



# ARMOUR

## RESIDENTIAL REIT

**ARMOUR RESIDENTIAL REIT, Inc.**

**Company Update**

**January 10, 2014**

## PLEASE READ: Important Regulatory and Yield Estimate Risk Disclosures

Certain statements made in this presentation regarding ARMOUR Residential REIT, Inc. (“ARMOUR” or the “Company”), and any other statements regarding ARMOUR’s future expectations, beliefs, goals or prospects constitute forward-looking statements made within the meaning of Section 21E of the Securities Exchange Act of 1934. Any statements that are not statements of historical fact (including statements containing the words “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should also be considered forward-looking statements. Forward-looking statements include but are not limited to statements regarding the projections for ARMOUR’s business and plans for future growth and operational improvements. A number of important factors could cause actual results or events to differ materially from those indicated by such forward-looking statements. ARMOUR assumes no obligation to update the information in this communication, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

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Actual realized yields, durations and net durations described herein will depend on a number of factors that cannot be predicted with certainty. Estimated yields do not reflect any of the costs of operation of ARMOUR.

**THE INFORMATION PRESENTED HEREIN IS UNAUDITED AND UNREVIEWED.**



# ARMOUR Capitalization, Dividend Policy, Transparency and Manager

## Market Capitalization

- 357,541,046 shares of common stock outstanding (NYSE: “ARR”).
- 2,180,572 shares of Series A Preferred Stock outstanding (NYSE: “ARR PrA”).
- 5,650,000 shares of Series B Preferred Stock outstanding (NYSE: “ARR PrB”).
- Market capitalization of \$1.5 billion of common and \$169.2 million of preferred.
- Repurchased 13,375,400 shares in Q4 2013 and 16,771,003 in all of 2013.

## Common Stock Dividend Policy and Taxable REIT Income

- ARMOUR pays common stock dividends monthly.
- Dividends are announced based on estimates of future taxable REIT income.
- The 2014 monthly common stock dividend rate is \$0.05 per month.
- Dividend schedule is on the following page.

## Transparency and Governance

- Portfolio and liability details are updated monthly at [www.armourreit.com](http://www.armourreit.com).
- Premium amortization is expensed monthly as it occurs. No yield smoothing.
- Hedge positions are marked-to-market daily (GAAP/Tax differences).
- Non-Executive Board Chairman.

## ARMOUR REIT Manager and Fee Structure

- ARMOUR REIT is externally managed by ARMOUR Residential Management LLC.
- Accretive fee structure: effective fee percentage declines as equity increases.
  - Gross equity raised up to \$1.0 billion, 1.5% (per annum) of gross equity raised.
  - Gross equity raised in excess of \$1.0 billion, 0.75% (per annum) of gross equity raised.
  - Current weighted average fee is 1.021% (per annum) of gross equity raised.



Information as of 1/9/2014.

## ARMOUR 2014 Monthly Dividend Schedule

<u>Month</u>	<u>Dividend</u>	<u>Holder of Record Date</u>	<u>Payment Date</u>
January 2014	\$0.05	January 15, 2014	January 30, 2014
February 2014	\$0.05	February 14, 2014	February 27, 2014
March 2014	\$0.05	March 17, 2014	March 28, 2014
April 2014	\$0.05	April 15, 2014	April 29, 2014
May 2014	\$0.05	May 15, 2014	May 29, 2014
June 2014	\$0.05	June 16, 2014	June 27, 2014
July 2014	\$0.05	July 15, 2014	July 30, 2014
August 2014	\$0.05	August 15, 2014	August 29, 2014
September 2014	\$0.05	September 15, 2014	September 29, 2014
October 2014	\$0.05	October 15, 2014	October 30, 2014
November 2014	\$0.05	November 17, 2014	November 26, 2014
December 2014	\$0.05	December 15, 2014	December 30, 2014

# ARMOUR Balance Sheet Targets

## Assets

ARMOUR invests in Agency mortgage securities.

## Duration

Net balance sheet weighted average duration target of 1.5 or less.

- 5.66 gross asset duration.
- -4.09 hedge duration.
- 0.71 net balance sheet duration.

## Hedging

Hedge a minimum of 40% of assets and funding rate risk.

- \$16.0 billion in derivatives (swaps, swaptions, and futures).
- 103.1% of assets hedged with derivatives.
- 121.4% of repurchase agreements hedged with derivatives.

## Liquidity

Hold 40% of unlevered equity in cash between prepayment periods.

- \$1,179.1 million in total liquidity.
  - \$474.8 million in true cash.
  - \$557.6 million in unlevered securities.
  - \$146.7 million in short term Agency P&I.

## Leverage

Long term debt to equity target of 8x - 9x.

- \$13.2 billion in net REPO borrowings.
- 6.1x Q3 2013 shareholders' equity.

# ARMOUR Portfolio Strategy and Investment Methodology

Management has a focused and disciplined approach to evaluating assets for inclusion in the ARMOUR portfolio. ARMOUR employs a strong bias toward a 'buy and hold' strategy rather than a 'trading' strategy. ARMOUR will strategically sell assets when it believes market conditions warrant.

## ➤ **Diversify Broadly**

- Diversification limits idiosyncratic pool risk.
- Approximately 900 cusips.

## ➤ **Highly Liquid Assets**

- Purchase those Agency securities that are highly liquid (easily traded and priced).
- ARMOUR purchases "pass-through" securities.
- No collateralized mortgage obligations ("CMOs").

## ➤ **Diversified Sources**

- Source assets through a mix of direct purchases from:
  - Originators.
  - Dealer inventories.
  - Institutional investors.

## ➤ **Loan Analysis – Inelasticity vs. Elasticity**

- Credit work on non-credit assets.
- Original and current loan balance.
- Year of origination.
- Originating company, third-party originators.
- Loan seasoning.
- Principal amortization schedule.
- Original loan-to-value ratio.
- Geography.

## ➤ **Pool Analysis**

- NO TBA pools – Only specified pools.
- Prepayment history.
- Prepayment expectations.
- Premium over par.
- "Hedgability."
- Liquidity.

# ARMOUR Portfolio Composition

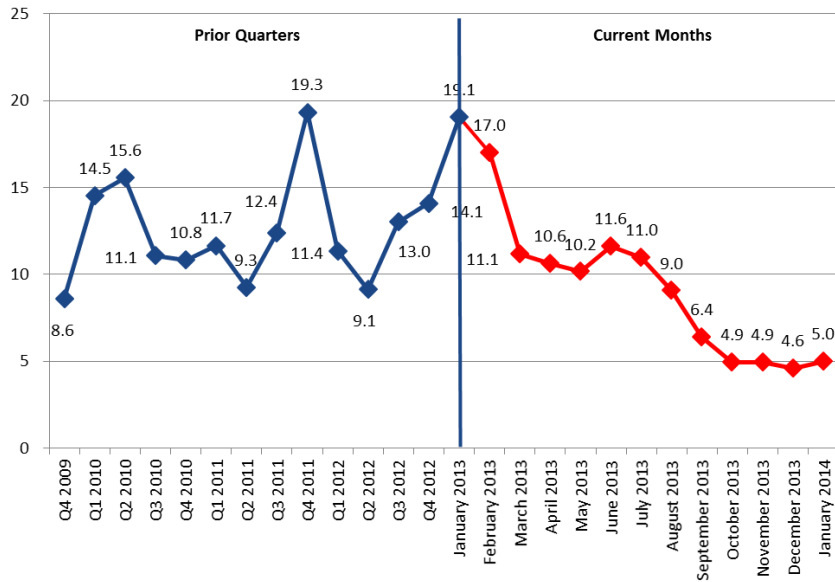
ARM & Hybrid Securities Months to Reset	Current Value (millions)	Percentage of ARM & Hybrid Securities	Weighted Average Net/Gross Coupon	Weighted Average Months to Reset
0-18	\$ 157.5	73.1%	3.93/4.41	10
19-36	\$ 49.9	23.2%	4.00/4.36	27
37-48	\$ 7.9	3.7%	3.81/4.33	43
<b>Total</b>	<b>\$ 215.3</b>	<b>100.0%</b>	<b>3.95/4.39</b>	<b>15</b>

Fixed Rate Securities	Current Value (millions)	Percentage of Fixed Rate Securities	Weighted Average Net/Gross
Fixed Rates Maturing in 120 Months or Less	\$ 1.5	0.0%	5.35/5.92
Fixed Rates Maturing Between 121 and 180 Months	\$ 3,768.1	24.6%	3.39/3.84
Fixed Rates Maturing Between 181 and 240 Months	\$ 4,777.3	31.2%	3.53/4.03
Fixed Rates Maturing Between 241 and 300 Months	\$ 273.3	1.8%	3.52/4.08
Fixed Rates Maturing Between 301 and 360 Months	\$ 6,501.2	42.4%	3.53/4.00
<b>Total</b>	<b>\$ 15,321.5</b>	<b>100.0%</b>	<b>3.50/3.97</b>

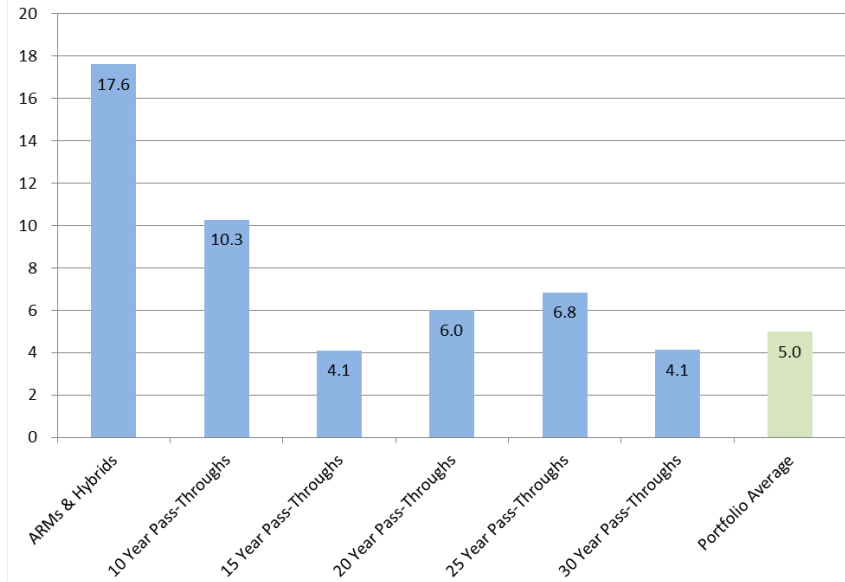
Information as of 1/9/2014. Portfolio value is based on independent third-party pricing. Portfolio information includes all forward settling trades. Some totals may not foot due to rounding.

# ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

Monthly Portfolio Constant Prepayment Rate



January 2014 Agency Asset CPR



ARMOUR expenses premium amortization monthly as it occurs.

Constant Prepayment Rate (“CPR”) is the annualized equivalent of single monthly mortality (“SMM”). CPR attempts to predict the percentage of principal that will prepay over the next twelve months based on historical principal pay downs.

CPR is reported on the 4th business day of the month for the previous month's prepayment activity.





# ARMOUR Portfolio and Derivatives Duration Detail

Agency Asset Class	Current Value (millions)	Weighted Average Purchase Price	Weighted Average Current Market Price	Weighted Average Net/Gross Coupon	Estimated Effective Duration Using Current Values
<b>ARMs &amp; Hybrids</b>	\$ 215.3	104.7%	106.1%	3.95/4.39	1.43
Fixed Rates Maturing in 120 Months or Less	\$ 1.5	105.5%	107.1%	5.35/5.92	2.25
Fixed Rates Maturing Between 121 and 180 Months	\$ 3,768.1	104.7%	104.2%	3.39/3.84	4.32
Fixed Rates Maturing Between 181 and 240 Months	\$ 4,777.3	105.5%	102.3%	3.53/4.03	4.97
Fixed Rates Maturing Between 241 and 300 Months	\$ 273.3	106.3%	99.7%	3.52/4.08	6.30
Fixed Rates Maturing Between 301 and 360 Months	\$ 6,501.2	105.3%	99.6%	3.53/4.00	7.06
<b>Total or Weighted Average</b>	<b>\$ 15,536.8</b>	<b>105.2%</b>	<b>101.7%</b>	<b>3.50/3.98</b>	<b>5.66</b>

Estimated Balance Sheet Duration	Amount (millions)	Duration Effect on Balance Sheet		Amount (millions)	Total Hedge %
Agency Assets	\$ 15,536.8	5.66	Assets	\$ 15,536.8	103.1%
Interest Rate Swaps & Eurodollar Futures	\$ 10,275.0	-4.86	Net Repo Balance	\$ 13,204.9	121.4%
Interest Rate Swaptions	\$ 5,750.0	-2.70			
<b>Net Balance Sheet Duration</b>		<b>0.71</b>			

Duration estimates are derived from third-party software. Actual realized yields, durations and net durations described herein will depend on a number of factors that cannot be predicted with certainty. If rates decline, the value of our derivatives will typically decline. Inversely, if rates increase, the value of our derivatives will typically increase.

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# ARMOUR Derivatives Detail

Derivative Type	Remaining Term	Weighted Average Remaining Term (Months)	Notional Amount (millions)	Weighted Average Rate
Interest Rate Swap	0-12 Months	2	\$ 200.0	1.14
Interest Rate Swap	13-24 Months	17	\$ 920.0	1.13
Interest Rate Swap	25-36 Months	27	\$ 2,900.0	1.23
Interest Rate Swap	37-48 Months	43	\$ 350.0	0.63
Interest Rate Swap	49-60 Months	49	\$ 300.0	1.00
Interest Rate Swap	61-72 Months	0	\$ -	0.00
Interest Rate Swap	73-84 Months	73	\$ 300.0	1.48
Interest Rate Swap	85-96 Months	0	\$ -	0.00
Interest Rate Swap	97-108 Months	102	\$ 2,450.0	1.47
Interest Rate Swap	109-120 Months	110	\$ 2,800.0	2.08
Eurodollar Futures	0-21 Months	12	\$ 55.0	1.97
<b>Total or Weighted Average</b>		<b>69</b>	<b>\$ 10,275.0</b>	<b>1.49</b>

Interest Rate Swaptions	Underlying Swap Term	Weighted Average Remaining Option Term (Months)	Notional Amount (millions)	Weighted Average Rate
Interest Rate Swaptions	60 Months	9	\$ 4,000.0	2.73
Interest Rate Swaptions	120 Months	6	\$ 1,750.0	3.16
<b>Total or Weighted Average</b>		<b>8</b>	<b>\$ 5,750.0</b>	<b>2.86</b>

Active swap/swaption counterparties include:

Citibank, N.A., Credit Suisse International, Deutsche Bank AG, JP Morgan Chase, N.A., Nomura Global Financial Products Inc., UBS AG, and Wells Fargo Bank, N.A.

Information as of 1/9/2014. Some totals may not foot due to rounding.

# ARMOUR REPO Composition

REPO Counter-Party <sup>(1)</sup>	Principal Borrowed (millions)	Percentage of REPO Positions with ARMOUR	Weighted Average Maturity in Days	Longest Maturity in Days
1 J.P. Morgan Securities LLC	\$ 1,032.7	7.8%	14	32
2 BNP Paribas Securities Corp.	\$ 1,012.4	7.6%	97	217
3 ICBC Financial Services LLC	\$ 907.4	6.8%	68	82
4 Merrill Lynch, Pierce, Fenner & Smith Inc.	\$ 907.2	6.8%	32	67
5 Mitsubishi UFJ Securities (USA), Inc.	\$ 813.7	6.1%	30	36
6 Barclays Capital Inc.	\$ 794.8	6.0%	29	35
7 Nomura Securities International, Inc.	\$ 758.6	5.7%	55	90
8 Citibank, N.A. (2)	\$ 700.0	5.3%	41	63
9 Credit Suisse Securities (USA) LLC	\$ 647.7	4.9%	33	42
10 The Bank of Nova Scotia	\$ 645.8	4.9%	34	70
11 South Street Securities LLC	\$ 499.2	3.8%	8	8
12 RBS Securities Inc.	\$ 482.4	3.6%	18	28
13 Royal Bank of Canada	\$ 464.7	3.5%	27	40
14 Daiwa Securities America Inc.	\$ 455.7	3.4%	34	42
15 Morgan Stanley & Co. LLC	\$ 429.0	3.2%	36	36
16 Wells Fargo Bank, N.A.	\$ 410.2	3.1%	12	25
17 Mizuho Securities USA Inc.	\$ 374.9	2.8%	58	67
18 Citigroup Global Markets Inc.	\$ 347.1	2.6%	26	40
19 CRT Capital Group LLC	\$ 342.0	2.6%	46	46
20 KGS-Alpha Capital Markets, L.P.	\$ 309.3	2.3%	16	43
21 Natixis Financial Products LLC	\$ 286.4	2.2%	48	48
22 Pierpont Securities LLC	\$ 175.6	1.3%	35	40
23 ING Financial Markets LLC	\$ 153.1	1.2%	25	25
24 Guggenheim Securities, LLC	\$ 106.9	0.8%	16	25
25 Goldman, Sachs & Co.	\$ 104.2	0.8%	46	46
26 Deutsche Bank Securities Inc.	\$ 82.2	0.6%	4	4
27 UBS Securities LLC	\$ 66.4	0.5%	64	64
<b>Total or Weighted Average</b>	<b>\$ 13,309.5</b>	<b>100.0%</b>	<b>39</b>	

<b>Weighted Average Repo Rate</b>	0.41%
<b>Weighted Average Haircut</b>	4.97%

<b>January Paydowns</b>	(104.6)
<b>Net REPO after Paydowns</b>	13,204.9
<b>Debt to Q3 2013 Shareholders' Equity Ratio</b>	6.1

- (1) ARMOUR has signed MRAs with 35 counterparties.
- (2) These numbers reference the days to next rate reset, although the original maturities of these trades were 1 year.

Information as of 1/9/2014.  
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# ARMOUR RESIDENTIAL REIT

[www.armourreit.com](http://www.armourreit.com)

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