



# ARMOUR

## RESIDENTIAL REIT

ARMOUR RESIDENTIAL REIT, Inc.

Company Update

12/23/2016

## 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.**



## Timing of Monthly Company Update

ARMOUR is making a change in the release dates of the Monthly Company Updates starting in 2017.

ARMOUR plans to prepare future Monthly Company Updates based on portfolio and other information at the end of the first two months of each quarter (i.e.; January 31<sup>st</sup>, February 28<sup>th</sup>; April 30<sup>th</sup>, May 31<sup>st</sup>, July 31<sup>st</sup>, August 31<sup>st</sup>, October 31<sup>st</sup>, November 30<sup>th</sup>). ARMOUR plans to release these Monthly Company Updates after our regular monthly closing process is complete. ARMOUR's Forms 10-Q and 10-K contain information as of quarter end, and therefore no separate Monthly Company Updates are planned for the third months of each quarter.

# ARMOUR Monthly Metrics

Market Date	10/14/16	11/18/16	12/21/16				
<b>Common Stock Price</b>	\$22.02	\$22.18	\$21.41				
<b>Estimated Book Value<sup>(1)</sup></b>	\$27.75	\$25.13	\$23.53				
<b>Common Shares Outstanding</b>	36,756,835	36,756,835	36,756,835				
<b>Preferred A Shares Outstanding</b>	2,180,572	2,180,572	2,180,572	Q1 2014	3.20	1.37	1.82
<b>Preferred B Shares Outstanding</b>	5,650,000	5,650,000	5,650,000	Q2 2014	2.85	1.40	1.46
<b>Asset Balance Sheet Duration</b>	3.18	4.15	4.02	Q3 2014	2.68	1.25	1.43
<b>Hedge Balance Sheet Duration</b>	(2.20)	(2.16)	(2.81)	Q4 2014	2.71	1.44	1.27
<b>Net Balance Sheet Duration</b>	0.99	1.99	1.21	Q1 2015	2.72	1.52	1.20
<b>Leverage<sup>(2)</sup></b>	6.7	7.2	6.6	Q2 2015	2.61	1.24	1.36
<b>Rates DV01</b>	1,040,511	2,013,824	1,175,000	Q3 2015	2.56	1.12	1.44
<b>Spread DV01</b>	5,089,430	5,290,660	4,840,000	Q4 2015	2.70	1.13	1.58
<b>FNCL 3.5 Price</b>	105.02	102.70	101.64	Q1 2016	2.73	1.36	1.37
<b>FNCI 3.0 Price</b>	104.69	103.09	102.09	Q2 2016	2.68	1.33	1.35
<b>10 Yr Treasury Yield</b>	1.80%	2.36%	2.54%	Q3 2016	2.69	1.25	1.44
<b>5 Year OIS Swap Rate</b>	0.93%	1.46%	1.68%				
<b>10 Year OIS Swap Rate</b>	1.26%	1.85%	2.06%				

(1) A portion of the dividend payable has been subtracted from the \*estimated\* book value based on accrual throughout the month.

(2) Leverage does not include TBA dollar rolls or forward settling transactions. Leverage is based on current equity.

# ARMOUR Capitalization, Dividend Policy, Transparency and Manager

## Capitalization

- 36,756,835 shares of common stock outstanding (NYSE: “ARR”).<sup>(1)</sup>
- 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”).
- Total Capitalization of \$1,060.7 million composed of:
  - Estimated book value of common stock of \$865.0 million.
  - Preferred stock par value of \$195.8 million.

## Common Stock Dividend Policy

- ARMOUR pays common stock dividends monthly.
- Dividends are typically announced on a monthly basis.

## 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.<sup>(2)</sup>
- Hedge positions are marked-to-market daily (GAAP/Tax differences).
- Non-Executive Board Chairman and separate Lead Independent Director.

## ARMOUR REIT Manager

- ARMOUR REIT is externally managed by ARMOUR Capital Management LP.

(1) Share count data is as of 12/21/2016 close (including dilutive common stock equivalents).

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

# ARMOUR Balance Sheet Metrics

## Assets

ARMOUR invests in mortgage securities. Current allocation of equity in repo is:

- 55.0% in Agency securities.
- 45.0% in Non-Agency securities.

## Duration

1.21 net balance sheet duration.

- 4.02 gross asset duration.
- (2.81) hedge duration.

## Hedging

\$4.3 billion in hedges (interest rate swaps).

- 51.0% of Agency fixed rate assets hedged.
- 70.8% of Agency fixed rate asset repurchase agreements hedged.

## Liquidity

\$473.1 million in total liquidity.

- \$271.5 million in true cash.
- \$99.1 million in unlevered securities.
- \$102.5 million in short term Agency P&I.

## Leverage

6.6x estimated shareholder's equity.

- \$7.0 billion in net REPO borrowings.

# 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.

## Non-Agency Structure Analysis

- Seniority, subordination model.
- Model completeness and accuracy.
- Litigation and policy risks.

## Agency & Non-Agency Class Analysis

- Prepayment history.
- Prepayment expectations.
- Premium/discount.
- Liquidity.

## Agency & Non-Agency Loan Analysis

- Original and current loan balance.
- Year of origination.
- Originating company, third-party originators.
- Loan seasoning.
- Principal amortization schedule.
- Original loan-to-value ratio.
- Geography.
- 63.0% of our 15yr MBS are between 85k - 175k loan balances.

## Agency Pool Analysis

- Prepayment history and expectations.
- Premium over par.
- Hedgability.
- Liquidity.
- Diversify broadly to limit idiosyncratic pool risk.

# ARMOUR Agency & Non-Agency Portfolio

Total Agency Securities	% of 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	0.9%	\$ 83.6	104.7%	103.8%	2.53/3.15	1.50
Agency Multifamily Ballooning in 120 Months or Less	14.8%	\$ 1,431.2	102.2%	101.6%	3.18/4.33	6.33
Fixed Rates Maturing Between 0 and 120 Months	1.5%	\$ 141.6	104.7%	104.6%	3.92/4.30	2.96
Fixed Rates Maturing Between 121 and 180 Months	34.2%	\$ 3,296.7	105.1%	103.9%	3.50/3.98	3.96
Fixed Rates Maturing Between 181 and 240 Months	3.6%	\$ 350.3	108.1%	106.0%	4.16/4.68	4.16
Fixed Rates Maturing Between 241 and 300 Months	1.3%	\$ 124.2	107.1%	104.2%	3.87/4.51	4.88
Fixed Rates Maturing Between 301 and 360 Months	10.8%	\$ 1,044.4	105.9%	104.1%	3.86/4.35	5.56
Interest-Only	0.4%	\$ 34.8	19.0%	21.4%	4.83/5.35	(3.99)
<b>Total or Weighted Average</b>	<b>67.4%</b>	<b>\$ 6,506.8</b>	<b>104.3%</b>	<b>103.1%</b>	<b>3.53/4.17</b>	<b>4.67</b>

Total TBA Securities	% of Portfolio	Current Value (millions)	Weighted Average Purchase Price	Weighted Average Current Market Price	Weighted Average Net/Gross Coupon	Estimated Effective Duration Using Current Values
15Y TBA	16.2%	\$ 1,564.9	101.8%	101.0%	N/A	4.31
30Y TBA	5.4%	\$ 521.8	104.9%	104.4%	N/A	4.17
<b>Total or Weighted Average</b>	<b>21.6%</b>	<b>\$ 2,086.7</b>	<b>102.6%</b>	<b>101.8%</b>	<b>N/A</b>	<b>4.28</b>

Total Non-Agency Securities	% of Portfolio	Current Value (millions)	Weighted Average Purchase Price	Weighted Average Current Market Price	Weighted Average Net/Gross Coupon	Estimated Effective Duration Using Current Values
Legacy Non-Agency Assets	1.0%	\$ 99.3	77.7%	81.4%	5.33/4.73	0.59
New Issue Prime Fixed	0.1%	\$ 10.9	95.0%	96.4%	3.66/3.95	5.74
Credit Risk Transfer	8.5%	\$ 822.3	98.3%	105.7%	5.09/4.20	(0.92)
NPL/RPLs	1.3%	\$ 123.7	99.9%	100.3%	3.80/4.18	1.16
<b>Total or Weighted Average</b>	<b>10.9%</b>	<b>\$ 1,056.2</b>	<b>96.5%</b>	<b>102.7%</b>	<b>4.95/4.25</b>	<b>(0.47)</b>

<b>Total or Weighted Average Portfolio</b>	<b>100.0%</b>	<b>\$ 9,649.7</b>	<b>101.9%</b>	<b>101.6%</b>	<b>3.60/4.06</b>	<b>4.02</b>
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Information as of 12/21/2016. Portfolio value is based on independent third-party pricing. Information includes estimates of the effect of forward settling trades. Some totals may not foot due to rounding.



# ARMOUR Balance Sheet Hedge Metrics

Total	Duration Contribution to Balance Sheet <sup>(1)</sup>
Agency Assets	4.07
Non-Agency Assets	(0.05)
Interest Rate Swaps	(2.81)
<b>Net Balance Sheet</b>	<b>1.21</b>

	Amount (millions)	Total Hedge %
Agency Fixed Rate Assets <sup>2</sup>	\$8,486.0	51.0%
Agency Fixed Rate Asset Repo Balance <sup>2</sup>	\$6,105.7	70.8%

(1) The duration contribution to the balance sheet is based on effective duration and market value. Information and pricing as of 12/21/2016. Some totals may not foot due to rounding.

(2) Includes \$10.9 million of New Issue Prime Fixed and excludes Agency Interest-Only Securities. ARR's Repo Balance is significantly smaller than its fixed rate assets due to its TBA positions. Includes effects of forward settling trades.

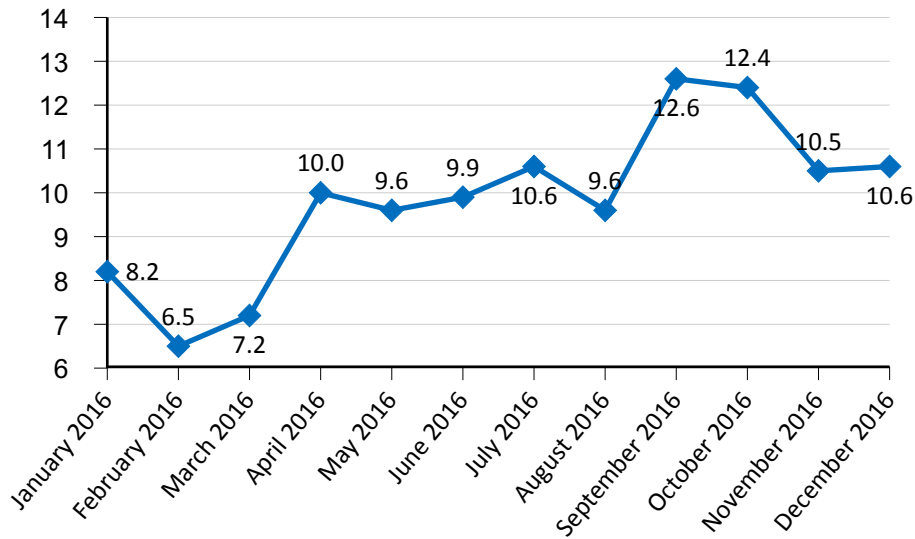
## ARMOUR Hedge Portfolio

Derivative Type	Remaining Term	Weighted Average Remaining Term (Months)	Notional Amount (millions)	Weighted Average Rate
Interest Rate Swap	0-12 Months	8	\$ 200.0	0.54
Interest Rate Swap	13-24 Months	17	\$ 50.0	0.92
Interest Rate Swap	25-36 Months	35	\$ 550.0	1.21
Interest Rate Swap	37-48 Months	0	\$ —	0.00
Interest Rate Swap	49-60 Months	0	\$ —	0.00
Interest Rate Swap	61-72 Months	0	\$ —	0.00
Interest Rate Swap	73-84 Months	77	\$ 2,075.0	1.97
Interest Rate Swap	85-96 Months	84	\$ 100.0	1.97
Interest Rate Swap	97-108 Months	0	\$ —	0.00
Interest Rate Swap	109-120 Months	119	\$ 1,050.0	1.93
Interest Rate Swap	121-132 Months	121	\$ 300.0	2.06
<b>Total or Weighted Average</b>		<b>81</b>	<b>\$ 4,325.0</b>	<b>1.79</b>

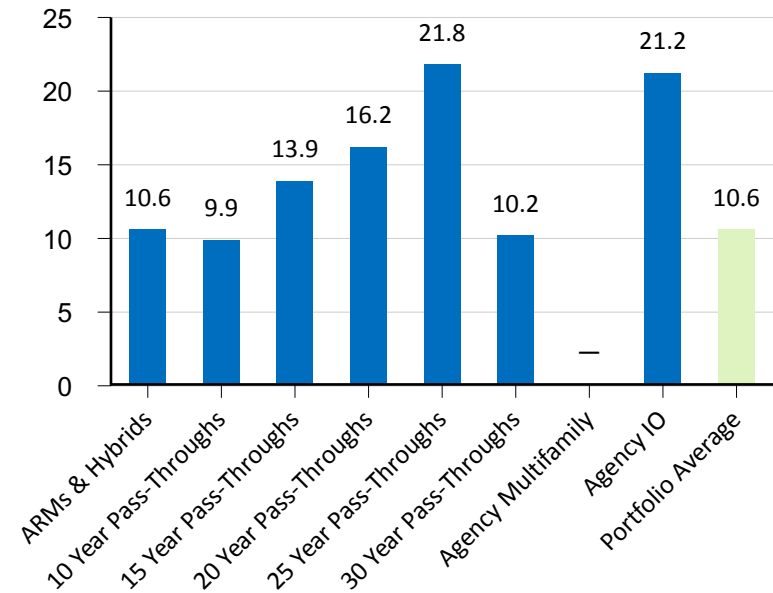
Information as of 12/21/2016. Some totals may not foot due to rounding.

# ARMOUR Portfolio Constant Prepayment Rates ("CPR")

Monthly Portfolio Constant Prepayment Rate



December 2016 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.	\$ 610.2	8.8%	86	43	54
2 ICBC Financial Services LLC	\$ 570.4	8.2%	60	45	58
3 The Bank of Nova Scotia	\$ 533.2	7.7%	49	34	54
4 ABN AMRO Bank N.V.	\$ 453.8	6.5%	75	35	47
5 The Bank of New York Mellon	\$ 450.0	6.5%	63	25	33
6 Daiwa Securities America Inc.	\$ 419.7	6.0%	30	20	28
7 E D & F Man Capital Markets Inc.	\$ 355.0	5.1%	86	26	47
8 ING Financial Markets LLC	\$ 350.3	5.0%	30	17	19
9 Citibank, N.A.	\$ 345.1	5.0%	90	54	90
10 KGS-Alpha Capital Markets, L.P.	\$ 301.3	4.3%	44	36	54
11 RBC Capital Markets	\$ 285.3	4.1%	74	25	33
12 South Street Securities LLC	\$ 266.6	3.8%	62	36	48
13 Natixis Financial Products LLC	\$ 256.0	3.7%	42	34	58
14 FHLB - Cincinnati	\$ 247.0	3.6%	1	1	1
15 Citigroup Global Markets Inc.	\$ 238.9	3.4%	70	39	44
16 Morgan Stanley & Co. LLC	\$ 185.1	2.7%	41	19	30
17 Merrill Lynch, Pierce, Fenner & Smith Inc.	\$ 174.3	2.5%	32	18	23
18 Wells Fargo Bank, N.A.	\$ 150.7	2.2%	31	12	29
19 J.P. Morgan Securities LLC	\$ 139.7	2.0%	55	27	29
20 Guggenheim Securities, LLC	\$ 130.3	1.9%	61	27	27
21 Wells Fargo Securities	\$ 111.3	1.6%	30	16	16
22 Societe Generale	\$ 107.5	1.5%	30	7	7
23 Mizuho Securities USA Inc.	\$ 101.3	1.5%	60	25	30
24 Royal Bank of Canada	\$ 91.2	1.3%	90	54	90
25 BNP Paribas Securities Corp.	\$ 34.3	0.5%	31	21	28
26 UBS Securities LLC	\$ 30.0	0.4%	1,098	124	124
27 Barclays Capital Inc.	\$ 16.1	0.2%	32	27	27
<b>Total or Weighted Average</b>	<b>\$ 6,954.7</b>	<b>100%</b>	<b>61</b>	<b>31</b>	

<b>Weighted Average Repo Rate</b>	<b>1.06%</b>
<b>Weighted Average Haircut</b>	<b>7.45%</b>

<b>Debt to Shareholders' Equity Ratio</b>	<b>6.6</b>
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(1) ARMOUR has 42 lending counterparties.

Information as of 12/21/2016.  
Some totals may not foot due to rounding.



# ARMOUR

## RESIDENTIAL REIT

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

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