



# **ARMOUR**

## **RESIDENTIAL REIT**

**ARMOUR RESIDENTIAL REIT, Inc.**

**Company Update**

**July 11, 2011**

## 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.***

***THE NUMBERS PRESENTED HEREIN ARE UNAUDITED AND UNREVIEWED.***



## ARMOUR Capitalization as of July 8, 2011

- **Market Capitalization and Additional Paid-In Capital**
  - Closing price per share \$7.67.
  - 75,722,743 shares of common stock outstanding (NYSE: “ARR”).
  - Market capitalization of \$580.8 million.
  - Additional paid-in capital<sup>(1)</sup> estimate: \$7.14 per share or \$541.1 million.
- **Warrants**
  - There are 32,500,000 warrants outstanding (NYSE/Amex: “ARR/WS”).
  - The conversion price is \$11.00.
  - The expiration date is November 7, 2013.

(1) Additional paid-in capital is equal to historic book value.

## ARMOUR Portfolio and Balance Sheet Highlights

- Agency mortgage portfolio valued at \$5.23 billion<sup>(1)</sup>.
  - 728 separate CUSIPs.
  - Average market value per CUSIP: \$7.2 million. Median market value per CUSIP: \$2.9 million.
- Gross asset duration estimate of 3.10.
- Net balance sheet duration estimate of 1.15 (excluding uninvested cash).
- Net REPO borrowings of \$4.90 billion.
  - 9.1x debt to additional paid-in capital ratio (historic book value).
- Swaps and Eurodollar futures to replicate swaps total \$2.024 billion.
  - 39.7% of non-true ARMs hedged.
- Liquidity total \$287.4 million as of July 8, 2011.
  - Liquidity: 53.2% of additional paid-in capital.
  - True cash on hand of \$175.7 million (32.5% of additional paid-in capital).
  - Unlevered securities of \$29.7 million (5.5% of additional paid-in capital).
  - Short-term Agency principal and interest receivables (15.2% of additional paid-in capital):
    - 7/15/11: \$12.0 million; 7/20/11: \$7.8 million; 7/25/11: \$55.6 million; 8/15/11: \$6.6 million.

**Note:** Portfolio and liability information as of 7/8/2011. Portfolio information does not include \$95.1 million of forward settling securities.

(1) Based on independent third party pricing as of 7/8/2011.

## ARMOUR Dividends

- ARMOUR pays dividends monthly.
- ARMOUR declares dividends based on estimates of future taxable REIT income.
- Q3 2011 Monthly Dividends
  - ARMOUR is paying second quarter 2011 monthly dividends of \$0.12 per month.
  - The shareholder record date is the 15th of each month, payable on the second to last business day of the month.
  - Dividends will be reviewed and set each quarter.

2011 Dividend Record Date and Payment Schedule

	Record Date	Payment Date		Record Date	Payment Date
January	15th	28th	July	15th	28th
February	15th	25th	August	15th	30th
March	15th	30th	September	15th	29th
April	15th	28th	October	15th	28th
May	15th	27th	November	15th	29th
June	15th	29th	December	15th	29th

## ARMOUR

Targets, Strategy and Governance Review

Investment Methodology

Portfolio Composition

Portfolio and Liability Valuation and Duration Detail

Eurodollar Futures and Interest Rate Swap Detail

Portfolio Constant Prepayment Rates (“CPR”)

REPO Composition

# ARMOUR – Targets, Strategy and Governance Review

## Balance Sheet Targets

- ASSETS
  - ARMOUR invests in Agency assets.
- DURATION
  - Net balance sheet weighted average duration target of 1.5 or less.
- HEDGING
  - Hedge asset and funding rate risk on approximately 40% of non-ARM assets.
- LIQUIDITY
  - Hold up to 40% of unlevered equity in cash between prepayment periods.
- LEVERAGE
  - Debt to equity target of 9.0x vs. additional paid-in-capital.

## Portfolio Strategy

- Invest in low duration Agency mortgage securities.
- Diversify broadly to limit idiosyncratic pool risk.
- Close focus on prepayment profile – credit, structure, and other characteristics to select better performing assets.

## Transparency and Governance

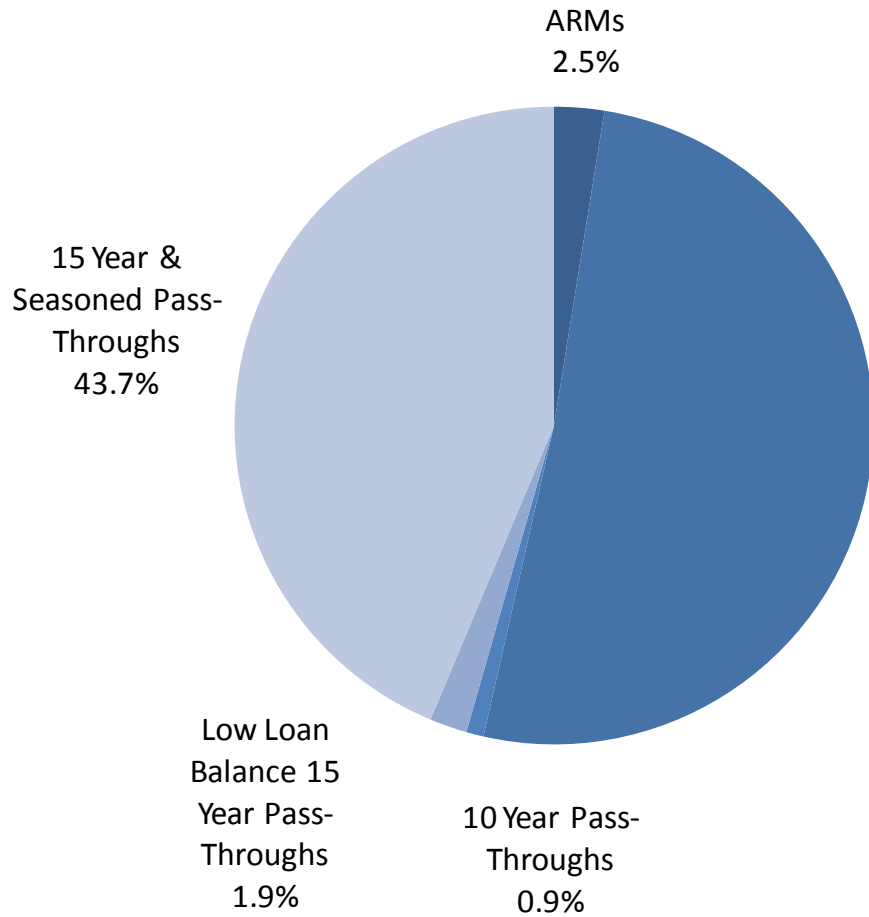
- Portfolio and liability details are updated monthly at [www.armourreit.com](http://www.armourreit.com).
- Premium amortization is expensed monthly as it occurs.
- Hedge positions are marked-to-market daily.
- Non-Executive Board Chairman.

# ARMOUR Investment Methodology

Management has a very focused and disciplined approach to evaluating assets for inclusion in the ARMOUR portfolio. ARMOUR employs a ‘buy and hold’ strategy rather than a ‘trading’ strategy.

- **Agency Securities**
  - ARMOUR invests in Agency Securities.
- **Low Duration Assets**
  - Target a portfolio of low duration assets to reduce gross interest rate exposure.
- **Highly Liquid Assets**
  - Purchase those Agency mortgage assets that are highly liquid (easily traded and priced).
  - ARMOUR purchases “pass-through” securities and does not own any collateralized mortgage obligations (“CMOs”).
- **Diversified Sources**
  - Source assets through a mix of direct purchases from:
    - Originators
    - Dealer inventories
    - Bid lists
- **Loan analysis**
  - Original loan balance size.
  - Year of origination.
  - Originating company, third party originators.
  - Loan seasoning.
  - Principal amortization schedule.
  - Original loan-to-value ratio.
  - Geography.
- **Pool analysis**
  - Prepayment history.
  - Prepayment expectations.
  - Premium over par.
  - “Hedgability.”
  - Liquidity.
  - No TBA Pools – Only specified.

# ARMOUR Agency Asset Class Composition



Agency Asset Class	Current Value (millions)
<b>ARMs</b> (0-18 Months to Reset) (1)	\$ 132.0
<b>Hybrids</b> (19 Months and Longer to Reset) (2)	\$ 2,668.9
<b>10 Year Pass-Throughs</b> (3)	\$ 46.0
<b>Low Loan Balance 15 Year Pass-Throughs</b> (4)	\$ 99.1
<b>15 Year &amp; Seasoned Pass-Throughs</b> (5)	\$ 2,284.2
<b>Total</b>	<b>\$ 5,230.2</b>

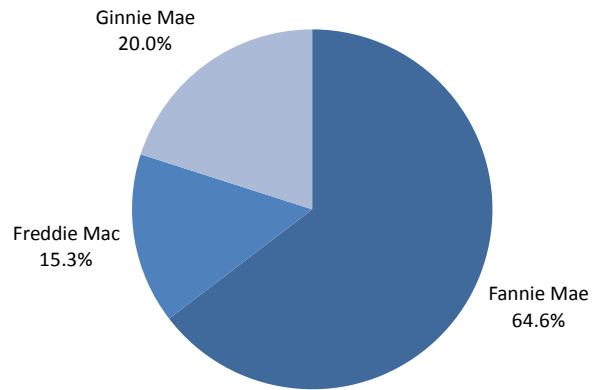
- (1) The weighted average months to reset is 6.
- (2) The weighted average months to reset is 65.
- (3) Longest final maturity is February 2021.
- (4) Maximum original loan balance of \$85,000.
- (5) Longest final maturity is April 2027.

Information as of 7/8/2011.

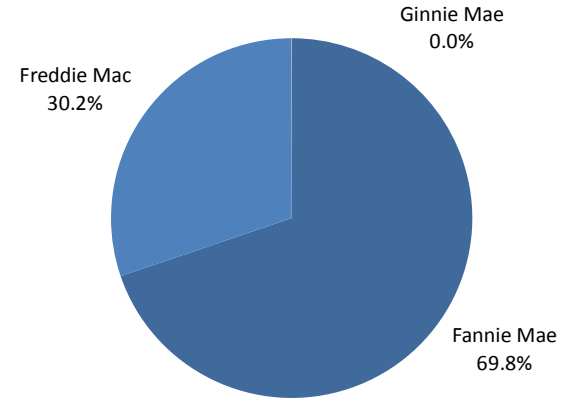


# ARMOUR Agency Type Composition

## ARM & Hybrid Composition



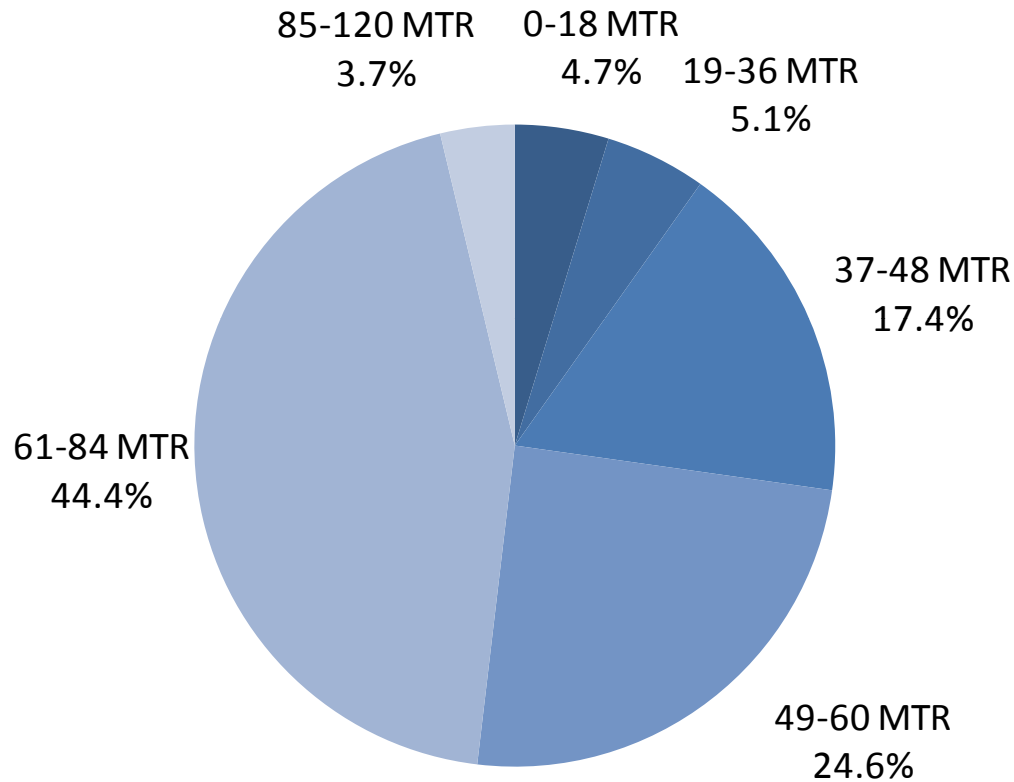
## Fixed Composition



Agency Type	Current Value (millions)	Percentage of Total Portfolio
Fannie Mae	\$ 3,504.7	67.0%
Freddie Mac	\$ 1,163.4	22.2%
Ginnie Mae	\$ 562.1	10.7%
<b>Total</b>	<b>\$ 5,230.2</b>	<b>100.0%</b>

Information as of 7/8/2011.

## ARMOUR ARM and Hybrid Security Composition



Months to Reset	Current Value (millions)	Weighted Average Months to Reset
0-18	\$ 132.0	6
19-36	\$ 142.7	28
37-48	\$ 488.1	44
49-60	\$ 689.9	56
61-84	\$ 1,243.6	77
85-120	\$ 104.7	114
<b>Total</b>	<b>\$ 2,800.9</b>	<b>62</b>

**Note:** Information as of 7/8/2011. Percentages are based on the total market value of both ARMs and hybrids.

## ARMOUR Portfolio and Liability Valuation and Duration Detail

Agency Asset Class	Weighted Average Purchase Price	Weighted Average Current Market Price	Weighted Average Coupon	Estimated Effective Duration Using Current Values
ARMs	104.7%	105.2%	3.39	1.00
Hybrids	103.6%	104.4%	3.67	2.81
10 Year Pass-Throughs	102.7%	104.8%	3.62	3.38
Low Loan Balance 15 Year Pass-Throughs	105.9%	107.7%	4.70	3.30
15 Year & Seasoned Pass-Throughs	104.2%	105.0%	4.09	3.55
<b>Weighted Average</b>	<b>103.9%</b>	<b>104.8%</b>	<b>3.87</b>	<b>3.10</b>

Estimated Balance Sheet Duration	Amount (millions)	Duration Effect on Balance Sheet	Weighted Average Hedge Rate	Weighted Average Hedge Duration
Agency Assets	\$ 5,230.2	3.10	n/a	n/a
Eurodollar Futures	\$ 134.0	-3.19	1.80	-3.19
Interest Rate Swaps	\$ 1,890.0	-3.97	1.68	-3.97
		<b>1.15</b>	<b>1.69</b>	<b>-3.92</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. Market prices for our securities are obtained from independent third party sources.

If rates decline, the value of our swaps and Eurodollar futures will typically decline. Inversely, if rates increase, the value of our swaps and Eurodollar futures will typically increase.

Information as of 7/8/2011.



## ARMOUR Eurodollar Futures and Interest Rate Swap Detail

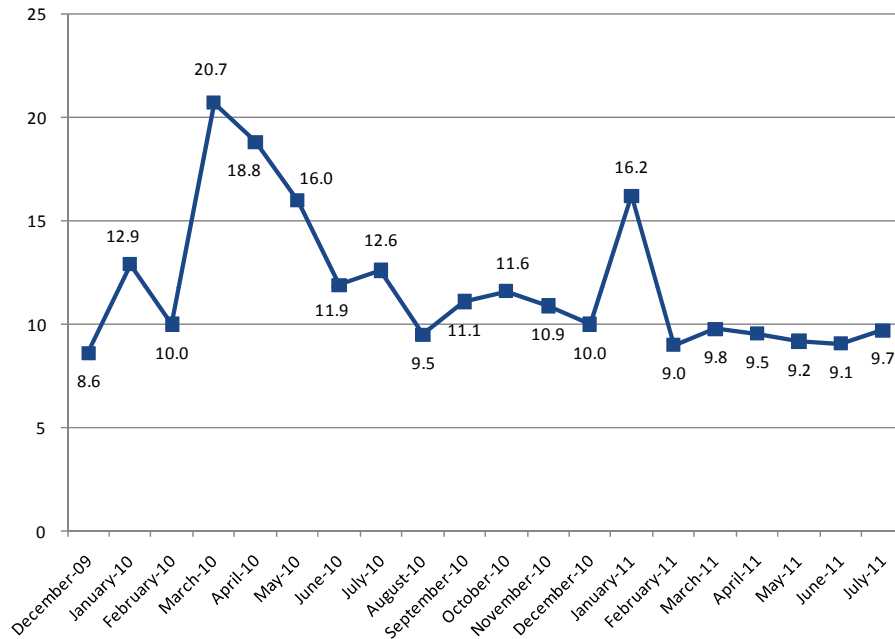
Eurodollar Futures to Replicate Swaps	Notional Amount (millions)	Weighted Average Rate	Duration
2 Year	\$ 13.0	1.02%	1.75
3 Year	\$ 47.0	1.57%	2.70
4 Year	\$ 64.0	2.09%	3.60
5 Year	\$ 10.0	2.11%	4.75
<b>Total or Weighted Average</b>	<b>\$ 134.0</b>	<b>1.80%</b>	<b>3.19</b>

Active Swap Counterparties	Interest Rate Swaps Remaining Term	Weighted Average Remaining Term	Notional Amount (millions)	Weighted Average Rate
Citibank, N.A.	0-12 Months	0	\$ -	0.00
JP Morgan Chase, N.A.	13-24 Months	18	\$ 20.0	0.53
Nomura Global Financial Products Inc.	25-36 Months	31	\$ 290.0	1.09
UBS AG	37-48 Months	45	\$ 580.0	1.43
Wells Fargo Bank, N.A.	49-60 Months	57	\$ 1,000.0	2.02
	<b>Total or Weighted Average</b>	<b>49</b>	<b>\$ 1,890.0</b>	<b>1.68</b>

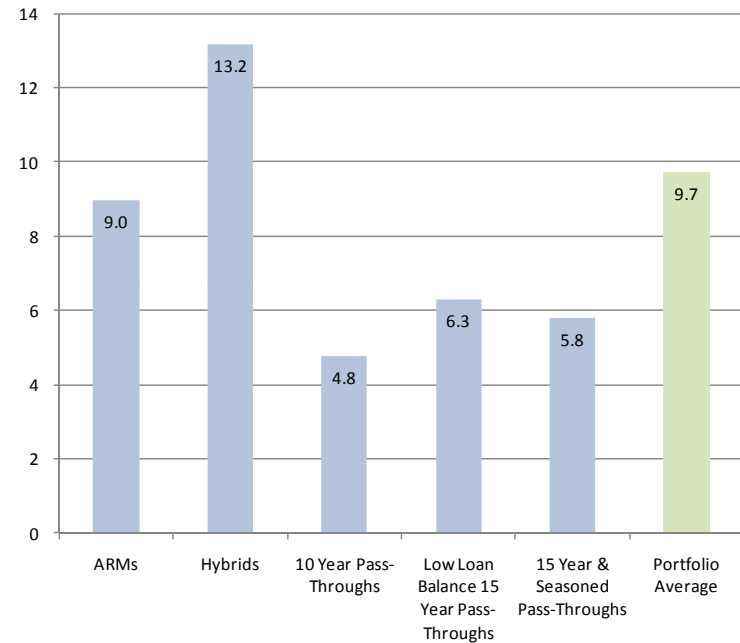
Information as of 7/8/2011.

# ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

**Monthly Portfolio  
Constant Prepayment Rate**



**July 2011  
Agency Asset Class CPR**

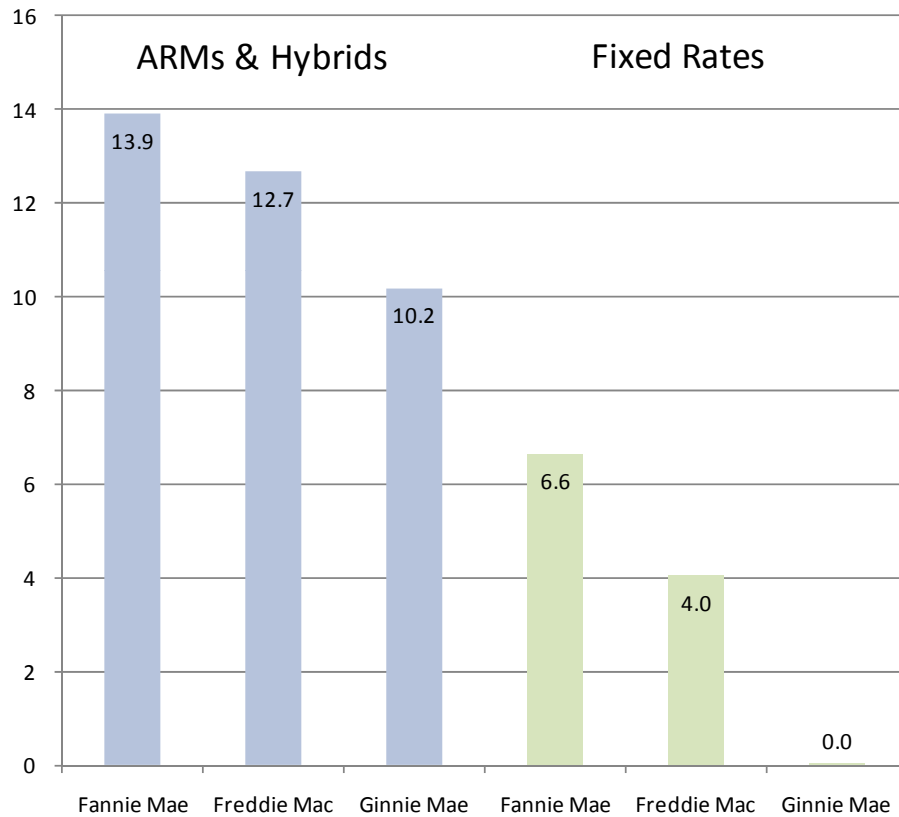


- ARMOUR expenses premium amortization monthly as it occurs.
- Constant Prepayment Rate (“CPR”) is the annualized equivalent of single monthly mortality (“SMM”). CPR attempts to predict the percentage of principal that will prepay over the next twelve months based on historical principal pay downs.
- CPR is reported on the 4th business day of the month for the previous month's prepayment activity.



# ARMOUR Portfolio Constant Prepayment Rates (“CPR”)

**July 2011  
Constant Prepayment Rates**



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- 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.
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# ARMOUR REPO Composition

REPO Counter-Party	Principal Borrowed (millions)	Percentage of REPO	Weighted Average Maturity in	Longest Maturity in Days
UBS Securities LLC	\$ 446.2	9.0%	26	39
BNP Paribas Securities Corp.	\$ 417.9	8.4%	9	24
Nomura Securities International, Inc.	\$ 359.8	7.2%	33	46
Goldman, Sachs & Co.	\$ 335.6	6.8%	26	35
Cantor Fitzgerald & Co. Inc.	\$ 333.7	6.7%	15	31
MF Global Inc.	\$ 273.0	5.5%	33	47
J.P. Morgan Securities LLC	\$ 262.0	5.3%	27	34
South Street Securities LLC	\$ 254.7	5.1%	13	19
Merrill Lynch, Pierce, Fenner & Smith Inc.	\$ 245.9	5.0%	42	46
Mitsubishi UFJ Securities (USA), Inc.	\$ 241.9	4.9%	29	54
RBS Securities Inc.	\$ 228.2	4.6%	17	24
Citigroup Global Markets Inc.	\$ 220.7	4.4%	24	32
Guggenheim Securities, LLC	\$ 211.1	4.3%	40	60
Barclays Capital Inc.	\$ 191.4	3.9%	15	35
Daiwa Securities America Inc.	\$ 176.0	3.5%	22	38
ING Financial Markets LLC	\$ 170.3	3.4%	16	28
Mizuho Securities USA Inc.	\$ 143.3	2.9%	15	19
PrinceRidge Group LLC	\$ 117.4	2.4%	32	32
Credit Suisse Securities (USA) LLC	\$ 109.4	2.2%	10	10
Jefferies & Company, Inc.	\$ 94.6	1.9%	31	31
CRT Capital Group LLC	\$ 73.9	1.5%	3	3
Wells Fargo Bank, N.A.	\$ 56.9	1.1%	10	10
<b>Total or Weighted Average</b>	<b>\$ 4,963.9</b>	<b>100.0%</b>	<b>23</b>	

<b>Weighted Average Haircut</b>	<b>5.02%</b>
<b>Weighted Average Repo Rate</b>	<b>0.23%</b>

<b>July Paydowns</b>	<b>\$ (62.7)</b>
<b>Total REPO after Paydowns</b>	<b>\$ 4,901</b>
<b>Debt to Equity Ratio after Paydowns</b>	<b>9.07</b>

**Note:** ARMOUR has signed MRAs with 26 counterparties as of 7/8/2011.





# ARMOUR RESIDENTIAL REIT

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

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