



ARMOUR

RESIDENTIAL REIT

ARMOUR RESIDENTIAL REIT, Inc.

Company Update

November 20, 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 Portfolio & Hedge Update

As described in previous Monthly Company Updates, ARMOUR sold 15yr MBS securities in September that will settle in December 2014. Therefore, these assets have been removed from the portfolio in this presentation. However, since these transactions were done on a forward settle basis and the bonds will remain on repo until they settle, they are still included in all the repo reporting herein.

During November, we have added some longer final maturity Agency mortgages to the portfolio that have either many years of seasoning or have lower loan balances. These characteristics generally mean the cash flows will be relatively stable and predictable in various interest rate environments.

ARMOUR Capitalization, Dividend Policy, Transparency and Manager

Market Capitalization

- 357,280,225 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 \$1.4 billion of common and \$191.9 million of preferred.

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 can be found at www.armourreit.com.

Transparency and Governance

- Portfolio and liability details are updated monthly at 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 and separate Lead Independent Director.

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.



Information as of 11/18/2014.

ARMOUR Balance Sheet Targets

Assets

ARMOUR invests in Agency mortgage securities.

Duration

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

- 4.38 gross asset duration.
- -4.44 hedge duration.
- -0.07 net balance sheet duration.

Hedging

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

- \$13.1 billion in hedges (swaps, Treasuries and futures).
- 86.4% of assets hedged.
- 95.6% of repurchase agreements hedged.

Liquidity

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

- \$962.8 million in total liquidity.
 - \$318.8 million in true cash.
 - \$451.8 million in unlevered securities.
 - \$192.2 million in short term Agency P&I.

Leverage

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

- \$15.3 billion in net REPO borrowings.
- 8.3 x Q3 2014 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.
- Over 1300 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.
- 62% of our 15yr MBS are between 85K – 175K loan balances.

➤ **Pool Analysis**

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

ARMOUR Portfolio and Derivatives Overview

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
ARMs (0-12 MTR, weighted average of 6 MTR)	\$ 134.1	104.6%	105.4%	3.43/3.89	1.14
Agency Multifamily Ballooning in 120 Months or Less	\$ 1,252.4	102.8%	103.8%	3.26/4.44	7.69
Fixed Rates Maturing in 120 Months or Less	\$ 6.3	104.7%	108.6%	4.54/5.03	2.56
Fixed Rates Maturing Between 121 and 180 Months	\$ 8,053.8	104.7%	105.5%	3.34/3.81	3.68
Fixed Rates Maturing Between 181 and 240 Months	\$ 4,927.0	105.8%	105.5%	3.60/4.11	3.80
Fixed Rates Maturing Between 241 and 360 Months	\$ 731.1	106.7%	106.9%	4.03/4.50	3.78
Total or Weighted Average	\$ 15,104.5	105.0%	105.4%	3.45/4.00	4.04

	Duration Contribution to Balance Sheet		Amount (millions)	Total Hedge %
Agency Assets	4.38	Assets	\$ 15,104.5	86.4%
Interest Rate Swaps & Eurodollar Futures	-4.11	Net Repo Balance	\$ 13,650.4	95.6%
Treasuries	-0.33			
Net Balance Sheet Duration	-0.07			

Note: The table above shows the effect of sales upon settlement.

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.

Information as of 11/18/2014. Portfolio value is based on independent third-party pricing. Portfolio information includes all forward settling trades. Some totals may not foot due to rounding.

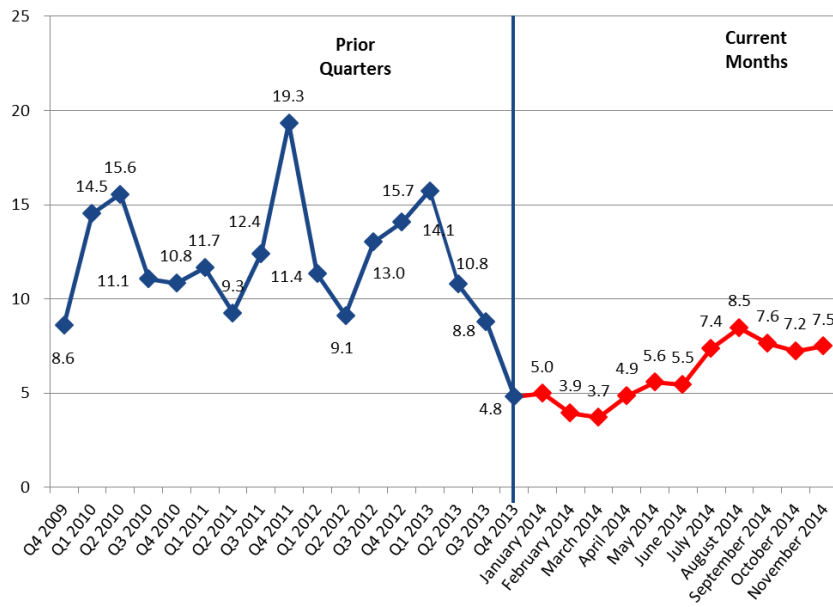
ARMOUR Hedge Detail

Derivative Type	Remaining Term	Weighted Average Remaining Term (Months)	Notional Amount (millions)	Weighted Average Rate
Interest Rate Swap	0-12 Months	7	\$ 905.0	1.12
Interest Rate Swap	13-24 Months	17	\$ 2,925.0	1.24
Interest Rate Swap	25-36 Months	32	\$ 350.0	0.63
Interest Rate Swap	37-48 Months	39	\$ 300.0	1.00
Interest Rate Swap	49-60 Months	60	\$ 1,000.0	1.58
Interest Rate Swap	61-72 Months	63	\$ 300.0	1.48
Interest Rate Swap	73-84 Months	0	\$ -	0.00
Interest Rate Swap	85-96 Months	92	\$ 2,450.0	1.47
Interest Rate Swap	97-108 Months	99	\$ 2,800.0	2.08
Interest Rate Swap	109-120 Months	0	\$ -	0.00
Interest Rate Swap	121-132 Months	122	\$ 1,000.0	2.66
Eurodollar Futures	0-10 Months	6	\$ 25.0	2.13
Total or Weighted Average		65	\$ 12,055.0	1.60
5 Year Treasuries		Notional Amount (millions) \$ 1,000.0		

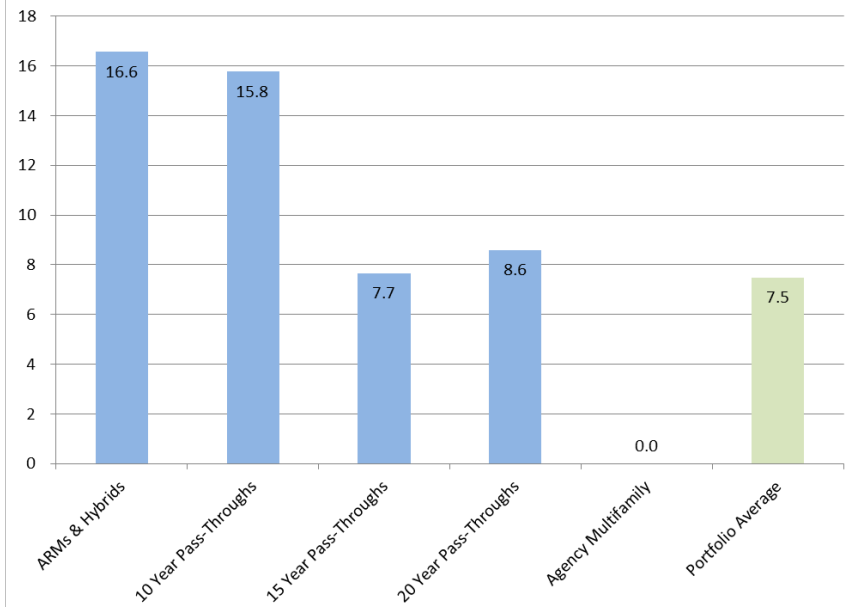
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ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

Monthly Portfolio Constant Prepayment Rate



November 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 REPO Composition

REPO Counter-Party ⁽¹⁾	Principal Borrowed (millions)	Percentage of REPO Positions with ARMOUR	Weighted Average Original Term in Days	Weighted Average Remaining Term in Days	Longest Remaining Term in Days
1 BNP Paribas Securities Corp.	\$ 1,218.7	7.9%	155	105	345
2 J.P. Morgan Securities LLC	\$ 1,199.6	7.7%	163	111	153
3 Merrill Lynch, Pierce, Fenner & Smith Inc.	\$ 1,181.3	7.6%	78	32	87
4 Mitsubishi UFJ Securities (USA), Inc.	\$ 1,085.4	7.0%	99	73	87
5 Wells Fargo Bank, N.A.	\$ 924.1	6.0%	31	26	30
6 ICBC Financial Services LLC	\$ 859.0	5.5%	146	64	135
7 The Bank of Nova Scotia	\$ 723.9	4.7%	65	42	79
8 Citibank, N.A.	\$ 700.0	4.5%	365	209	248
9 Credit Suisse Securities (USA) LLC	\$ 654.5	4.2%	70	50	86
10 Barclays Capital Inc.	\$ 652.2	4.2%	30	20	28
11 Morgan Stanley & Co. LLC	\$ 650.8	4.2%	89	73	87
12 Nomura Securities International, Inc.	\$ 649.4	4.2%	80	51	85
13 The Bank of New York Mellon	\$ 500.0	3.2%	328	278	316
14 Daiwa Securities America Inc.	\$ 463.3	3.0%	65	16	28
15 ING Financial Markets LLC	\$ 457.2	2.9%	82	45	80
16 RBS Securities Inc.	\$ 443.1	2.9%	66	45	70
17 KGS-Alpha Capital Markets, L.P.	\$ 374.7	2.4%	142	76	149
18 Royal Bank of Canada	\$ 363.0	2.3%	72	37	73
19 CRT Capital Group LLC	\$ 351.6	2.3%	56	6	6
20 South Street Securities LLC	\$ 327.6	2.1%	31	6	6
21 Mizuho Securities USA Inc.	\$ 311.3	2.0%	90	29	29
22 Citigroup Global Markets Inc.	\$ 285.6	1.8%	85	34	69
23 UBS Securities LLC	\$ 262.1	1.7%	87	41	58
24 Pierpont Securities LLC	\$ 227.0	1.5%	76	32	92
25 Guggenheim Securities, LLC	\$ 191.7	1.2%	71	48	76
26 Goldman, Sachs & Co.	\$ 158.0	1.0%	90	58	58
27 Deutsche Bank Securities Inc.	\$ 140.4	0.9%	58	30	52
28 Natixis Financial Products LLC	\$ 79.4	0.5%	89	83	83
29 E D & F Man Capital Markets Inc.	\$ 66.9	0.4%	91	22	22
Total or Weighted Average	\$ 15,501.9	100.0%	112	68	

Weighted Average Repo Rate	0.36%
Weighted Average Haircut	4.89%

November Paydowns	(177.8)
Net REPO after Paydowns	15,324.1
Debt to Quarter End Shareholders' Equity Ratio	8.3

(1) ARMOUR has signed MRAs with 38 counterparties.

Information as of 11/18/2014.
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