



ARMOUR

RESIDENTIAL REIT

ARMOUR RESIDENTIAL REIT, Inc.

Company Update

October 20, 2015

PLEASE READ: Important Regulatory and Yield Estimate Risk Disclosures

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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.

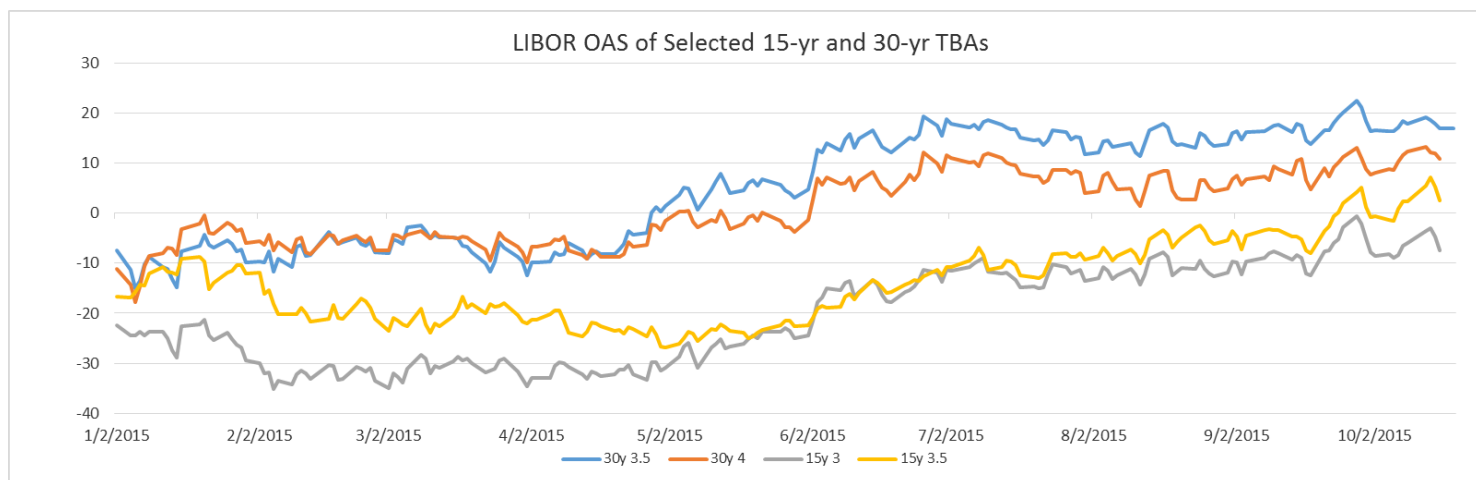
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During the third quarter, Agency MBS continued to widen on an OAS basis (chart below) and payer swap spread yields traded inside of U.S. Treasury ten year notes. It is quite unusual for these events to occur at once, but in these times of central bank intervention, many unusual events have occurred. The combination of wider mortgage spreads and inverted swap yields caused a decline in the book value of ARR during Q3 of approximately 8.3% vs. ending Q2. During October, however, some of these trends have reversed and almost 1.5% of that book value has been regained. As of October 16, book value stands at approximately \$29.32 - \$29.64, or down 6.9% from the end of Q2.

Our equity capital markets activity has been robust. During September of this year, the Company purchased 1,495,000 shares of its common stock at an average price of \$20.46. In October, and through October 16th, the Company has purchased 2,190,700 shares of the Company's common stock at an average price of \$20.98. The Company purchased \$76.6 million of shares in September and October at an average price of \$20.77. That is 29.5% below the current estimated book value today of \$29.32 - \$29.64.



(1) The OAS data was compiled from a third party service as of 10/16/2015

ARMOUR Monthly Metrics

| Report Date ⁽¹⁾ | 7/13/2015 | 8/11/2015 | 9/9/2015 | 10/20/2015 |
|--|-------------------|-----------------|-----------------|-----------------|
| Common Stock Price | \$23.12 | \$22.10 | \$20.68 | \$21.28 |
| Estimated Book Value Range ⁽²⁾ | \$31.24 - \$31.32 | \$31.25-\$31.33 | \$30.26-\$30.34 | \$29.32-\$29.64 |
| Common Shares Outstanding | 43,783,895 | 43,771,987 | 43,511,793 | 39,928,703 |
| Preferred A Shares Outstanding | 2,180,572 | 2,180,572 | 2,180,572 | 2,180,572 |
| Preferred B Shares Outstanding | 5,650,000 | 5,650,000 | 5,650,000 | 5,650,000 |
| Asset Balance Sheet Duration | 4.76 | 4.58 | 4.59 | 4.35 |
| Hedge Balance Sheet Duration | -3.96 | -3.95 | -3.92 | -4.02 |
| Net Balance Sheet Duration | 0.81 | 0.63 | 0.66 | 0.33 |
| Leverage ⁽³⁾ | 8.0 | 7.9 | 8.1 | 8.2 |
| Rates DV01 | 1,220,000 | 971,000 | 1,018,000 | 484,000 |
| Spread DV01 | 8,170,000 | 8,254,000 | 8,237,000 | 7,842,000 |
| FNCL 3.5 Price | 102.73 | 103.78 | 103.89 | 104.41 |
| FNCL 3.0 Price | 103.36 | 103.69 | 103.92 | 104.31 |
| 10 Yr Treasury Yield | 2.40% | 2.16% | 2.18% | 2.03% |
| 5 Year OIS Swap Rate | 1.54% | 1.48% | 1.34% | 1.14% |
| 10 Year OIS Swap Rate | 2.24% | 2.02% | 1.97% | 1.74% |

| Quarter | Asset Yield | Cost of Funds | Net Interest Margin |
|---------|-------------|---------------|---------------------|
| Q1 2014 | 3.20 | 1.37 | 1.82 |
| Q2 2014 | 2.85 | 1.40 | 1.46 |
| Q3 2014 | 2.68 | 1.25 | 1.43 |
| Q4 2014 | 2.71 | 1.44 | 1.27 |
| Q1 2015 | 2.72 | 1.52 | 1.20 |
| Q2 2015 | 2.61 | 1.24 | 1.36 |

(1) Some of the data may be based on information preceding the date of the report (i.e., closing prices).

(2) A portion of the dividend payable has been subtracted from the book value range based on accrual throughout the month.

(3) Leverage does not include TBA dollar rolls and is based on the most recent audited financial statements available in the 10Q/10K at the time of the report.

ARMOUR Capitalization, Dividend Policy, Transparency and Manager

Capitalization

- 39,928,703 shares of common stock outstanding (NYSE: “ARR”).⁽¹⁾
- 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”).
- Estimated book value of common stock of \$1.2 billion.
- Preferred stock par value of \$195.8 million

Common Stock Dividend Policy

- ARMOUR pays common stock dividends monthly.
- Dividends are announced based on estimates of core and taxable REIT income.

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.⁽²⁾
- 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) Share count data is as of 10/16/2015 close.

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



Information as of 10/16/2015.

ARMOUR Balance Sheet Targets

Assets

ARMOUR invests in Agency mortgage securities.

Duration

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

- 4.35 gross asset duration.
- -4.02 hedge duration.
- 0.33 net balance sheet duration.

Hedging

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

- \$9.4 billion in hedges (swaps).
- 61.9% of assets hedged (33.1% with current paying swaps).
- 72.6% of repurchase agreements hedged (38.8% with current paying swaps).

Liquidity

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

- \$687.2 million in total liquidity.
 - \$178.7 million in true cash.
 - \$364.0 million in unlevered securities.
 - \$144.5 million in short term Agency P&I.

Leverage

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

- \$13.0 billion in net REPO borrowings.
- 8.2x Q2 2015 shareholders' equity (not including TBA dollar rolls).

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.
- 82.0% of our 15yr MBS are between 85K – 175K loan balances.

➤ **Pool Analysis**

- 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 | 0.8% | \$ 123.4 | 104.5% | 104.9% | 2.64/3.18 | 1.10 |
| Agency Multifamily Ballooning in 120 Months or Less | 16.6% | \$ 2,514.4 | 102.3% | 103.6% | 3.04/4.11 | 7.49 |
| Fixed Rates Maturing in 120 Months or Less | 0.6% | \$ 92.8 | 104.2% | 106.2% | 4.02/4.38 | 2.66 |
| Fixed Rates Maturing Between 121 and 180 Months | 32.4% | \$ 4,925.4 | 104.6% | 105.9% | 3.33/3.82 | 3.56 |
| Fixed Rates Maturing Between 181 and 240 Months | 28.7% | \$ 4,366.4 | 106.0% | 106.5% | 3.64/4.16 | 3.25 |
| Fixed Rates Maturing Between 241 and 360 Months | 12.6% | \$ 1,916.4 | 105.4% | 106.4% | 3.79/4.31 | 4.45 |
| FNCL 3.5 TBA | 8.3% | \$ 1,253.6 | 103.9% | 104.5% | 3.50/4.10 | 4.00 |
| Total or Weighted Average | 100.0% | \$ 15,192.4 | 104.7% | 105.6% | 3.45/4.06 | 4.24 |

| | Duration Contribution to Balance Sheet ⁽¹⁾ | | Amount (millions) | Total Hedge % (Current Paying) | Total Hedge % (All Hedges) |
|-----------------------------------|---|------------------|-------------------|--------------------------------|----------------------------|
| Agency Assets | 4.35 | Assets | \$ 15,192.4 | 33.1% | 61.9% |
| Interest Rate Swaps | -4.02 | Net Repo Balance | \$ 12,954.4 | 38.8% | 72.6% |
| Net Balance Sheet Duration | 0.33 | | | | |

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.

(1) The duration contribution to the balance sheet is based on effective duration and market value.

Information as of 10/16/2015. 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 Portfolio

| Current Pay | Remaining Term | Weighted Average Remaining Term (Months) | Notional Amount (millions) | Weighted Average Rate |
|----------------------------------|----------------|--|----------------------------|-----------------------|
| Interest Rate Swap | 0-12 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 13-24 Months | 22 | \$ 350.0 | 0.63 |
| Interest Rate Swap | 25-36 Months | 28 | \$ 300.0 | 1.00 |
| Interest Rate Swap | 37-48 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 49-60 Months | 49 | \$ 2,000.0 | 1.46 |
| Interest Rate Swap | 61-72 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 73-84 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 85-96 Months | 88 | \$ 1,375.0 | 2.11 |
| Interest Rate Swap | 97-108 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 109-120 Months | 111 | \$ 1,000.0 | 2.66 |
| Interest Rate Swap | 121-132 Months | 0 | \$ - | 0.00 |
| Interest Rate Swap | 132-144 Months | 0 | \$ - | 0.00 |
| Total or Weighted Average | | 69 | \$ 5,025.0 | 1.79 |

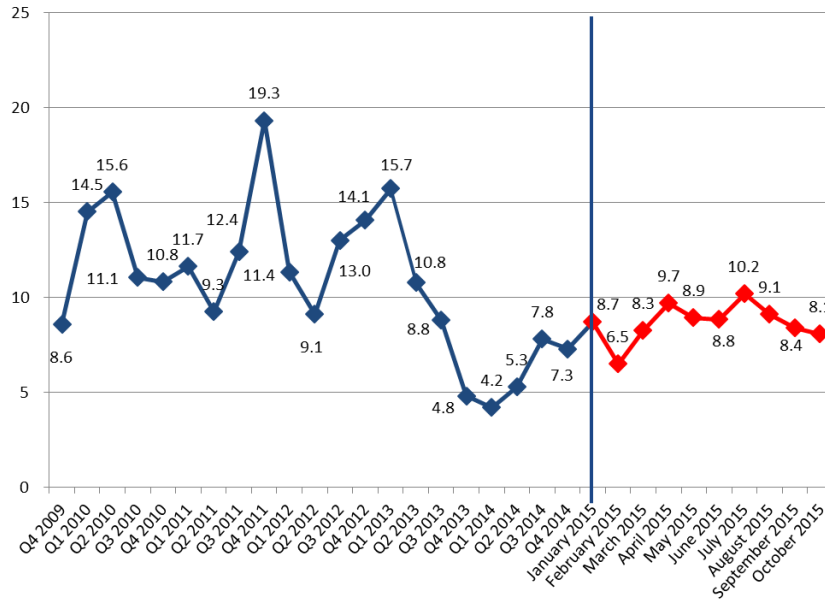
| Forward Starting | Weighted Average Months to Start | Weighted Average Underlying Term (Months) | Notional Amount (millions) | Weighted Average Rate |
|----------------------------------|----------------------------------|---|----------------------------|-----------------------|
| Interest Rate Swap | 7 | 24 | \$ 400.0 | 1.29 |
| Interest Rate Swap | 3 | 48 | \$ 350.0 | 1.53 |
| Interest Rate Swap | 5 | 72 | \$ 1,025.0 | 2.05 |
| Interest Rate Swap | 8 | 84 | \$ 250.0 | 2.28 |
| Interest Rate Swap | 5 | 120 | \$ 2,350.0 | 2.29 |
| Total or Weighted Average | 5 | 92 | \$ 4,375.0 | 2.08 |

The forward pay swaps that begin in late October 2015 have been moved to the current pay table.

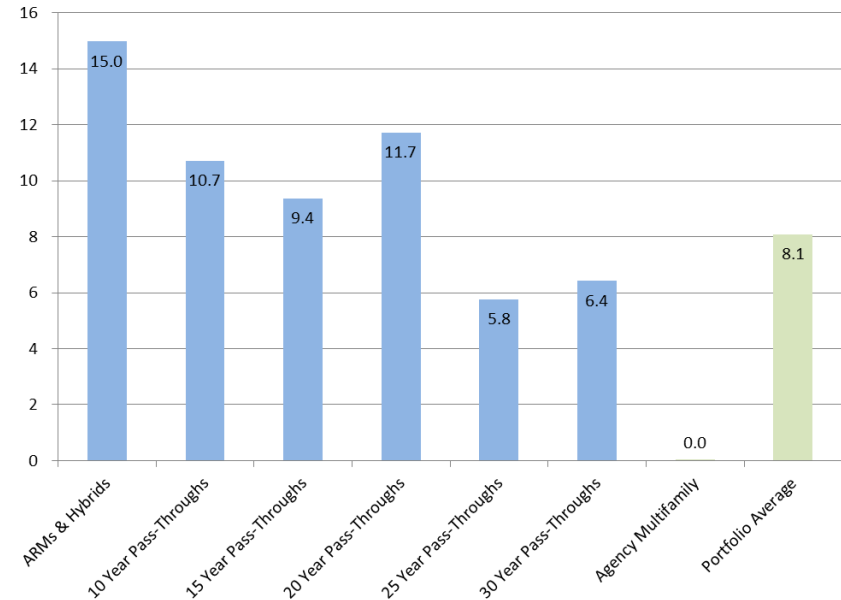
Information as of 10/16/2015. Some totals may not foot due to rounding.

ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

Monthly Portfolio Constant Prepayment Rate



October 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 ⁽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 Mitsubishi UFJ Securities (USA), Inc. | \$ 995.5 | 7.7% | 74 | 52 | 88 |
| 2 ICBC Financial Services LLC | \$ 932.3 | 7.2% | 60 | 38 | 83 |
| 3 Morgan Stanley & Co. LLC | \$ 901.4 | 7.0% | 58 | 33 | 81 |
| 4 Wells Fargo Securities | \$ 792.5 | 6.1% | 31 | 10 | 24 |
| 5 The Bank of Nova Scotia | \$ 766.0 | 5.9% | 69 | 46 | 88 |
| 6 Merrill Lynch, Pierce, Fenner & Smith Inc. | \$ 734.2 | 5.7% | 60 | 45 | 89 |
| 7 BNP Paribas Securities Corp. | \$ 714.1 | 5.5% | 103 | 35 | 53 |
| 8 Citibank, N.A. | \$ 700.0 | 5.4% | 366 | 86 | 150 |
| 9 J.P. Morgan Securities LLC | \$ 609.4 | 4.7% | 67 | 35 | 53 |
| 10 ING Financial Markets LLC | \$ 540.9 | 4.2% | 141 | 130 | 383 |
| 11 Societe Generale | \$ 521.5 | 4.0% | 61 | 40 | 88 |
| 12 E D & F Man Capital Markets Inc. | \$ 489.3 | 3.8% | 69 | 46 | 84 |
| 13 UBS Securities LLC | \$ 475.7 | 3.7% | 91 | 61 | 66 |
| 14 Daiwa Securities America Inc. | \$ 465.6 | 3.6% | 87 | 78 | 88 |
| 15 ABN AMRO Bank N.V. | \$ 457.1 | 3.5% | 106 | 58 | 73 |
| 16 Royal Bank of Canada | \$ 429.4 | 3.3% | 85 | 72 | 88 |
| 17 Nomura Securities International, Inc. | \$ 393.3 | 3.0% | 86 | 80 | 89 |
| 18 KGS-Alpha Capital Markets, L.P. | \$ 384.4 | 3.0% | 81 | 77 | 90 |
| 19 Mizuho Securities USA Inc. | \$ 250.9 | 1.9% | 91 | 62 | 62 |
| 20 The Bank of New York Mellon | \$ 250.0 | 1.9% | 364 | 343 | 343 |
| 21 Natixis Financial Products LLC | \$ 244.4 | 1.9% | 84 | 66 | 90 |
| 22 South Street Securities LLC | \$ 225.1 | 1.7% | 29 | 7 | 7 |
| 23 CRT Capital Group LLC | \$ 192.3 | 1.5% | 90 | 67 | 67 |
| 24 Guggenheim Securities, LLC | \$ 169.7 | 1.3% | 53 | 0 | 0 |
| 25 Deutsche Bank Securities Inc. | \$ 134.5 | 1.0% | 91 | 75 | 82 |
| 26 Federal Home Loan Bank of Des Moines | \$ 100.0 | 0.8% | 91 | 49 | 49 |
| 27 Citigroup Global Markets Inc. | \$ 84.8 | 0.7% | 32 | 10 | 10 |
| Total or Weighted Average | \$ 12,954.4 | 100.0% | 96 | 57 | |

| | |
|-----------------------------------|--------------|
| Weighted Average Repo Rate | 0.48% |
| Weighted Average Haircut | 4.85% |

| | |
|---|------------|
| Debt to Q2 2015 Shareholders' Equity Ratio | 8.2 |
|---|------------|

(1) ARMOUR has 38 lending counterparties.

Information as of 10/16/2015.
Some totals may not foot due to rounding.



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