



# ARMOUR

## RESIDENTIAL REIT

ARMOUR RESIDENTIAL REIT, Inc.

Company Update

March 24, 2015

## 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.**



# Monthly Commentary

Since our earnings call on February 25<sup>th</sup> when we addressed our outlook for earnings and our hedging strategy, we have made portfolio and liability changes which affect both. We estimated on the call that we were not quite earning \$0.03 a month during Q1, as we maintained our relatively large and expensive swap position. We believe our early estimates will hold true for Q1. Core earnings will likely come in a bit under \$0.09 a share. The changes we have made will likely put our estimate of Core earnings much closer to \$0.04 a share in April. Future month's earnings will be influenced by changes in amortization expense and funding rates, especially in the case of a change in the Fed-Funds rate.

Portfolio changes since the February 25<sup>th</sup> call consist of:

- Sales of \$546.2 million of fifteen year 3% and 3.5% pass-thru's.
- Purchases of a \$244.3 million seasoned thirty year 4.5% coupon bond with a final maturity of November 2034, \$354.3 million of thirty year 3.5% coupons with original loan balances at or below \$175,000, and \$218.0 million of Agency multi-family bonds ("DUS" Bonds).

These transactions increased our asset duration to 3.96 from last month's 3.87 and increased earnings as the asset purchases yield more than the asset sales.

On the hedge side, we modified \$3.78 billion of swaps with an average of 89 months to maturity by converting them to forward starting four year, six year and ten years swaps totaling \$3.48 billion. We expect these transactions will enhance the Company's earnings power for the next year while maintaining a similar hedge duration. These modifications have also more closely aligned our hedges with the expected duration across the curve of our mortgage portfolio, resulting in somewhat less long-end and greater intermediate term hedge concentration. These changes have allowed us to improve the expected efficacy of the hedge book as well as reduce costs.

Today, 81.9% of the Company's REPO balance is covered by swaps and 77.7% of the Company's fixed rate assets are covered by swaps. However, not all of the swaps pay immediately - forward starting swaps represent 29% of the Company's entire swap position. The forward starting swaps begin to pay in January 2016 (\$625 million) with the bulk of them beginning in March 2016 (\$2.1 billion). During the remainder of 2015, \$625 million of the Company's swaps mature.

## Monthly Commentary

These changes have resulted in a current balance sheet duration of 0.10, a rates DV01 (dollar value of a basis point move in the entire curve assuming constant OAS, or option adjusted spread) of \$151,000 and a mortgage spread (OAS) DV01 of \$7.67 million. The rates DV01 does not remain constant as rates go up. We estimate that an immediate 50 basis point move across the curve would make the DV01 change to \$1.05 million. Changes in DV01 for larger moves across the curve would likely not be linear.

Since our February 25<sup>th</sup> call, OAS on fifteen year pass-thru's have widened by 6 OAS and twenty year pass-thru's have widened by 6.5 OAS. The spreads on the DUS bonds the Company owns have remained relatively stable. Treasuries have rallied since February 25<sup>th</sup> with the two year down in yield three basis points, the five year down in yield five basis points and the ten year down six basis points. The combination of wider OAS, lower treasury yields and a near zero balance sheet duration, accompanied by the fact we likely over-distributed \$0.03 per share or so in Q1, means that estimated book value is down since the earnings call when we provided a range of \$4.20 to \$4.28. The "ARR" March 20<sup>th</sup> closing price of \$3.24 is approximately 22% below our current book value estimates of \$4.09 to \$4.13 a share.

If the Company produces Core earnings of \$0.04 a month, that would represent an 11.7% ROE on estimated current book value and a 14.8% return on the current stock price. For the eight REITs that analysts generally place in the Agency REIT category, the average dividend yield for the group, excluding ARR, is 10.2% vs. current estimated book value.

Since the conference call, the Company has repurchased 875,000 shares of common stock in the open market. We have Board authority to continue share repurchases and will selectively continue to do so. Insiders, which include the Company Board members and senior management, continue to own a combined 3,116,088 in ARR shares valued at \$10.1 million based on Friday's closing stock price of \$3.24.

# ARMOUR Capitalization, Dividend Policy, Transparency and Manager

## Market Capitalization

- 352,292,815 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 \$1.1 billion of common and \$188.4 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.

## Transparency and Governance

- Portfolio and liability details are updated monthly at [www.armoureit.com](http://www.armoureit.com).
- Premium amortization is expensed monthly as it occurs. No yield smoothing.<sup>(1)</sup>
- 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 Capital Management LP.
- Accretive fee structure: effective fee percentage declines as equity increases.

(1) Due to the prepayment lockout feature of our Agency multifamily securities, premium is amortized using a level yield methodology.



Information as of 3/20/2015.

# ARMOUR Balance Sheet Targets

## Assets

ARMOUR invests in Agency mortgage securities.

## Duration

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

- 4.02 gross asset duration.
- -3.92 hedge duration.
- 0.10 net balance sheet duration.

## Hedging

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

- \$12.0 billion in hedges (swaps and futures).
- 77.1% of assets hedged (54.8% with current paying swaps).
- 81.9% of repurchase agreements hedged (58.1% with current paying swaps).

## Liquidity

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

- \$867.1 million in total liquidity.
  - \$337.3 million in true cash.
  - \$351.3 million in unlevered securities.
  - \$178.5 million in short term Agency P&I.

## Leverage

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

- \$14.7 billion in net REPO borrowings.
- 8.4 x Q4 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.
- 73% 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                                  | % of Total ARR Portfolio | Current Value (millions) | Weighted Average Purchase Price | Weighted Average Current Market Price | Weighted Average Net/Gross Coupon | Estimated Effective Duration Using Current Values |
|---|--------------------------|--------------------------|---------------------------------|---------------------------------------|-----------------------------------|---|
| ARMs & Hybrids                                      | 0.81%                    | \$ 125.9                 | 104.6%                          | 105.5%                                | 2.89/3.36                         | 1.14  |
| Agency Multifamily Ballooning in 120 Months or Less | 13.08%                   | \$ 2,042.6               | 103.1%                          | 105.4%                                | 3.14/4.21                         | 7.76  |
| Fixed Rates Maturing in 120 Months or Less          | 0.10%                    | \$ 16.3                  | 104.9%                          | 107.6%                                | 4.31/4.70                         | 2.55  |
| Fixed Rates Maturing Between 121 and 180 Months     | 42.60%                   | \$ 6,650.6               | 104.6%                          | 106.0%                                | 3.33/3.81                         | 3.36  |
| Fixed Rates Maturing Between 181 and 240 Months     | 32.62%                   | \$ 5,093.2               | 106.1%                          | 106.2%                                | 3.66/4.17                         | 3.09  |
| Fixed Rates Maturing Between 241 and 360 Months     | 10.79%                   | \$ 1,684.5               | 106.3%                          | 107.2%                                | 3.90/4.38                         | 4.60  |
| <b>Total or Weighted Average</b>                    | <b>100.00%</b>           | <b>\$ 15,613.1</b>       | <b>105.08%</b>                  | <b>106.1%</b>                         | <b>3.47/4.04</b>                  | <b>3.96</b>                                       |

|  | Duration Contribution to Balance Sheet |                  | Amount (millions) | Total Hedge % (Current Paying) | Total Hedge % (All hedges) |
|--|--|------------------|-------------------|--------------------------------|----------------------------|
| Agency Assets                            | 4.02                                   | Assets           | \$ 15,613.1       | 54.8%                          | 77.1%                      |
| Interest Rate Swaps & Eurodollar Futures | -3.92                                  | Net Repo Balance | \$ 14,703.5       | 58.1%                          | 81.9%                      |
| <b>Net Balance Sheet Duration</b>        | <b>0.10</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.

Information as of 3/20/2015. 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    | 9  | \$ 2,300.0                 | 0.93                  |
| Interest Rate Swap               | 13-24 Months   | 15                                       | \$ 1,225.0                 | 1.64                  |
| Interest Rate Swap               | 25-36 Months   | 31                                       | \$ 650.0                   | 0.80                  |
| Interest Rate Swap               | 37-48 Months   | 0  | \$ -                       | 0.00                  |
| Interest Rate Swap               | 49-60 Months   | 56                                       | \$ 2,350.0                 | 1.56                  |
| Interest Rate Swap               | 61-72 Months   | 0  | \$ -                       | 0.00                  |
| Interest Rate Swap               | 73-84 Months   | 83                                       | \$ 500.0                   | 2.03                  |
| Interest Rate Swap               | 85-96 Months   | 93                                       | \$ 1,900.0                 | 2.10                  |
| Interest Rate Swap               | 97-108 Months  | 0  | \$ -                       | 0.00                  |
| Interest Rate Swap               | 109-120 Months | 118                                      | \$ 1,000.0                 | 2.66                  |
| Interest Rate Swap               | 121-132 Months | 132                                      | \$ 2,000.0                 | 2.27                  |
| Interest Rate Swap               | 132-144 Months | 132                                      | \$ 100.0                   | 2.21                  |
| Eurodollar Futures               | 0-6 Months     | 6  | \$ 10.0                    | 2.11                  |
| <b>Total or Weighted Average</b> |                | <b>67</b>                                | <b>\$ 12,035.0</b>         | <b>1.73</b>           |

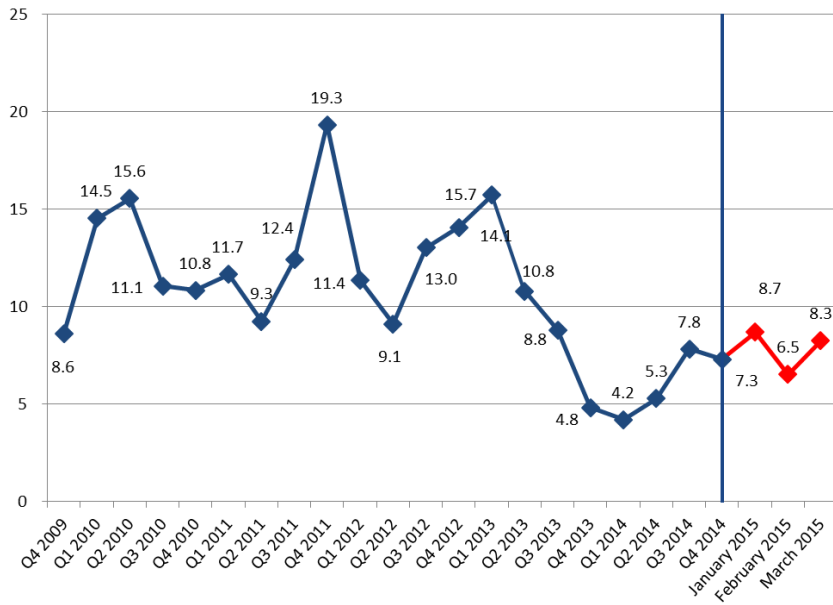
The table above includes forward starting swaps with the following characteristics:

|   |            |
|---|------------|
| Notional Amount (millions) :                | \$ 3,475.0 |
| Weighted Average Starting Term (Months) :   | 12         |
| Weighted Average Underlying Term (Months) : | 110        |
| Weighted Average Rate :                     | 2.13       |

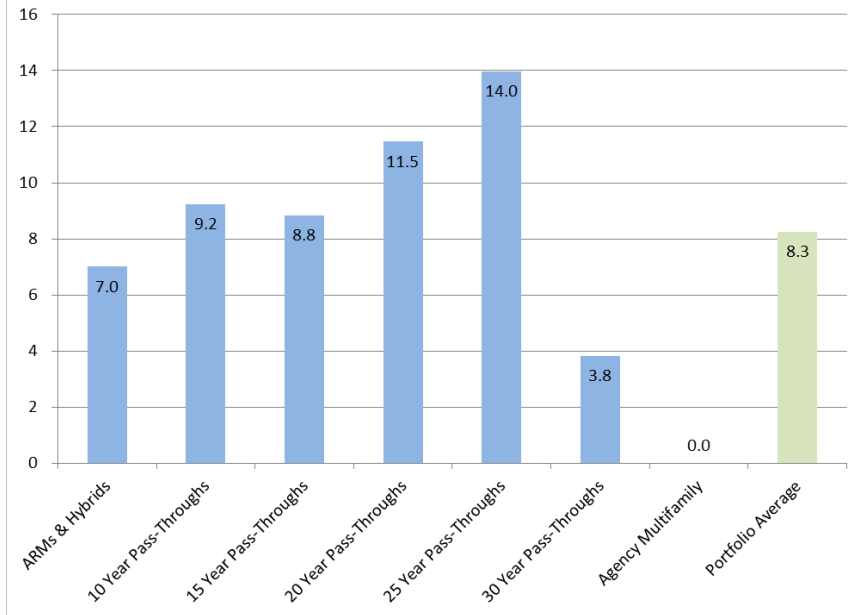
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# ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

Monthly Portfolio Constant Prepayment Rate



March 2015 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 <sup>(1)</sup>            | 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.               | \$ 1,119.6                    | 7.6%                                     | 103                                    | 59                                      | 223                            |
| 2 Wells Fargo Bank, N.A.                     | \$ 1,069.1                    | 7.3%                                     | 32                                     | 25                                      | 31                             |
| 3 J.P. Morgan Securities LLC                 | \$ 1,066.0                    | 7.3%                                     | 138                                    | 34                                      | 53                             |
| 4 Merrill Lynch, Pierce, Fenner & Smith Inc. | \$ 1,044.0                    | 7.1%                                     | 90                                     | 68                                      | 88                             |
| 5 Mitsubishi UFJ Securities (USA), Inc.      | \$ 930.7                      | 6.3%                                     | 87                                     | 50                                      | 83                             |
| 6 Morgan Stanley & Co. LLC                   | \$ 844.5                      | 5.7%                                     | 69                                     | 53                                      | 59                             |
| 7 ICBC Financial Services LLC                | \$ 812.2                      | 5.5%                                     | 113                                    | 47                                      | 82                             |
| 8 Citibank, N.A.                             | \$ 700.0                      | 4.8%                                     | 366                                    | 296                                     | 360                            |
| 9 The Bank of Nova Scotia                    | \$ 669.4                      | 4.6%                                     | 75                                     | 60                                      | 91                             |
| 10 Nomura Securities International, Inc.     | \$ 633.4                      | 4.3%                                     | 67                                     | 32                                      | 73                             |
| 11 Barclays Capital Inc.                     | \$ 508.5                      | 3.5%                                     | 92                                     | 78                                      | 84                             |
| 12 The Bank of New York Mellon               | \$ 500.0                      | 3.4%                                     | 291                                    | 156                                     | 194                            |
| 13 ABN AMRO Bank N.V.                        | \$ 481.6                      | 3.3%                                     | 87                                     | 55                                      | 84                             |
| 14 Daiwa Securities America Inc.             | \$ 462.7                      | 3.1%                                     | 74                                     | 52                                      | 83                             |
| 15 ING Financial Markets LLC                 | \$ 439.9                      | 3.0%                                     | 79                                     | 65                                      | 87                             |
| 16 CRT Capital Group LLC                     | \$ 414.6                      | 2.8%                                     | 60                                     | 4                                       | 4                              |
| 17 South Street Securities LLC               | \$ 347.6                      | 2.4%                                     | 27                                     | 3                                       | 3                              |
| 18 Royal Bank of Canada                      | \$ 342.7                      | 2.3%                                     | 90                                     | 59                                      | 81                             |
| 19 E D & F Man Capital Markets Inc.          | \$ 329.9                      | 2.2%                                     | 85                                     | 67                                      | 83                             |
| 20 KGS-Alpha Capital Markets, L.P.           | \$ 325.4                      | 2.2%                                     | 64                                     | 36                                      | 88                             |
| 21 UBS Securities LLC                        | \$ 309.7                      | 2.1%                                     | 90                                     | 81                                      | 88                             |
| 22 Mizuho Securities USA Inc.                | \$ 284.6                      | 1.9%                                     | 92                                     | 89                                      | 89                             |
| 23 TD Bank, N.A.                             | \$ 255.9                      | 1.7%                                     | 76                                     | 48                                      | 69                             |
| 24 Citigroup Global Markets Inc.             | \$ 205.1                      | 1.4%                                     | 75                                     | 33                                      | 59                             |
| 25 Pierpont Securities LLC                   | \$ 192.4                      | 1.3%                                     | 90                                     | 72                                      | 88                             |
| 26 Guggenheim Securities, LLC                | \$ 142.5                      | 1.0%                                     | 70                                     | 44                                      | 87                             |
| 27 Credit Suisse Securities (USA) LLC        | \$ 110.9                      | 0.8%                                     | 92                                     | 90                                      | 91                             |
| 28 Natixis Financial Products LLC            | \$ 79.3                       | 0.5%                                     | 88                                     | 49                                      | 49                             |
| 29 Goldman, Sachs & Co.                      | \$ 45.6                       | 0.3%                                     | 87                                     | 63                                      | 63                             |
| 30 Deutsche Bank Securities Inc.             | \$ 35.8                       | 0.2%                                     | 60                                     | 21                                      | 21                             |
| <b>Total or Weighted Average</b>             | <b>\$ 14,703.5</b>            | <b>100.0%</b>                            | <b>104</b>                             | <b>65</b>                               |                                |

|                                   |              |
|-----------------------------------|--------------|
| <b>Weighted Average Repo Rate</b> | <b>0.38%</b> |
| <b>Weighted Average Haircut</b>   | <b>4.79%</b> |

|   |            |
|---|------------|
| <b>Debt to Quarter End Shareholders' Equity Ratio</b> | <b>8.4</b> |
|---|------------|

(1) ARMOUR has signed MRAs with 41 counterparties.

Information as of 3/20/2015.  
Some totals may not foot due to rounding.



# ARMOUR RESIDENTIAL REIT

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

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