss carryforwards, any change in long-term tax structures (including any REIT election) and any other guidance on present or future periods constitute forward-looking statements that are subject to a number of factors, risks and uncertainties that might cause actual results to differ materially from stated expectations or current circumstances. These factors include, but are not limited to, changes in interest rates, increased costs of borrowing, decreased interest spreads, changes in political and monetary policies, changes in default rates, changes in prepayment rates and other assumptions underlying our estimates related to our projections of future core earnings, changes in the Company's returns, changes in the use of the Company's tax benefits, changes in the agency MBS asset yield, changes in the Company's monetization of net operating loss carryforwards, changes in the Company's ability to generate cash earnings and dividends, preservation and utilization of the Company's net operating loss and net capital loss carryforwards, impacts of changes to and changes by Fannie Mae and Freddie Mac, actions taken by the U.S. Federal Reserve, the Federal Housing Finance Agency and the U.S. Treasury, availability of opportunities that meet or exceed the Company's risk adjusted return expectations, ability and willingness to make future dividends, ability to generate sufficient cash through retained earnings to satisfy capital needs, and general economic, political, regulatory and market conditions. These and other material risks are described in the Company's most recent Annual Report on Form 10-K and any other documents filed by the Company with the SEC from time to time, which are available from the Company and from the SEC, and you should read and understand these risks when evaluating any forward-looking statement. 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 the Company. 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.

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**Second Quarter of 2019 Financial Results and Portfolio Update**

# Publicly Traded Capital

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**Class A Common Stock**  
Ticker: AI  
Exchange: NYSE

**Market Capitalization: \$241 million <sup>(1)</sup>**  
**Annual Dividend Yield: 13.7% <sup>(1)</sup>**

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**Senior Notes Due 2023**  
Ticker: AIW  
Exchange: NYSE

**Per Annum Interest Rate: 6.625%**  
**Current Strip Yield per Annum: 7.33%<sup>(1)(2)</sup>**  
**Maturity Date: May 1, 2023**

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

**Per Annum Dividend Rate:**  
**7.00% Payable Quarterly**  
**Current Strip Yield per Annum: 8.16%<sup>(1)(2)</sup>**

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**Senior Notes Due 2025**  
Ticker: AIC  
Exchange: NYSE

**Per Annum Interest Rate: 6.75%**  
**Current Strip Yield per Annum: 7.22%<sup>(1)(2)</sup>**  
**Maturity Date: March 15, 2025**

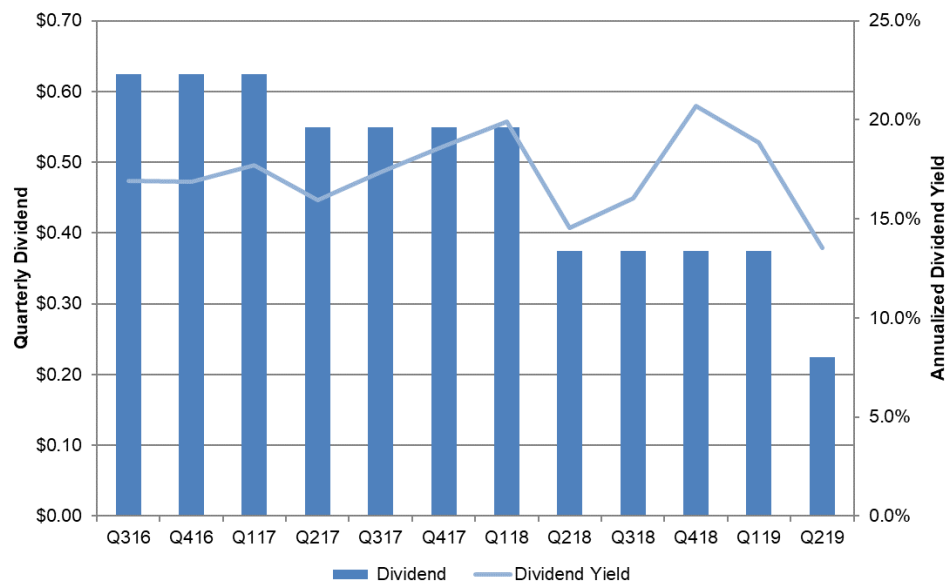
ARLINGTON | ASSET INVESTMENT

**Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock**  
Ticker: AI PrC  
Exchange: NYSE

**Per Annum Dividend Rate:**  
**8.25% Payable Quarterly**  
**Current Strip Yield per Annum: 9.00%<sup>(1)(2)</sup>**

# Company Snapshot

|   |                      |
|---|----------------------|
| <b>NYSE Ticker</b>  | <b>AI</b>            |
| <b>Share Price (7/31/19)</b>  | <b>\$6.58</b>        |
| <b>Book Value Per Common Share (6/30/19)</b>                                    | <b>\$7.80</b>        |
| <b>Estimated BV Per Common Share (7/31/19)</b>                                  | <b>\$8.10</b>        |
| <b>GAAP Net Loss per Diluted Share (Q2 '19)</b>                                 | <b>\$0.67</b>        |
| <b>Non-GAAP Core Operating Income per Diluted Share (Q2 '19) <sup>(1)</sup></b> | <b>\$0.23</b>        |
| <b>Dividend per Common Share (Q2 '19)</b>                                       | <b>\$0.225</b>       |
| <b>Dividend Yield (7/31/19)</b>   | <b>13.7%</b>         |
| <b>Common Equity Market Cap (7/31/19)</b>                                       | <b>\$241 million</b> |
| <b>Total Investment Portfolio (6/30/19)</b>                                     | <b>\$4.0 billion</b> |



- ▶ Real estate investment trust (“REIT”) focused on securitized residential mortgage assets
- ▶ Currently invest primarily in agency MBS issued by Fannie Mae and Freddie Mac
  - May invest opportunistically in other asset classes
- ▶ High quality liquid assets with substantial interest rate hedges to protect long-term capital that produce predictable cash flows to support consistent dividends to shareholders
- ▶ Internally-managed

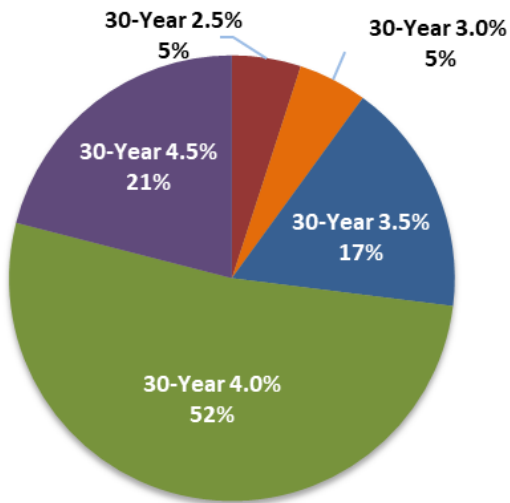
# Second Quarter of 2019 Financial Highlights

- ▶ **\$0.67 GAAP net loss per diluted common share**
- ▶ **\$0.23 non-GAAP core operating income <sup>(1)</sup> per diluted common share**
  - 11.19% annualized core operating income return on average common equity <sup>(2)</sup>
- ▶ **\$7.80 book value per common share as of June 30, 2019**
- ▶ **\$8.10 estimated book value per common share as of July 31, 2019**
- ▶ **\$0.225 per common share dividend**
  - Economic return of -7.8% measured as the change in book value per common share plus dividends declared during the quarter
- ▶ **Economic net interest income of \$12.3 million** compared to \$14.1 million in the first quarter of 2019
  - Comprised of \$6.6 million of GAAP net interest income, \$2.0 million of net TBA dollar roll income, and \$3.8 million of interest rate swap net interest income
  - Quarter-over-quarter reduction driven primarily by:
    - ▶ a reduction in agency MBS asset yields (3.21% versus 3.36%) due primarily to an increase in prepayment rates (10.16% vs. 7.55%, annualized)
    - ▶ a reduction in TBA dollar roll implied net interest spreads
    - ▶ an increase in economic funding costs due to a 10 bps decline in weighted average interest rate swap receive rates (based on three-month LIBOR) which outpaced a 4 bps decline in weighted average repo funding costs (generally one-month rates)

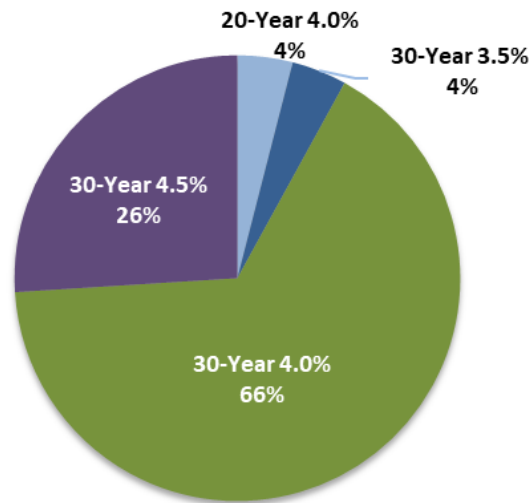
# Agency MBS Investment Portfolio Allocation

## By Fixed Coupon Rate <sup>(1)</sup>

As of June 30, 2019  
\$3.97 Billion Fair Value

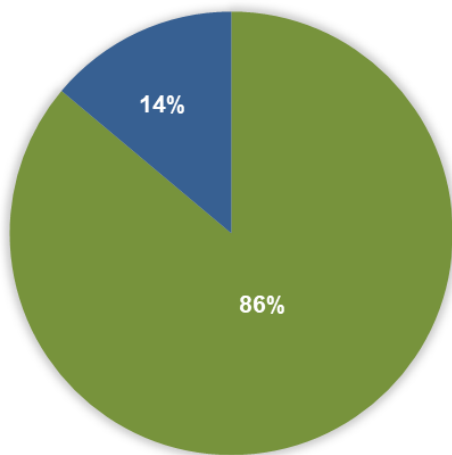


As of March 31, 2019  
\$5.12 Billion Fair Value

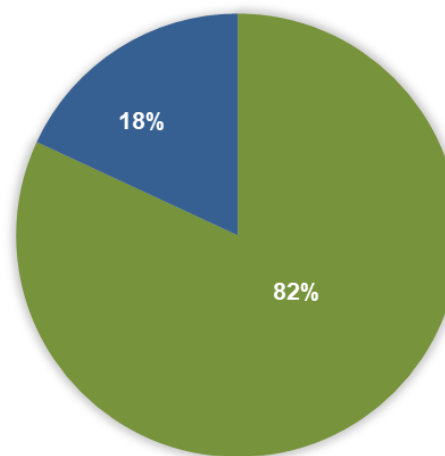


## Specified Pool vs. TBA Allocation <sup>(1)</sup>

As of June 30, 2019



As of March 31, 2019



■ Specified Pools  
■ TBAs

<sup>(1)</sup> 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."

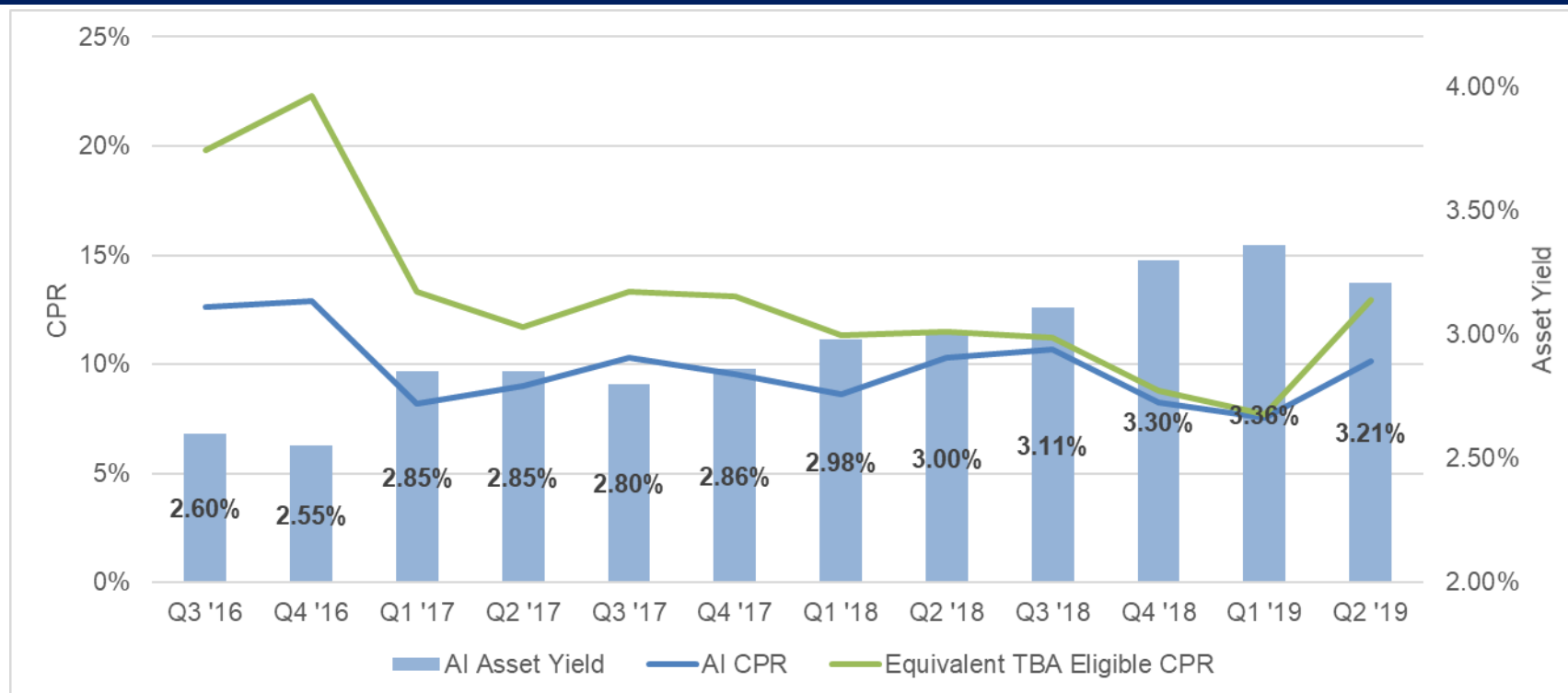


# Specified Agency MBS

## Q2 2019 GAAP Prepayments and Asset Yield Performance (dollars in thousands):

| WEIGHTED-AVERAGE: |                      |                                  |               |              |                  |
|-------------------|----------------------|----------------------------------|---------------|--------------|------------------|
| Coupon Rate       | Amortized Cost Basis | Amort. Cost / UPB <sup>(1)</sup> | CPR           | Asset Yield  | Interest Income  |
| 4.0% (20-Year)    | \$ 112,473           | 102.62                           | 12.76%        | 3.29%        | 926              |
| 3.5% (30-Year)    | 214,197              | 102.33                           | 9.46%         | 2.94%        | 1,573            |
| 4.0% (30-Year)    | 2,429,713            | 104.29                           | 9.80%         | 3.13%        | 18,991           |
| 4.5% (30-Year)    | 1,268,619            | 104.93                           | 10.77%        | 3.40%        | 10,785           |
| 5.5% (30-Year)    | 12                   | 100.00                           | 11.52%        | 5.50%        | -                |
| <b>TOTAL</b>      | <b>\$ 4,025,014</b>  | <b>\$ 104.34</b>                 | <b>10.16%</b> | <b>3.21%</b> | <b>\$ 32,275</b> |

## Historical Quarterly Prepayments <sup>(2)</sup> and GAAP Asset Yield Performance:



1) Unpaid principal balance.

2) CPR of equivalent TBA eligible calculated as the average of the outstanding population of all Fannie Mae TBA eligible MBS weighted based on the contractual maturity and coupon composition of AI's monthly investment portfolio.

# To-be-Announced (“TBA”) Agency MBS

## Q2 2019 Dollar Roll <sup>(1)</sup> Income (dollars in thousands):

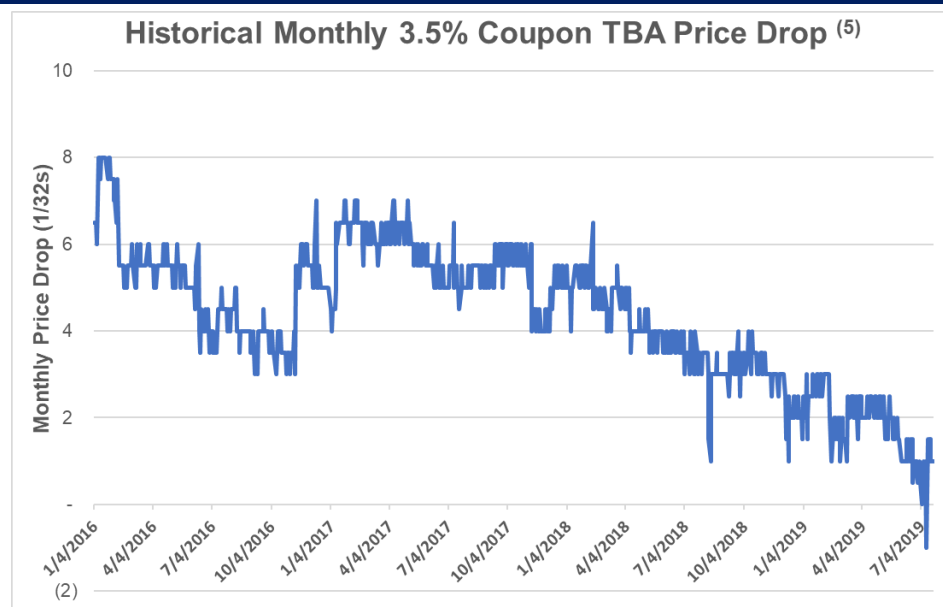
| WEIGHTED-AVERAGE IMPLIED: |                           |                     |                    |
|---------------------------|---------------------------|---------------------|--------------------|
| Coupon Rate               | Cost Basis <sup>(2)</sup> | Net Interest Spread | Dollar Roll Income |
| 2.5% (30-Year)            | \$ 18,650                 | 1.37%               | \$ 64              |
| 3.0% (30-Year)            | 176,813                   | 0.96%               | 425                |
| 3.5% (30-Year)            | 130,528                   | 0.60%               | 196                |
| 4.0% (30-Year)            | 626,472                   | 0.82%               | 1,281              |
| 4.5% (30-Year)            | (4,498)                   | 2.58%               | 29                 |
| <b>TOTAL</b>              | <b>\$ 947,965</b>         | <b>0.84%</b>        | <b>\$ 1,995</b>    |

## Recent Relative TBA Dollar Roll Performance and Historical Monthly Price Drop:

### Example Dollar Roll vs. On Balance Sheet Funding

3.5% Coupon Agency MBS As of July 15, 2019

|                                | %<br>Annualized | 1/32s<br>Monthly |
|--------------------------------|-----------------|------------------|
| <b>On Balance Sheet</b>        |                 |                  |
| Asset Yield <sup>(3)</sup>     | 2.87%           | 7.7              |
| One-month Repo                 | -2.55%          | (6.8)            |
| <b>Net interest spread</b>     | <b>0.32%</b>    | <b>0.9</b>       |
| <b>Dollar Roll</b>             |                 |                  |
| One-month Drop <sup>(4)</sup>  | <b>0.42%</b>    | <b>1.1</b>       |
| <b>Dollar Roll Specialness</b> | <b>0.10%</b>    | <b>0.3</b>       |



<sup>(1)</sup> 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.

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

<sup>(3)</sup> Asset yield calculated based upon future cash flow estimates obtain from Citi’s the Yield Book, a third-party model, for an illustrative 3.5% coupon specified pool purchased on July 15, 2019. For comparative purposes, assumes agency MBS is 100% financed with a one-month repurchase agreement.

<sup>(4)</sup> TBA dollar roll net interest spread based upon the “price drop” between the August and September settlement of a 3.5% coupon TBA as of July 15, 2019.

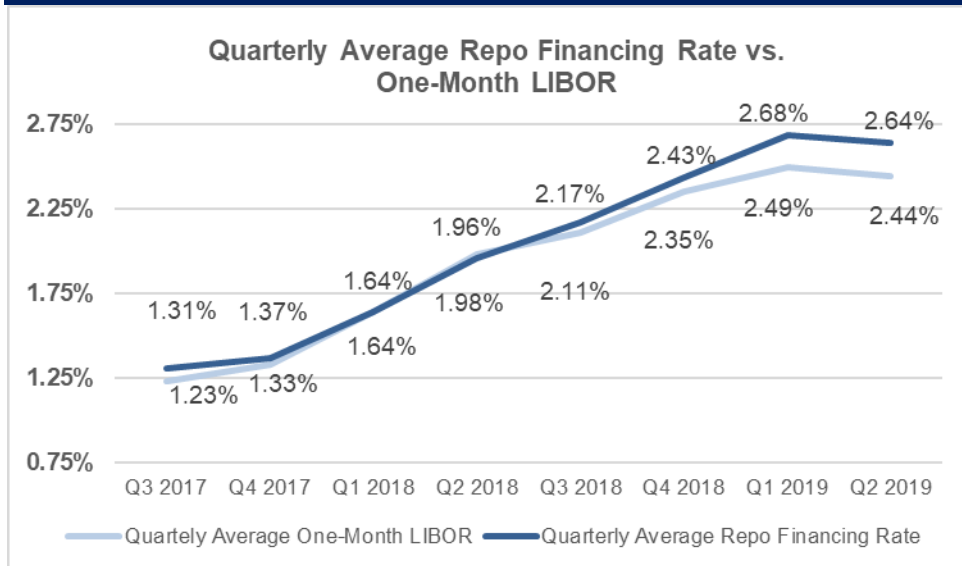
<sup>(5)</sup> Source: Bloomberg

# Financing Summary

## Diversified Funding Sources

- ▶ 15 counterparties with access to 18 total counterparties
- ▶ Less than 10% of equity at risk with any one counterparty
  - 6.4% of equity at risk with largest counterparty
  - 26.3% of equity at risk with five largest counterparties

## Repo Rate vs. One-Month LIBOR



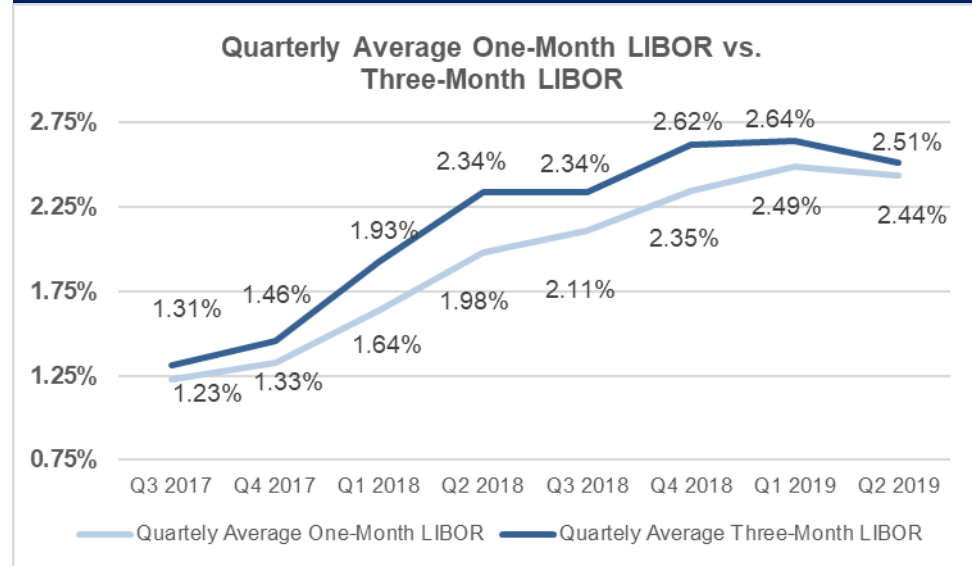
- ▶ The spread of repo financing rates over one-month LIBOR have increased in recent quarters

## As of June 30, 2019 (dollars in thousands):

|                 | Outstanding Borrowing | Collateral Fair Value <sup>(1)</sup> | Average Interest Rate | Average Days to Maturity |
|-----------------|-----------------------|--------------------------------------|-----------------------|--------------------------|
| Agency MBS repo | \$ 3,531,539          | \$ 3,726,291                         | 2.61%                 | 35.9                     |

| Counterparty Region | Number of Counterparties | Outstanding Borrowing | Percent of Total |
|---------------------|--------------------------|-----------------------|------------------|
| North America       | 9                        | \$ 2,293,574          | 64.9%            |
| Europe              | 2                        | 493,520               | 14.0%            |
| Asia                | 4                        | 744,445               | 21.1%            |
| <b>Total</b>        | <b>15</b>                | <b>\$ 3,531,539</b>   | <b>100.0%</b>    |

## One-Month vs. Three-Month LIBOR



- ▶ The Company's repo agreements generally have one-month terms while the Company receives three-month LIBOR on its interest rate swaps
- ▶ Increases in the spread between three- and one-month LIBOR generally positively impact the Company's economic funding costs (and vice versa)

<sup>(1)</sup> Includes \$511,225 at sale price of unsettled agency MBS sale commitments which is included in the line item "sold securities receivable" on the Company's consolidated balance sheets.

# Hedging Summary

## Interest Rate Swaps as of June 30, 2019 (dollars in thousands):

| Remaining Life                      | Notional Amount     | Fixed Pay Rate | WEIGHTED-AVERAGE      |                        |                        |                         |
|-------------------------------------|---------------------|----------------|-----------------------|------------------------|------------------------|-------------------------|
|                                     |                     |                | Variable Receive Rate | Net Receive (Pay) Rate | Remaining Life (Years) | Duration <sup>(1)</sup> |
| Less than 3 years to maturity       | \$ 1,675,000        | 1.64%          | 2.46%                 | 0.82%                  | 1.5                    | (1.3)                   |
| 3 to less than 7 years to maturity  | 500,000             | 1.67%          | 2.40%                 | 0.73%                  | 6.1                    | (5.6)                   |
| 7 to less than 10 years to maturity | 400,000             | 2.88%          | 2.52%                 | (0.36%)                | 9.4                    | (9.1)                   |
| 10 or more years to maturity        | 25,000              | 2.96%          | 2.42%                 | (0.54%)                | 28.7                   | (24.1)                  |
| <b>Total / weighted average</b>     | <b>\$ 2,600,000</b> | <b>1.85%</b>   | <b>2.46%</b>          | <b>0.61%</b>           | <b>3.9</b>             | <b>(3.5)</b>            |

### Q2 2019 Interest Rate Swap Activity

|                                | Notional            | WEIGHTED-AVERAGE: |                   |
|--------------------------------|---------------------|-------------------|-------------------|
|                                |                     | Fixed Pay Rate    | Years to Maturity |
| Early terminations             | \$ (900,000)        | 2.73%             | 8.3               |
| Additions                      | 650,000             | 1.93%             | 4.1               |
| <b>Net impact to swap book</b> | <b>\$ (250,000)</b> | <b>-0.26%</b>     | <b>(1.6)</b>      |

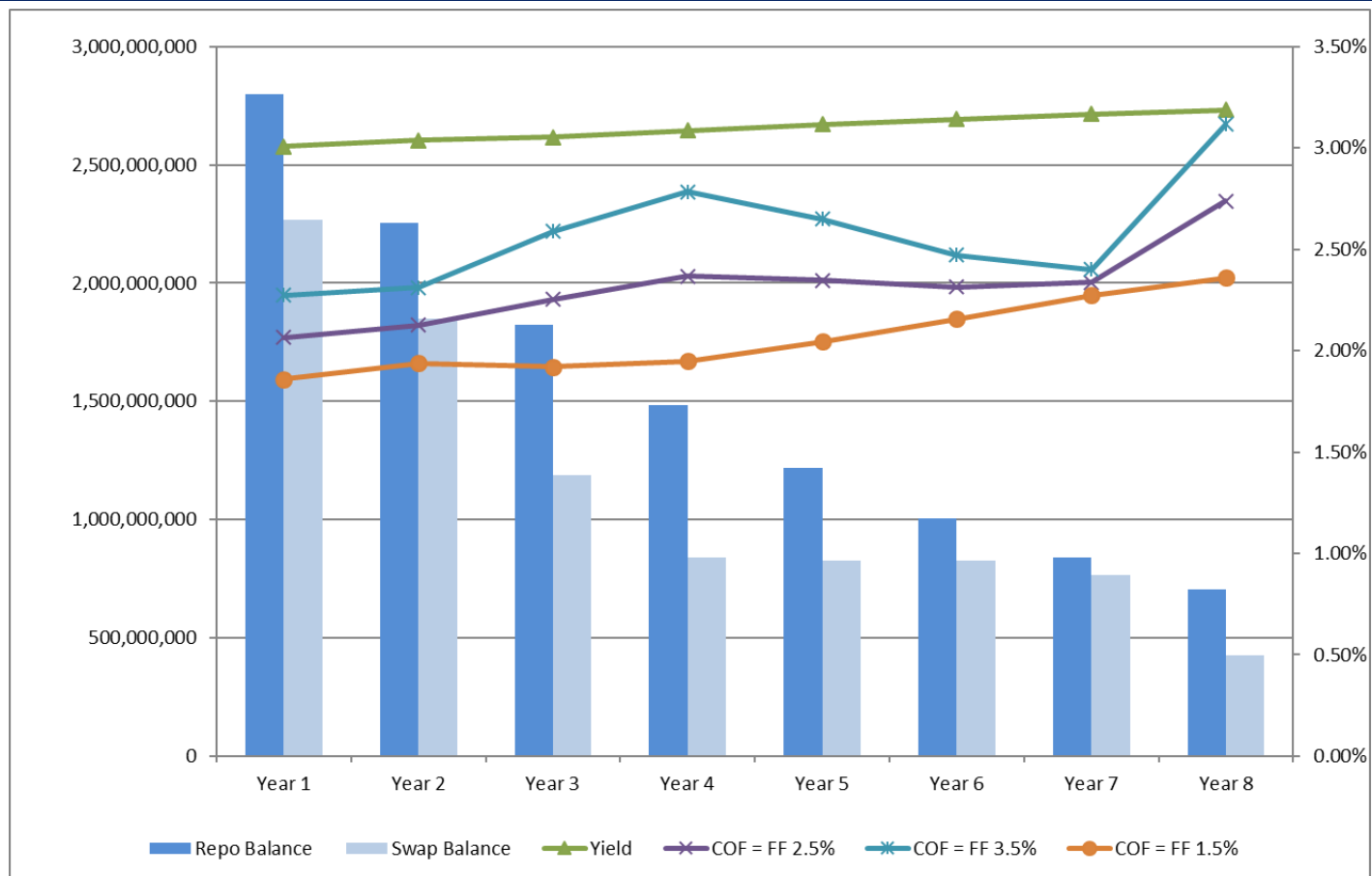
## U.S. Treasury Note Futures as of June 30, 2019 (dollars in thousands):

|                                    | Maturity Date  | Notional Amount | Weighted-average Implied Rate | Duration <sup>(1)</sup> |
|------------------------------------|----------------|-----------------|-------------------------------|-------------------------|
| 10-year U.S. Treasury note futures | September 2019 | \$ 155,000      | 2.01%                         | (7.8)                   |

(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.

# Interest Rate Swap Book Well Matched to Repo Funding Balance for the Life of the Portfolio

## Illustrative Asset Yields, Funding Costs and Balances (Without Reinvestment)



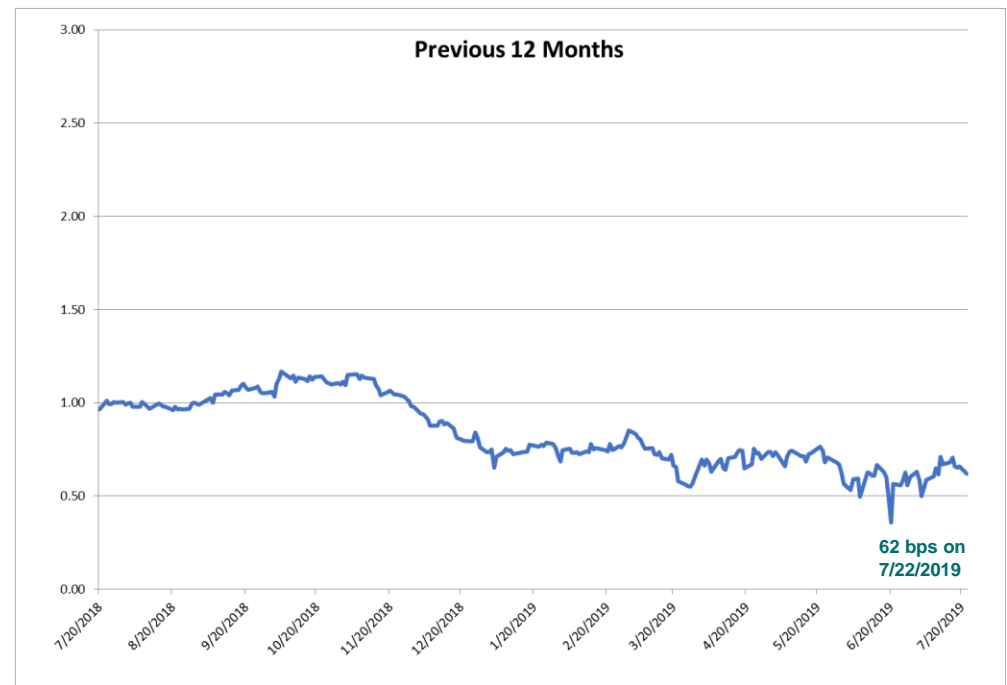
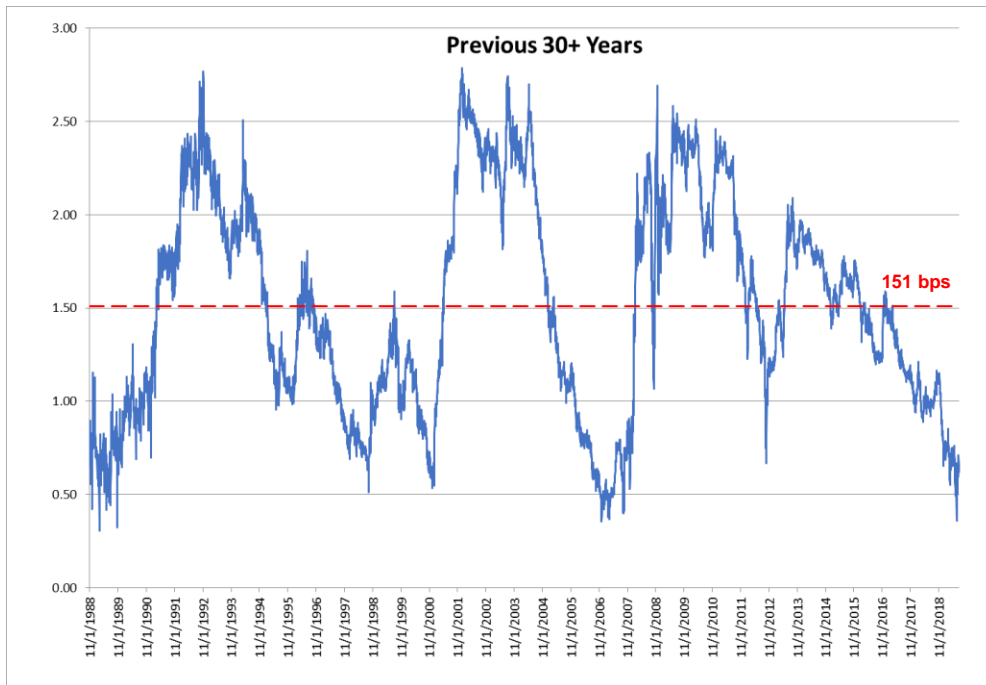
✓ Hedged agency MBS portfolio exhibits durable net interest spread in a wide range of interest rate environments over its life

- 1) Excludes the Company's TBA dollar roll position.
- 2) Illustrative repurchase agreement balances in future periods are based upon outstanding balances as of June 30, 2019 reflecting paydown of agency MBS collateral based on projected agency MBS balances based upon cash flow and prepayment estimates derived from Citi's "The Yield Book," a third-party model.
- 3) Illustrative interest rate swap notional amounts in future periods are based upon the contractual maturity dates of the Company's interest rate swap agreements in place as of June 30, 2019.
- 4) Illustrative agency MBS asset yields in future periods are based upon cash flow and prepayment estimates derived from Citi's "The Yield Book," a third-party model.
- 5) Illustrative repurchase agreement and interest rate swap receive rates are assumed to be equal to 1.50%, 2.50% and 3.50%, respectively, in all future periods of the illustration.

# Well Matched Hedging Can Protect Profitability Though Various Rate Environments

- ✓ Mortgage investment spreads fluctuate based on economic and U.S. Federal Reserve cycles
- ✓ The Company utilizes interest rate swaps to lock into an investment spread for defined period
- ✓ Principal mortgage paydowns are reinvested at current investment spreads
- ✓ **Mortgage investment spreads have historically never been negative even in periods of inverted U.S. Treasury yield curves**

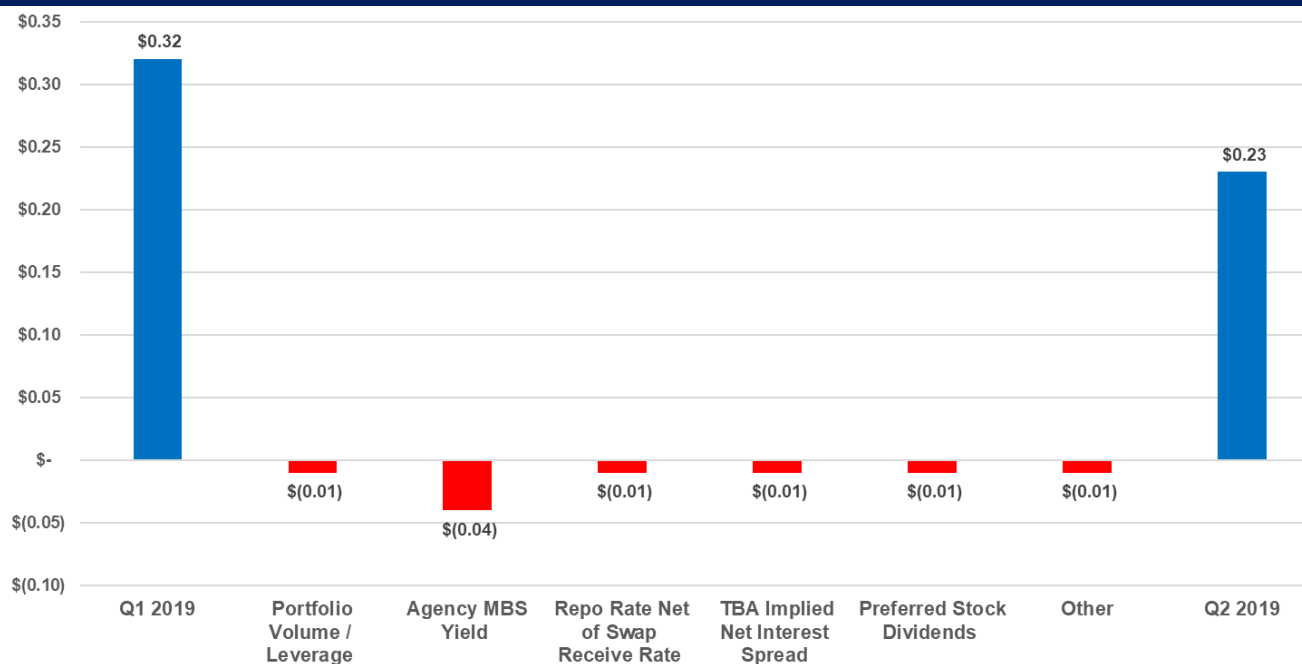
## Historical Current Coupon Agency MBS vs. Three-Month LIBOR / 10-Year Swap Blend (50% / 50% Weighted)



# Non-GAAP Core Operating Income <sup>(1)</sup>

| <i>(Unaudited, in thousands except per share amounts)</i>      | Q2 2019         | Q1 2019         | Q4 2018          | Q3 2018         |
|--|-----------------|-----------------|------------------|-----------------|
| GAAP net interest income                                       | \$ 6,582        | \$ 7,917        | \$ 10,624        | \$10,338        |
| TBA dollar roll income   | 1,995           | 1,420           | 2,940            | 4,604           |
| Interest rate swap net interest income                         | 3,769           | 4,747           | 2,304            | 2,295           |
| Economic net interest income                                   | 12,346          | 14,084          | 15,868           | 17,237          |
| Investment advisory fee income                                 | —               | 250             | —                | —               |
| Core general and administrative expenses                       | (3,207)         | (3,603)         | (2,324)          | (3,202)         |
| Preferred stock dividend                                       | (774)           | (278)           | (153)            | (151)           |
| <b>Non-GAAP core operating income</b>                          | <b>\$ 8,365</b> | <b>\$10,453</b> | <b>\$ 13,391</b> | <b>\$13,884</b> |
| <b>Non-GAAP core operating income per diluted common share</b> | <b>\$ 0.23</b>  | <b>\$ 0.32</b>  | <b>\$ 0.44</b>   | <b>\$ 0.47</b>  |
| Weighted average diluted common shares outstanding             | 36,644          | 33,139          | 30,437           | 29,718          |

## Non-GAAP Core Operating Income Per Diluted Share Rollforward – Q2 2019 vs. Q1 2019



(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. A reconciliation of non-GAAP core operating income to GAAP pre-tax income is provided on slide 22.

# Core Operating Income Return on Equity

| Core Operating Income Return to Common Shareholders from:                           | Q2 2019       | Q1 2019       | Q4 2018       | Q3 2018       |
|---|---------------|---------------|---------------|---------------|
| <b>Common Equity:</b>   |               |               |               |               |
| MBS asset yield   | 3.21%         | 3.36%         | 3.30%         | 3.11%         |
| Economic cost of funds <sup>(1)</sup>   | (2.24)%       | (2.16)%       | (2.20)%       | (1.93)%       |
| Economic net interest spread  | 0.97%         | 1.20%         | 1.10%         | 1.18%         |
| Repo leverage ratio <sup>(2)</sup>  | 8.7           | 9.3           | 10.2          | 8.8           |
| Leveraged economic net interest margin  | 8.42%         | 11.11%        | 11.29%        | 10.43%        |
| Unleveraged asset yield   | 3.21%         | 3.36%         | 3.30%         | 3.11%         |
| MBS return on average common equity excluding TBAs                                  | 11.63%        | 14.47%        | 14.59%        | 13.54%        |
| Return on equity from TBA dollar roll income <sup>(3)(4)</sup>                      | 2.00%         | 1.47%         | 3.02%         | 4.48%         |
| Core general and administrative expenses <sup>(3)(6)</sup>                          | (3.21)%       | (3.48)%       | (2.39)%       | (3.12)%       |
| <b>Return to common shareholders</b>  | <b>10.42%</b> | <b>12.46%</b> | <b>15.22%</b> | <b>14.90%</b> |
| <b>Preferred equity and unsecured debt:</b>   |               |               |               |               |
| MBS and TBA return on average preferred equity and unsecured debt <sup>(3)(5)</sup> | 4.58%         | 4.82%         | 4.85%         | 4.61%         |
| Preferred stock dividend and unsecured debt interest costs <sup>(3)</sup>           | (2.73)%       | (2.10)%       | (1.86)%       | (1.73)%       |
| Core general and administrative expenses <sup>(3)(6)</sup>                          | (1.08)%       | (1.05)%       | (0.66)%       | (0.80)%       |
| <b>Return to common shareholders</b>  | <b>0.77%</b>  | <b>1.67%</b>  | <b>2.33%</b>  | <b>2.08%</b>  |
| <b>Core operating income return to common shareholders</b>                          | <b>11.19%</b> | <b>14.13%</b> | <b>17.55%</b> | <b>16.98%</b> |

(1) Includes interest expense incurred from repurchase agreement financing and net interest income earned or expense incurred from interest rate swaps. Excludes the economic cost or benefit of hedging instruments other than interest rate swaps.

(2) Calculated based upon the weighted average balance of repurchase agreement financing for the period multiplied by the ratio of average common equity to average total investable capital (common equity plus preferred equity plus unsecured debt).

(3) Expressed as an annualized percentage of average common equity for the period.

(4) Expressed as an annualized percentage of average common equity for the period. For example, for the second quarter of 2019, calculated as \$2.0 million in dollar roll income (representing an implied net interest spread of 0.84% on a weighted average cost basis of \$948 million). All else being equal, as the average balance of the Company's TBA dollar roll portfolio increases, the calculated annualized return on average common equity will increase (and vice versa).

(5) Calculated as [GAAP interest income less repurchase agreement interest expense plus (less) interest rate swap net interest income (expense) plus TBA dollar roll income] multiplied by the ratio of average preferred equity and unsecured debt to average total investable capital. Expressed as an annualized percentage of average common equity for the period.

(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. Presented net of investment advisory fee income. Core general and administrative expenses and investment advisory fee income have been allocated to common equity and preferred equity and unsecured debt on a pro rata basis based upon average capital balances for the period.



# Portfolio Weighted Average Statistics

| <i>(dollars in thousands)</i>                                     | Q2 2019             | Q1 2019             | Q4 2018             | Q3 2018             |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>Specified agency MBS:</b>                                      |                     |                     |                     |                     |
| Constant prepayment rate  | 10.16%              | 7.55%               | 8.25%               | 10.66%              |
| GAAP asset yield  | 3.21%               | 3.36%               | 3.30%               | 3.11%               |
| Weighted average GAAP amortized cost basis                        | \$ 4,025,014        | \$ 3,998,040        | \$ 4,468,688        | \$ 4,204,472        |
| <b>Repurchase agreements:</b>                                     |                     |                     |                     |                     |
| Weighted average financing rate                                   | (2.64)%             | (2.68)%             | (2.43)%             | (2.17)%             |
| Weighted average balance  | \$ 3,728,583        | \$ 3,680,429        | \$ 4,080,098        | \$ 3,841,280        |
| <b>Interest rate swaps:</b>                                       |                     |                     |                     |                     |
| Weighted average fixed pay rate                                   | (2.10)%             | (2.11)%             | (2.12)%             | (2.03)%             |
| Weighted average variable receive rate                            | 2.60%               | 2.70%               | 2.45%               | 2.33%               |
| Weighted average net receive (pay) rate                           | 0.50%               | 0.59%               | 0.33%               | 0.30%               |
| Weighted average notional amount                                  | \$ 2,895,663        | \$ 3,095,411        | \$ 3,441,129        | \$ 3,372,151        |
| Interest rate swap notional to repo ratio                         | 78%                 | 84%                 | 84%                 | 88%                 |
| Economic cost of funds <sup>(1)</sup>                             | (2.24)%             | (2.16)%             | (2.20)%             | (1.93)%             |
| <b>TBA dollar rolls:</b>  |                     |                     |                     |                     |
| Implied net interest spread                                       | 0.84%               | 1.05%               | 1.66%               | 1.86%               |
| Weighted average implied cost basis                               | \$ 947,965          | \$ 538,885          | \$ 707,725          | \$ 990,231          |
| <b>Total asset average cost basis</b>                             | <b>\$ 4,972,979</b> | <b>\$ 4,536,925</b> | <b>\$ 5,176,413</b> | <b>\$ 5,194,703</b> |
| <b>Specified agency MBS allocation</b>                            | <b>81%</b>          | <b>88%</b>          | <b>86%</b>          | <b>81%</b>          |
| <b>TBA dollar roll allocation</b>                                 | <b>19%</b>          | <b>12%</b>          | <b>14%</b>          | <b>19%</b>          |
| <b>Core net interest margin / return on assets <sup>(2)</sup></b> | <b>1.10%</b>        | <b>1.35%</b>        | <b>1.36%</b>        | <b>1.46%</b>        |

(1) Includes interest expense incurred from repurchase agreement financing and net interest income earned or expense incurred from interest rate swaps. Excludes the economic cost or benefit of hedging instruments other than interest rate swaps.

(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.

# Book Value Per Share Rollforward

|   | Book Value<br>Per Common Share |             |
|---|--------------------------------|-------------|
| <b>At March 31, 2019</b>                        | <b>\$</b>                      | <b>8.70</b> |
| Non-GAAP core operating income <sup>(1)</sup>   |                                | 0.23        |
| Dividend to common shareholders                 |                                | (0.23)      |
| Agency MBS and TBA gain, net <sup>(1)(2)</sup>  |                                | 1.35        |
| Interest rate hedge loss, net <sup>(1)(3)</sup> |                                | (2.24)      |
| Other, net                                      |                                | (0.01)      |
| <b>At June 30, 2019</b>                         | <b>\$</b>                      | <b>7.80</b> |

(1) Calculated based upon weighted average diluted shares outstanding during the quarter.

(2) Excludes TBA dollar roll income, which is included in non-GAAP core operating income.

(3) Excludes net interest income or expense incurred from interest rate swap agreements, which is included in non-GAAP core operating income.

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**Appendix – Additional Financial Data**

# Market Data <sup>(1)(2)</sup>

|   | 6/30/18   | 9/30/18   | 12/31/18  | 3/31/19   | 6/30/19   | Q2 '19 Δ to Q1 '19 |
|---|-----------|-----------|-----------|-----------|-----------|--------------------|
| <b>30-Year FNMA Fixed Rate MBS</b>            |           |           |           |           |           |                    |
| 3.0%  | \$ 96.80  | \$ 95.64  | \$ 97.36  | \$ 99.58  | \$ 100.80 | \$ 1.22            |
| 3.5%  | \$ 99.45  | \$ 98.39  | \$ 99.83  | \$ 101.39 | \$ 102.20 | \$ 0.81            |
| 4.0%  | \$ 101.92 | \$ 100.95 | \$ 101.83 | \$ 102.86 | \$ 103.33 | \$ 0.47            |
| 4.5%  | \$ 104.08 | \$ 103.14 | \$ 103.45 | \$ 104.17 | \$ 104.48 | \$ 0.31            |
| <b>U.S. Treasury Rates (UST)</b>              |           |           |           |           |           |                    |
| 2 Yr UST                                      | 2.53%     | 2.82%     | 2.49%     | 2.26%     | 1.75%     | -0.51              |
| 3 Yr UST                                      | 2.62%     | 2.88%     | 2.46%     | 2.21%     | 1.71%     | -0.50              |
| 5 Yr UST                                      | 2.74%     | 2.95%     | 2.51%     | 2.23%     | 1.77%     | -0.46              |
| 7 Yr UST                                      | 2.82%     | 3.02%     | 2.59%     | 2.31%     | 1.88%     | -0.43              |
| 10 Yr UST                                     | 2.86%     | 3.06%     | 2.69%     | 2.41%     | 2.01%     | -0.40              |
| 30 Yr UST                                     | 2.99%     | 3.21%     | 3.02%     | 2.82%     | 2.53%     | -0.29              |
| 2 Yr to 10 Yr UST Spread                      | 0.33      | 0.24      | 0.20      | 0.15      | 0.26      | 0.11               |
| <b>Interest Rate Swap Rates</b>               |           |           |           |           |           |                    |
| 2 Yr Swap                                     | 2.81%     | 2.99%     | 2.66%     | 2.38%     | 1.81%     | -0.57              |
| 3 Yr Swap                                     | 2.86%     | 3.05%     | 2.59%     | 2.31%     | 1.74%     | -0.57              |
| 5 Yr Swap                                     | 2.89%     | 3.07%     | 2.57%     | 2.28%     | 1.77%     | -0.51              |
| 7 Yr Swap                                     | 2.90%     | 3.09%     | 2.62%     | 2.32%     | 1.84%     | -0.48              |
| 10 Yr Swap                                    | 2.93%     | 3.12%     | 2.71%     | 2.41%     | 1.96%     | -0.45              |
| 30 Yr Swap                                    | 2.93%     | 3.13%     | 2.84%     | 2.58%     | 2.21%     | -0.37              |
| 2 Yr Swap to 2 Yr UST Spread                  | 0.28      | 0.17      | 0.17      | 0.12      | 0.06      | -0.06              |
| 10 Yr Swap to 10 Yr UST Spread                | 0.07      | 0.06      | 0.02      | -         | (0.05)    | -0.05              |
| <b>London Interbank Offered Rates (LIBOR)</b> |           |           |           |           |           |                    |
| 1 Month LIBOR                                 | 2.09%     | 2.26%     | 2.50%     | 2.49%     | 2.40%     | -0.09              |
| 3 Month LIBOR                                 | 2.34%     | 2.40%     | 2.81%     | 2.60%     | 2.32%     | -0.28              |

(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

| <i>(Unaudited, in thousands except per share amounts)</i>                     | June 30, 2019 |                  | March 31, 2019 |                  |
|---|---------------|------------------|----------------|------------------|
| <b>ASSETS</b>   |               |                  |                |                  |
| Cash and cash equivalents   | \$            | 34,684           | \$             | 37,547           |
| Interest receivable   |               | 12,471           |                | 14,128           |
| Sold securities receivable  |               | 546,106          |                | 341,798          |
| Agency MBS  |               | 3,414,580        |                | 4,192,327        |
| Private-label MBS   |               | 26               |                | 28               |
| Derivative assets, at fair value  |               | 6,243            |                | 15,248           |
| Deposits  |               | 31,247           |                | 53,446           |
| Other assets  |               | 18,535           |                | 18,636           |
| <b>Total assets</b>   | <b>\$</b>     | <b>4,063,892</b> | <b>\$</b>      | <b>4,673,158</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                   |               |                  |                |                  |
| <b>Liabilities:</b>   |               |                  |                |                  |
| Repurchase agreements   | \$            | 3,531,539        | \$             | 3,964,127        |
| Dividend payable  |               | 8,392            |                | 14,190           |
| Derivative liabilities, at fair value   |               | 3,131            |                | 2,346            |
| Purchased securities payable  |               | 113,019          |                | 251,144          |
| Other liabilities   |               | 9,306            |                | 10,780           |
| Long-term unsecured debt  |               | 74,216           |                | 74,160           |
| <b>Total liabilities</b>  |               | <b>3,739,603</b> |                | <b>4,316,747</b> |
| <b>Common stockholders' equity</b>  |               | <b>285,438</b>   |                | <b>317,595</b>   |
| <b>Preferred stock liquidation preference</b>                                 |               | <b>38,851</b>    |                | <b>38,816</b>    |
| <b>Total equity</b>   |               | <b>324,289</b>   |                | <b>356,411</b>   |
| <b>Total liabilities and stockholders' equity</b>                             | <b>\$</b>     | <b>4,063,892</b> | <b>\$</b>      | <b>4,673,158</b> |
| Shares outstanding (in thousands) <sup>(1)</sup>                              |               | 36,578           |                | 36,520           |
| <b>Book value per common share</b> <sup>(2)</sup>                             | <b>\$</b>     | <b>7.80</b>      | <b>\$</b>      | <b>8.70</b>      |
| <b>Recourse financing to investable capital leverage ratio</b> <sup>(3)</sup> |               | <b>9.1</b>       |                | <b>11.0</b>      |
| TBA net purchase commitment at cost   | \$            | 549,004          | \$             | 918,643          |

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

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

(3) Calculated as the sum of repurchase agreement financing, plus (less) any net payable (receivable) for unsettled securities, plus the net contractual forward price of TBA commitments, less cash compared to shareholders' equity plus long-term unsecured debt.

# Statement of Comprehensive Income

| <i>(Unaudited, in thousands except per share amounts)</i>         | Q2 2019     | Q1 2019   | Q4 2018     | Q3 2018    |
|---|-------------|-----------|-------------|------------|
| <b>Interest income</b>  |             |           |             |            |
| Agency mortgage-backed securities                                 | \$ 32,275   | \$ 33,570 | \$ 36,914   | \$ 32,679  |
| Private-label mortgage-backed securities                          | 14          | 1         | 4           | 2          |
| Other   | 428         | 261       | 256         | 183        |
| Total interest income   | 32,717      | 33,832    | 37,174      | 32,864     |
| <b>Interest expense</b>   |             |           |             |            |
| Short-term secured debt   | 24,866      | 24,643    | 25,286      | 21,265     |
| Long-term unsecured debt  | 1,269       | 1,272     | 1,264       | 1,261      |
| Total interest expense  | 26,135      | 25,915    | 26,550      | 22,526     |
| Net interest income   | 6,582       | 7,917     | 10,624      | 10,338     |
| <b>Investment advisory fee income</b>                             | —           | 250       | —           | —          |
| <b>Investment gain (loss), net</b>                                | (26,683)    | 13,803    | (68,910)    | (2,257)    |
| <b>General and administrative expenses</b>                        |             |           |             |            |
| Compensation and benefits   | 2,233       | 3,116     | 395         | 2,833      |
| Other general and administrative expenses                         | 1,191       | 1,260     | 1,263       | 1,121      |
| Total general and administrative expenses                         | 3,424       | 4,376     | 1,658       | 3,954      |
| <b>Income (loss) before income taxes</b>                          | (23,525)    | 17,594    | (59,944)    | 4,127      |
| Income tax provision (benefit)                                    | —           | —         | (33,639)    | 9,628      |
| <b>Net income (loss)</b>  | (23,525)    | 17,594    | (26,305)    | (5,501)    |
| <b>Dividend on preferred stock</b>                                | (774)       | (278)     | (153)       | (151)      |
| <b>Net income (loss) available (attributable) to common stock</b> | \$ (24,299) | \$ 17,316 | \$ (26,458) | \$ (5,652) |
| Basic earnings (loss) per common share                            | \$ (0.67)   | \$ 0.52   | \$ (0.87)   | \$ (0.19)  |
| Diluted earnings (loss) per common share                          | \$ (0.67)   | \$ 0.52   | \$ (0.87)   | \$ (0.19)  |
| <b>Weighted-average common shares outstanding (in thousands):</b> |             |           |             |            |
| Basic   | 36,533      | 33,053    | 30,392      | 29,382     |
| Diluted   | 36,533      | 33,139    | 30,392      | 29,382     |

# Non-GAAP Core Operating Income Reconciliation <sup>(1)</sup>

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

| <i>(Unaudited, in thousands)</i>              | Q2 2019           | Q1 2019         | Q4 2018           | Q3 2018         |
|---|-------------------|-----------------|-------------------|-----------------|
| <b>GAAP income (loss) before income taxes</b> | <b>\$(23,525)</b> | <b>\$17,594</b> | <b>\$(59,944)</b> | <b>\$ 4,127</b> |
| <i>Add (less):</i>                            |                   |                 |                   |                 |
| Total investment (gain) loss, net             | 26,683            | (13,803)        | 68,910            | 2,257           |
| Stock-based compensation expense              | 217               | 773             | (666)             | 752             |
| Preferred stock dividend                      | (774)             | (278)           | (153)             | (151)           |
| <i>Add back:</i>                              |                   |                 |                   |                 |
| TBA dollar roll income                        | 1,995             | 1,420           | 2,940             | 4,604           |
| Interest rate swap net interest income        | 3,769             | 4,747           | 2,304             | 2,295           |
| <b>Non-GAAP core operating income</b>         | <b>\$ 8,365</b>   | <b>\$10,453</b> | <b>\$ 13,391</b>  | <b>\$13,884</b> |

(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.

# Specified Agency MBS Investment Portfolio

## Fixed-Rate Agency MBS Selected for Prepayment Characteristics as of June 30, 2019

| (Dollars in thousands)                    | MBS Coupon   | UPB <sup>(6)</sup>  | Amortized Cost / UPB | Fair Value          | Fair Value / UPB | WEIGHTED-AVERAGE   |                                  |                                   |  |                                  |
|---|--------------|---------------------|----------------------|---------------------|------------------|--------------------|----------------------------------|-----------------------------------|--|----------------------------------|
|   |              |                     |                      |                     |                  | WAC <sup>(7)</sup> | Loan Age (Months) <sup>(8)</sup> | Actual 3-Month CPR <sup>(9)</sup> | Remaining Life (Years) <sup>(10)</sup> | Duration (Years) <sup>(11)</sup> |
| <b>30-Year Agency MBS:</b>                |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
| Low Loan Balance <= \$150K <sup>(1)</sup> |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 4.0%         | \$ 216,085          | \$ 104.08            | \$ 228,284          | \$ 105.65        | 4.66%              | 26                               | 8.30%                             | 5.6                                    | 3.0                              |
|   | 4.5%         | 251,851             | 105.39               | 271,152             | 107.66           | 4.98%              | 6                                | 7.77%                             | 5.1                                    | 1.7                              |
|   |              | <u>\$ 467,936</u>   | <u>\$ 104.79</u>     | <u>\$ 499,436</u>   | <u>\$ 106.73</u> | <u>4.83%</u>       | <u>15</u>                        | <u>8.01%</u>                      | <u>5.3</u>                             | <u>2.3</u>                       |
| Low Loan Balance <= \$175K <sup>(2)</sup> |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 3.5%         | \$ 128,417          | \$ 102.71            | \$ 132,865          | \$ 103.46        | 4.31%              | 8                                | 2.89%                             | 6.3                                    | 3.3                              |
|   | 4.0%         | 866,372             | 104.38               | 914,684             | 105.58           | 4.66%              | 19                               | 7.69%                             | 5.5                                    | 2.5                              |
|   | 4.5%         | 424,251             | 104.47               | 453,479             | 106.89           | 5.03%              | 12                               | 8.90%                             | 4.8                                    | 2.0                              |
|   |              | <u>\$ 1,419,040</u> | <u>\$ 104.26</u>     | <u>\$ 1,501,028</u> | <u>\$ 105.78</u> | <u>4.74%</u>       | <u>16</u>                        | <u>7.62%</u>                      | <u>5.4</u>                             | <u>2.4</u>                       |
| Low Loan Balance <= \$200K <sup>(3)</sup> |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 3.5%         | \$ 12,814           | \$ 103.23            | \$ 13,259           | \$ 103.47        | 3.98%              | 20                               | 6.10%                             | 6.7                                    | 3.4                              |
|   | 4.0%         | 686,216             | 104.60               | 721,187             | 105.10           | 4.56%              | 24                               | 10.24%                            | 5.4                                    | 2.5                              |
|   | 4.5%         | 183,111             | 104.99               | 195,436             | 106.73           | 4.94%              | 16                               | 10.57%                            | 4.7                                    | 1.9                              |
|   |              | <u>\$ 882,141</u>   | <u>\$ 104.66</u>     | <u>\$ 929,882</u>   | <u>\$ 105.41</u> | <u>4.63%</u>       | <u>22</u>                        | <u>10.25%</u>                     | <u>5.3</u>                             | <u>2.4</u>                       |
| Low Loan Balance <= \$225K <sup>(4)</sup> |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 4.0%         | \$ 60,009           | \$ 103.54            | \$ 62,913           | \$ 104.84        | 4.43%              | 17                               | 10.37%                            | 5.4                                    | 2.4                              |
| Other Specified Pools <sup>(5)</sup>      |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 3.5%         | \$ 246,859          | \$ 102.01            | \$ 253,071          | \$ 102.52        | 4.53%              | 6                                | 0.77%                             | 4.2                                    | 2.5                              |
|   | 4.0%         | 144,776             | 104.42               | 151,272             | 104.49           | 4.61%              | 47                               | 13.28%                            | 5.1                                    | 3.1                              |
|   | 4.5%         | 15,994              | 106.50               | 16,964              | 106.06           | 5.13%              | 18                               | 27.67%                            | 3.0                                    | 0.9                              |
|   | 5.5%         | 12                  | 99.92                | 14                  | 111.38           | 5.92%              | 138                              | 11.52%                            | 5.5                                    | 4.0                              |
|   |              | <u>\$ 407,641</u>   | <u>\$ 103.04</u>     | <u>\$ 421,321</u>   | <u>\$ 103.36</u> | <u>4.58%</u>       | <u>21</u>                        | <u>6.27%</u>                      | <u>4.5</u>                             | <u>2.7</u>                       |
| <b>Total Agency MBS:</b>                  |              |                     |                      |                     |                  |                    |                                  |                                   |  |                                  |
|   | 30-Year 3.5% | \$ 388,090          | \$ 102.28            | \$ 399,195          | \$ 102.86        | 4.44%              | 7                                | 1.65%                             | 5.0                                    | 2.8                              |
|   | 30-Year 4.0% | 1,973,458           | 104.40               | 2,078,340           | 105.31           | 4.61%              | 23                               | 9.14%                             | 5.4                                    | 2.6                              |
|   | 30-Year 4.5% | 875,207             | 104.88               | 937,031             | 107.06           | 5.00%              | 11                               | 9.27%                             | 4.8                                    | 1.9                              |
|   | 30-Year 5.5% | 12                  | 99.92                | 14                  | 111.38           | 5.92%              | 138                              | 11.52%                            | 5.5                                    | 4.0                              |
|   |              | <u>\$ 3,236,767</u> | <u>\$ 104.28</u>     | <u>\$ 3,414,580</u> | <u>\$ 105.49</u> | <u>4.70%</u>       | <u>18</u>                        | <u>8.27%</u>                      | <u>5.2</u>                             | <u>2.4</u>                       |

(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) Specified pools of loans with original balances between \$200K and \$225K.

(5) 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.

(6) Unpaid principal balance.

(7) WAC represents the weighted average coupon of the underlying collateral.

(8) Loan age represents the weighted average age of the underlying collateral.

(9) Actual 3-month constant prepayment rate ("CPR") represents annualized 3-month CPR published in July 2019 for securities held as of June 30, 2019.

(10) 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," a third-party model.

(11) Duration is derived from the Citi's "The Yield Book," a third-party 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 <sup>(1)</sup> as of June 30, 2019 (dollars in thousands):

|  | Notional Amount   | Implied Cost Basis | Implied Fair Value | Net Carrying Amount | Duration (Years) <sup>(2)</sup> |
|--|-------------------|--------------------|--------------------|---------------------|---------------------------------|
| 30-year 2.5% MBS purchase commitments, net | \$ 200,000        | \$ 198,082         | \$ 198,359         | \$ 277              | 2.3                             |
| 30-year 3.0% MBS purchase commitments, net | 200,000           | 200,715            | 201,594            | 879                 | 3.6                             |
| 30-year 3.5% MBS purchase commitments, net | 250,000           | 254,641            | 255,547            | 906                 | 3.0                             |
| 30-year 4.0% MBS purchase commitments, net | -                 | (465)              | (16)               | 449                 | 2.5                             |
| 30-year 4.5% MBS sale commitments, net     | (100,000)         | (103,969)          | (104,500)          | (531)               | 1.5                             |
| <b>Total / weighted average</b>            | <b>\$ 550,000</b> | <b>\$ 549,004</b>  | <b>\$ 550,984</b>  | <b>\$ 1,980</b>     | <b>3.3</b>                      |

(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."

(2) Duration is derived from the Citi's "The Yield Book," a third-party 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 Interest Rates

## Net Duration Gap as of June 30, 2019

|  | Fair Value /<br>Notional | Duration <sup>(1)</sup> |
|--|--------------------------|-------------------------|
| Agency MBS                                   | \$ 3,414,580             | 2.4                     |
| Net long agency TBA position                 | \$ 550,984               | 3.3                     |
| <b>Total agency MBS</b>                      | <b>\$ 3,965,564</b>      | <b>2.5</b>              |
| Agency repo <sup>(2)</sup>                   | \$ (3,531,539)           | (0.1)                   |
| Interest rate swap agreements <sup>(2)</sup> | \$ (2,600,000)           | (3.5)                   |
| U.S. Treasury note futures                   | \$ (155,000)             | (7.9)                   |
| <b>Total liabilities and hedges</b>          |                          | <b>(2.7)</b>            |
| <b>Net duration gap</b>                      |                          | <b>(0.2)</b>            |

## Interest Rate Sensitivity as of June 30, 2019 <sup>(3)</sup>

|                                    | -100 bps          | -50 bps           | As of<br>6/30/2019 | +50 bps           | +100 bps          |
|------------------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| <b>Common Stockholders' Equity</b> | <b>\$ 254,313</b> | <b>\$ 275,485</b> | <b>\$ 285,438</b>  | <b>\$ 273,778</b> | <b>\$ 239,660</b> |
| <b>Percentage Change</b>           | <b>-10.9%</b>     | <b>-3.5%</b>      | <b>-</b>           | <b>-4.1%</b>      | <b>-16.0%</b>     |

(1) Duration is derived from the Citi's "The Yield Book," a third-party 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.

(2) Total liability and hedge duration is expressed in asset units. Excludes unsecured debt.

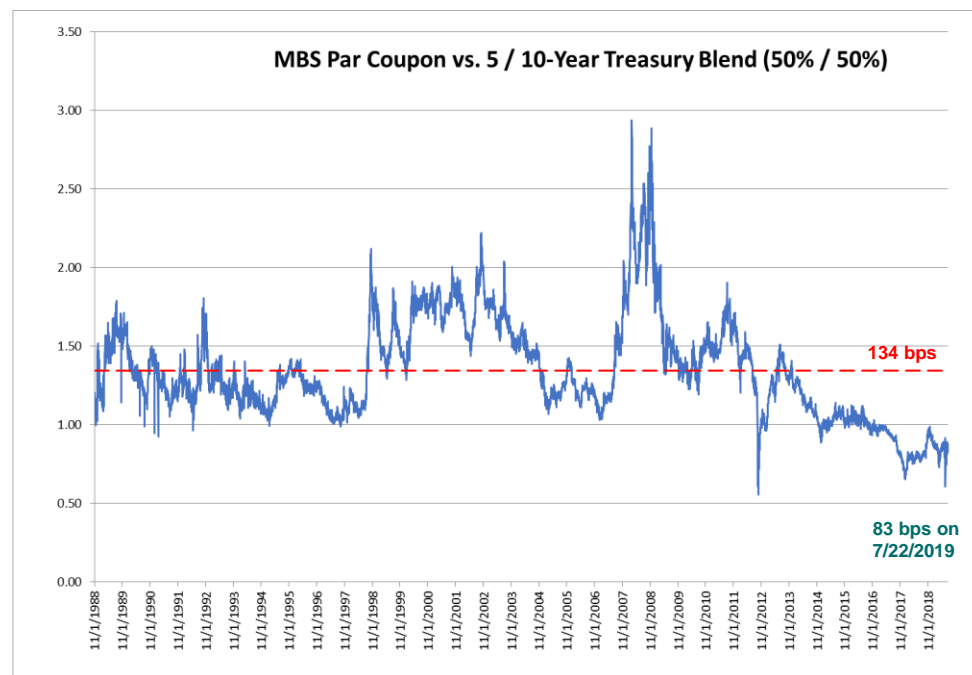
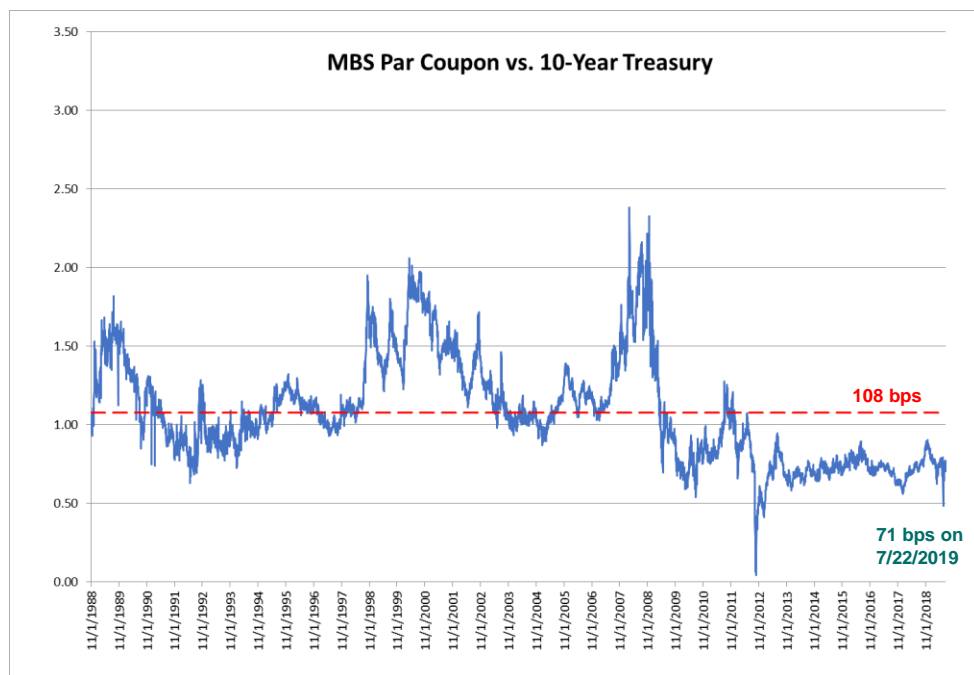
(3) Interest rate sensitivity of agency MBS and TBA commitments is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. Interest rate sensitivity is based on assumptions resulting in certain limitations, including (i) an instantaneous shift in rates with no changes to the slope of the yield curve, (ii) no changes in agency MBS spreads, and (iii) no changes to the investment or hedge portfolio.

# Book Value Sensitivity to MBS Spreads

## MBS Spread Sensitivity as of June 30, 2019 <sup>(1)</sup>

|                                    | As of             |                   |                   |                   |                   |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | -25 bps           | -10 bps           | 6/30/2019         | +10 bps           | +25 bps           |
| <b>Common Stockholders' Equity</b> | <b>\$ 331,748</b> | <b>\$ 303,962</b> | <b>\$ 285,438</b> | <b>\$ 266,914</b> | <b>\$ 239,129</b> |
| <b>Percentage Change</b>           | <b>16.2%</b>      | <b>6.5%</b>       | <b>-</b>          | <b>-6.5%</b>      | <b>-16.2%</b>     |

## Historical MBS to U.S. Treasury Spread



(1) 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 4.5 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 June 30, 2019. The agency MBS spread sensitivity is based on assumptions resulting in certain limitations, including (i) no changes in interest rates, and (ii) no changes to the investment or hedge portfolio.