



**Supplemental Earnings Presentation**  
**Second Quarter 2016**  
**July 28, 2016**

*This presentation contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs and assumptions, current expectations, estimates and projections. Such statements are not considered historical facts and are considered forward-looking information under the federal securities laws. This information may contain words such as "believes," "plans," "expects," "intends," "estimates" or similar expressions.*

*This information is not a guarantee of the Company's future performance and is subject to risks, uncertainties and other important factors that could cause the Company's actual performance or achievements to differ materially from those expressed or implied by this forward-looking information and include, without limitation, changes in interest rates and the yield curve, changes in the constant prepayment rate experienced by the Company's Agency RMBS and various other risks and uncertainties related to our business and the economy, some of which are described in our filings with the SEC. Given these uncertainties, you should not rely on forward-looking information. Except as required by law, the Company undertakes no obligations to update any forward-looking information, whether as a result of new information, future events or otherwise.*

## Summary Q2 2016 as compared to Q1 2016 Results

- June 30, 2016 (the "Second Quarter") book value per common share of \$9.55<sup>(1)</sup>, an increase of \$0.09 from March 31, 2016 (the "First Quarter") book value per common share of \$9.46<sup>(1)</sup>
- Declared a quarterly dividend per common share of \$0.25, representing an annualized dividend yield of 11.9%, based upon the closing price per common share of \$8.37 at June 30, 2016, a \$0.01 decrease from the First Quarter of \$0.26, representing a 12.8% annualized dividend yield using the closing price per common share of \$8.14 at March 31, 2016.
- GAAP net income available to common stockholders of \$51.0 million, or \$0.34 per diluted common share, compared to net income of \$56.1 million, or \$0.37 per diluted common share for the previous quarter.
- Core Earnings<sup>(2)</sup> plus Drop Income<sup>(3)</sup> of \$38.7 million (\$30.7 million Core Earnings and \$8.0 million Drop Income), or \$0.26 per diluted common share (\$0.20 Core Earnings and \$0.06 Drop Income), as compared to the First Quarter of \$40.3 million (\$34.0 million Core Earnings and \$6.3 million Drop Income), or \$0.27 per diluted common share (\$0.22 Core Earnings and \$0.05 Drop Income).
- Interest rate spread net of hedge, including Drop Income, of 1.36%<sup>(4)</sup>, a decrease of 0.09% compared to the First Quarter of 1.45%.
- Operating expenses ratio decreased to 1.36%<sup>(5)</sup> in the Second Quarter from 1.48% in the First Quarter.
- Weighted-average amortized cost of Agency RMBS and U.S. Treasuries<sup>(6)</sup> (collectively, "Debt Securities") of \$103.42 as compared to the First Quarter of \$103.76.
- Leverage ratio<sup>(7)</sup> increased marginally to 6.91:1 at June 30, 2016 from 6.76:1 at March 31, 2016.
- Constant Prepayment Rate ("CPR")<sup>(8)</sup> increased to 12.9% in the Second Quarter from 7.6% in the First Quarter.
- Repurchased 162,548 and 510,618 shares of the Company's common stock at a weighted-average purchase price of \$7.93 and \$7.82 per share, for an aggregate of approximately \$1.3 million and \$4.0 million for the Second Quarter and First Quarter, respectively.
- Total stockholder return on common equity<sup>(9)</sup> of 3.59% and 3.85% in the Second Quarter and First Quarter, respectively.

---

Note: Footnotes appear on page 26.

# Key Balance Sheet & Performance Metrics



Key Balance Sheet Metrics (in thousands)	Three Months Ended					
	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Average settled Debt Securities <sup>(1)</sup>	\$ 11,887,351	\$ 11,905,997	\$ 12,811,091	\$ 13,099,727	\$ 13,219,744	\$ 12,653,266
Average total Debt Securities <sup>(2)</sup>	\$ 13,230,800	\$ 12,945,855	\$ 13,424,661	\$ 13,928,756	\$ 14,711,932	\$ 14,810,062
Average repurchase agreements and FHLBC Advances <sup>(3)</sup>	\$ 10,412,784	\$ 10,492,636	\$ 11,309,499	\$ 11,557,064	\$ 11,610,144	\$ 10,954,377
Average Debt Securities liabilities <sup>(4)</sup>	\$ 11,756,233	\$ 11,532,494	\$ 11,923,069	\$ 12,386,093	\$ 13,102,332	\$ 13,111,173
Average stockholders' equity <sup>(5)</sup>	\$ 1,725,879	\$ 1,714,728	\$ 1,739,317	\$ 1,790,420	\$ 1,893,445	\$ 1,981,424
Average common shares outstanding <sup>(6)</sup>	151,452	151,788	153,183	155,702	157,334	160,523
Leverage ratio (at period end) <sup>(7)</sup>	6.91:1	6.76:1	6.77:1	6.87:1	7.06:1	6:77:1
Book value per common share (at period end) <sup>(8)</sup>	\$ 9.55	\$ 9.46	\$ 9.36	\$ 9.59	\$ 9.62	\$ 10.53
Weighted average amortized cost of Agency RMBS and U.S. Treasuries <sup>(9)</sup>	\$ 103.42	\$ 103.76	\$ 103.69	\$ 103.94	\$ 103.98	\$ 104.04
Key Performance Metrics*	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Average yield on settled Debt Securities <sup>(10)</sup>	2.52%	2.74%	2.68%	2.56%	2.44%	2.56%
Average yield on total Debt Securities including Drop Income <sup>(11)</sup>	2.50%	2.71%	2.67%	2.59%	2.42%	2.57%
Average cost of funds <sup>(12)</sup>	0.72%	0.68%	0.49%	0.42%	0.35%	0.35%
Average cost of funds and hedge <sup>(13)</sup>	1.29%	1.39%	1.31%	1.28%	1.21%	1.36%
Adjusted average cost of funds and hedge <sup>(14)</sup>	1.14%	1.26%	1.24%	1.19%	1.08%	1.13%
Interest rate spread net of hedge <sup>(15)</sup>	1.23%	1.35%	1.37%	1.28%	1.23%	1.20%
Interest rate spread net of hedge including Drop Income <sup>(16)</sup>	1.36%	1.45%	1.43%	1.40%	1.34%	1.44%
Operating expense ratio <sup>(17)</sup>	1.36%	1.48%	0.75%	1.30%	1.27%	1.16%
Total stockholder return on common equity <sup>(18)</sup>	3.59%	3.85%	0.31%	2.39%	(5.98%)	3.14%
Constant prepayment rate (weighted average experienced 1-month) <sup>(19)</sup>	12.9%	7.6%	8.1%	10.2%	13.0%	10.3%

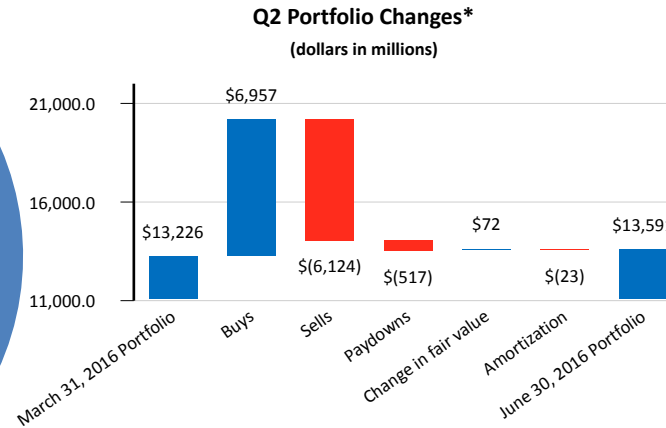
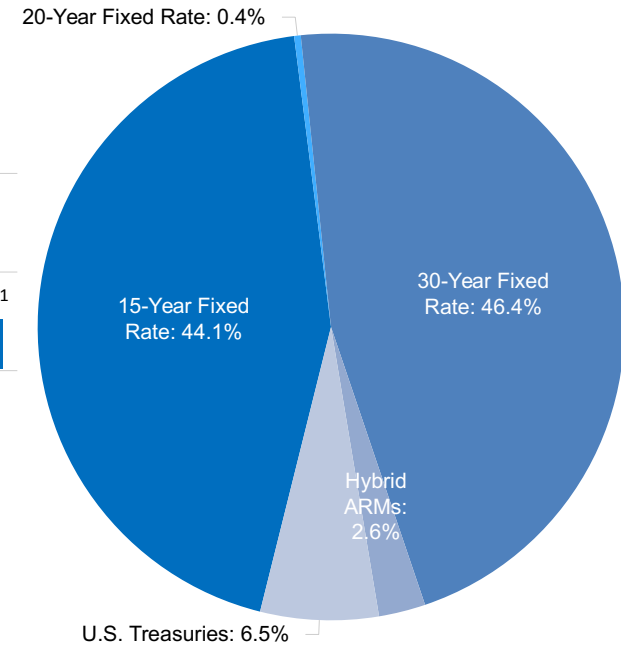
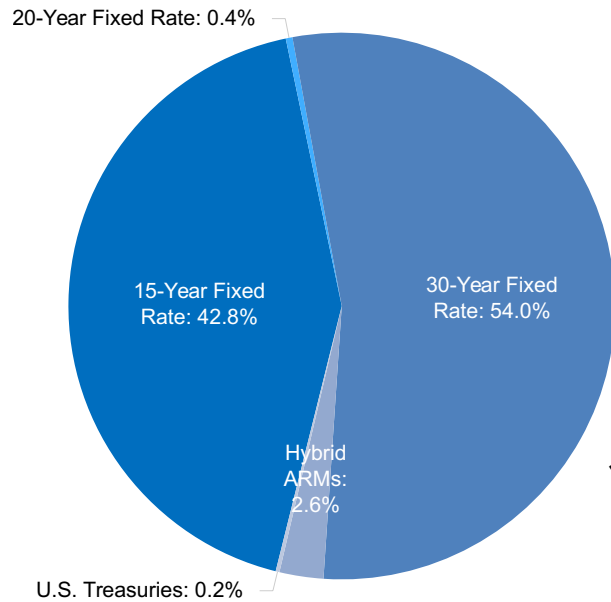
Note: Footnotes appear on page 26.

Security Type	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016	Q1 2016 Δ to Q2 2016
<b>15-Year Fannie Mae Fixed Rate MBS Prices</b>							
2.5%	\$ 102.73	\$ 101.11	\$ 102.02	\$ 100.86	\$ 102.70	\$ 103.52	\$ 0.82
3.0%	\$ 104.83	\$ 103.48	\$ 104.17	\$ 103.08	\$ 104.52	\$ 104.86	\$ 0.34
3.5%	\$ 106.11	\$ 105.36	\$ 105.64	\$ 104.77	\$ 105.67	\$ 105.98	\$ 0.31
4.0%	\$ 105.64	\$ 104.95	\$ 104.73	\$ 104.17	\$ 104.20	\$ 103.73	\$ (0.47)
<b>30-Year Fannie Mae Fixed Rate MBS Prices</b>							
3.0%	\$ 102.33	\$ 99.42	\$ 101.45	\$ 100.05	\$ 102.67	\$ 103.83	\$ 1.16
3.5%	\$ 105.11	\$ 102.89	\$ 104.39	\$ 103.23	\$ 104.92	\$ 105.55	\$ 0.63
4.0%	\$ 106.95	\$ 105.83	\$ 106.73	\$ 105.86	\$ 106.92	\$ 107.23	\$ 0.31
<b>U.S. Treasuries Rates</b>							
2-Yr UST	0.56%	0.64%	0.63%	1.05%	0.72%	0.58%	(0.14)%
5-Yr UST	1.37%	1.65%	1.36%	1.76%	1.20%	1.00%	(0.20)%
7-Yr UST	1.71%	2.08%	1.74%	2.09%	1.53%	1.28%	(0.25)%
10-Yr UST	1.92%	2.35%	2.04%	2.27%	1.77%	1.47%	(0.30)%
2-Yr UST to 10-Yr UST Spread	1.36%	1.71%	1.41%	1.22%	1.05%	0.89%	(0.16)%
<b>LIBOR Rates</b>							
1 Month Libor	0.18%	0.19%	0.19%	0.43%	0.44%	0.47%	0.03 %
3 Month Libor	0.27%	0.28%	0.33%	0.61%	0.63%	0.65%	0.02 %
<b>Swap Rates</b>							
2-Yr Swap	0.81%	0.90%	0.75%	1.18%	0.84%	0.73%	(0.11)%
5-Yr Swap	1.53%	1.79%	1.38%	1.74%	1.17%	0.98%	(0.19)%
7-Yr Swap	1.79%	2.15%	1.70%	1.95%	1.39%	1.15%	(0.24)%
10-Yr Swap	2.02%	2.46%	2.00%	2.19%	1.64%	1.36%	(0.28)%
<b>30- and 15-Year Fannie Mae Yield Spread to Swap Rates</b>							
30-Yr to 7-Yr Swap	0.86%	0.95%	1.10%	1.05%	1.18%	1.16%	(0.02)%
15-Yr to 5-Yr Swap	0.42%	0.50%	0.72%	0.57%	0.70%	0.71%	0.01 %

- Agency RMBS prices generally rose reflecting the decline in interest rates during the Second Quarter of 2016.
- At June 30, 2016, the 10-year U.S. Treasury yield fell to 1.47%, or 30 basis points ("bps") below the March 31, 2016 level, and 88 bps lower over a one year period.
- During the Second Quarter the spread between the 2- and 10-year Treasuries flattened 16 bps.
- Despite rates moving lower during the Second Quarter, Fannie Mae MBS yield spread to swap rates remained stable.

**March 31, 2016**  
**\$13.2B Portfolio\***

**June 30, 2016**  
**\$13.6B Portfolio\***



(dollars in thousands)	3/31/2016*	% of Portfolio	6/30/2016*	% of Portfolio	\$ Change	% Change
15-Year Fixed Rate	\$ 5,663,867	42.8%	\$ 5,989,553	44.1%	\$ 325,686	2%
20-Year Fixed Rate	52,505	0.4%	49,494	0.4%	(3,011)	0%
30-Year Fixed Rate	7,136,350	54.0%	6,318,345	46.4%	(818,005)	-6%
Hybrid ARMs	343,353	2.6%	349,814	2.6%	6,461	0%
U.S. Treasuries	29,972	0.2%	884,213	6.5%	854,241	6%
<b>Total</b>	<b>\$ 13,226,047</b>	<b>100.0%</b>	<b>\$ 13,591,419</b>	<b>100.0%</b>	<b>\$ 365,372</b>	<b>2.0%</b>

\*Q2 Portfolio changes includes TBA Derivatives activity (\$2.8 billion, \$2.1 billion, and \$6.5 million of buys, sells, and change in fair value, respectively). Fair value of TBA Derivatives at March 31, 2016 and June 30, 2016 was \$307.6 million and \$827.3 million, respectively.

# Portfolio Detail as of June 30, 2016

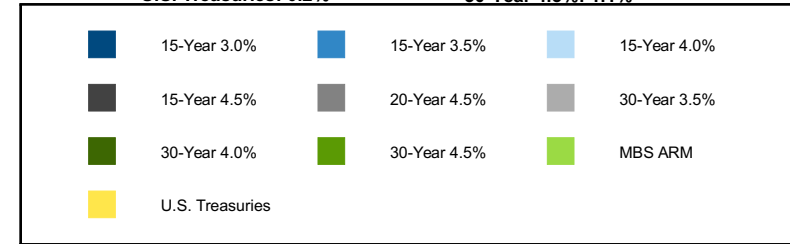
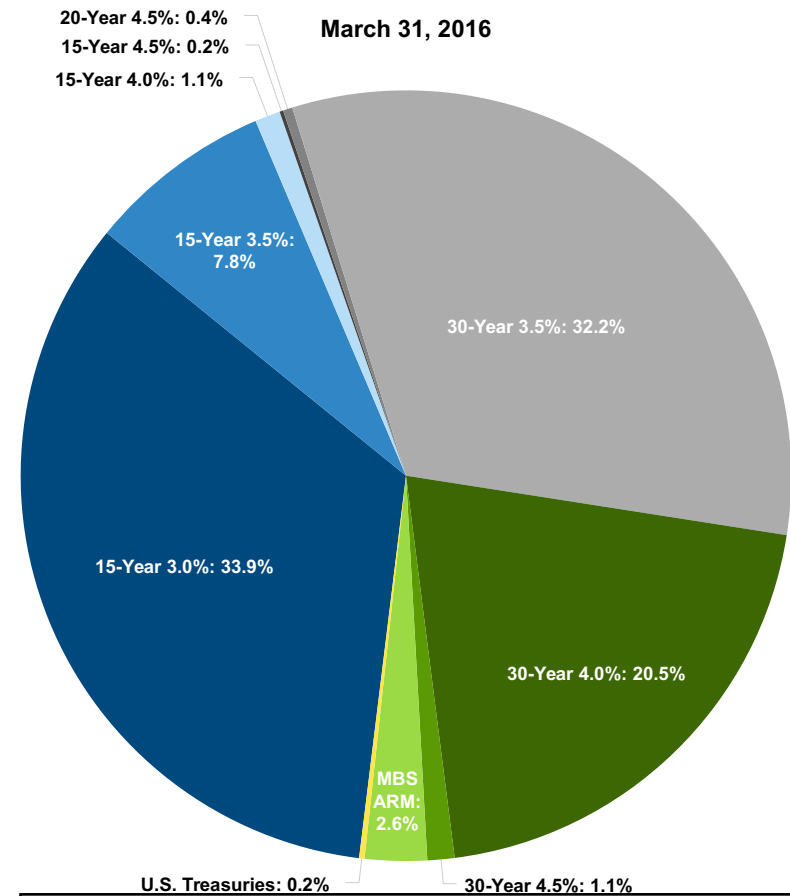
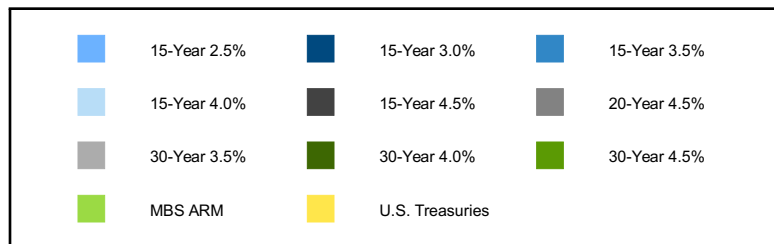
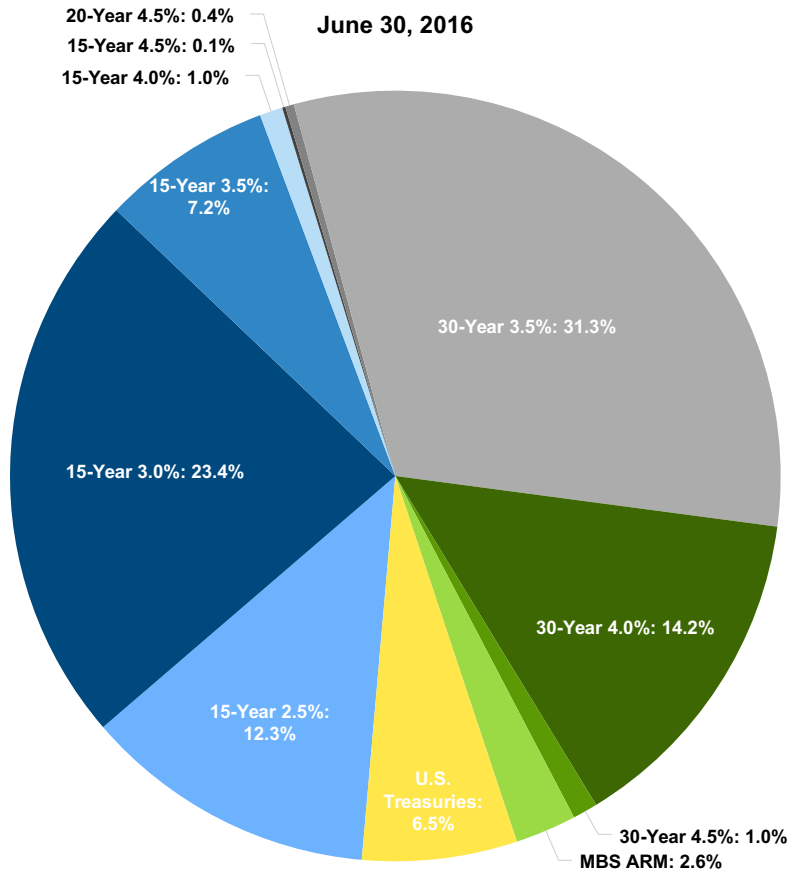


Coupon	Face Value (in 000's)	Fair Value (in 000's)*	Amortized Cost Basis as % of Face Value	Loan Balance <sup>(1)</sup> (in 000's)	Loan Age <sup>(1)</sup> (in months)	3-Month CPR <sup>(1)(2)</sup>	Duration <sup>(3)</sup>
<b>15-Year Agency Mortgage Backed Securities</b>							
<b>Weighted-Average</b>							
2.5%	\$ 504,438	\$ 522,382	\$ 102.61	\$ 333	1	n/a	2.79
TBA 2.5%	1,115,000	1,153,567	102.69	n/a	n/a	n/a	2.62
3.0%	2,994,084	3,144,067	102.77	264	24	10.1	2.54
TBA 3.0%	41,000	43,010	104.69	n/a	n/a	n/a	2.07
3.5%	919,865	976,856	103.07	217	46	12.2%	2.40
4.0%	122,956	131,028	101.08	168	64	16.8%	2.38
4.5%	17,465	18,643	102.37	245	77	12.8%	1.94
<b>Subtotal</b>	<b>5,714,808</b>	<b>5,989,553</b>	<b>102.77</b>	<b>259</b>	<b>28</b>	<b>10.8%</b>	<b>2.55</b>
<b>20-Year Agency Mortgage Backed Securities</b>							
4.5%	45,186	49,494	102.75	216	71	17.1%	2.18
<b>Subtotal</b>	<b>45,186</b>	<b>49,494</b>	<b>102.75</b>	<b>216</b>	<b>71</b>	<b>17.1%</b>	<b>2.18</b>
<b>30-Year Agency Mortgage Backed Securities</b>							
3.5%	4,270,200	4,510,362	104.32	334	7	7.3%	2.68
TBA 3.5%	(250,000)	(263,914)	104.02	n/a	n/a	n/a	2.47
4.0%	1,789,109	1,929,230	105.00	257	22	15.7%	2.51
4.5%	130,138	142,667	106.71	284	62	17.7%	2.37
<b>Subtotal</b>	<b>5,939,447</b>	<b>6,318,345</b>	<b>104.59</b>	<b>311</b>	<b>12</b>	<b>10.6%</b>	<b>2.63</b>
<b>Hybrid ARMs</b>							
TBA 2.7%	25,000	26,011	102.69	n/a	n/a	n/a	1.85
2.9% <sup>(4)</sup>	310,330	323,803	102.79	314	35	21.7%	1.61
<b>Subtotal</b>	<b>335,330</b>	<b>349,814</b>	<b>102.79</b>	<b>314</b>	<b>35</b>	<b>21.7%</b>	<b>1.63</b>
<b>U.S. Treasuries</b>							
0.9%	880,000	884,213	100.12	n/a	n/a	n/a	2.84
<b>Subtotal</b>	<b>880,000</b>	<b>884,213</b>	<b>100.12</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>2.84</b>
<b>Portfolio Total</b>	<b>\$ 12,914,771</b>	<b>\$ 13,591,419</b>	<b>\$ 103.42</b>	<b>\$ 289</b>	<b>20</b>	<b>11.1%</b>	<b>2.58</b>
<b>As of March 31, 2016</b>							
Coupon	Face Value (in 000's)	Fair Value (in 000's)*	Amortized Cost Basis per Face Value	Loan Balance <sup>(1)</sup> (in 000's)	Loan Age <sup>(1)</sup> (in months)	3-Month CPR <sup>(1)(2)</sup>	Duration <sup>(3)</sup>
15-Year Agency	\$ 5,400,610	\$ 5,663,867	\$ 102.98	\$ 265	25	7.6%	2.37
20-Year Agency	48,012	52,505	102.77	215	68	21.2%	2.59
30-Year Agency	6,744,023	7,136,350	104.45	310	13	6.6%	2.93
Hybrid ARMs	329,943	343,353	102.81	313	36	15.2%	1.67
U.S. Treasuries	30,000	29,972	99.86	n/a	n/a	n/a	0.33
<b>Portfolio Total</b>	<b>\$ 12,552,588</b>	<b>\$ 13,226,047</b>	<b>\$ 103.76</b>	<b>\$ 289</b>	<b>19</b>	<b>7.4%</b>	<b>2.65</b>

\*Includes TBA Derivatives with a fair value of \$827.3 million and \$307.6 million for the period ended June 30 and March 31, 2016, respectively.

Note: Footnotes appear on page 27.

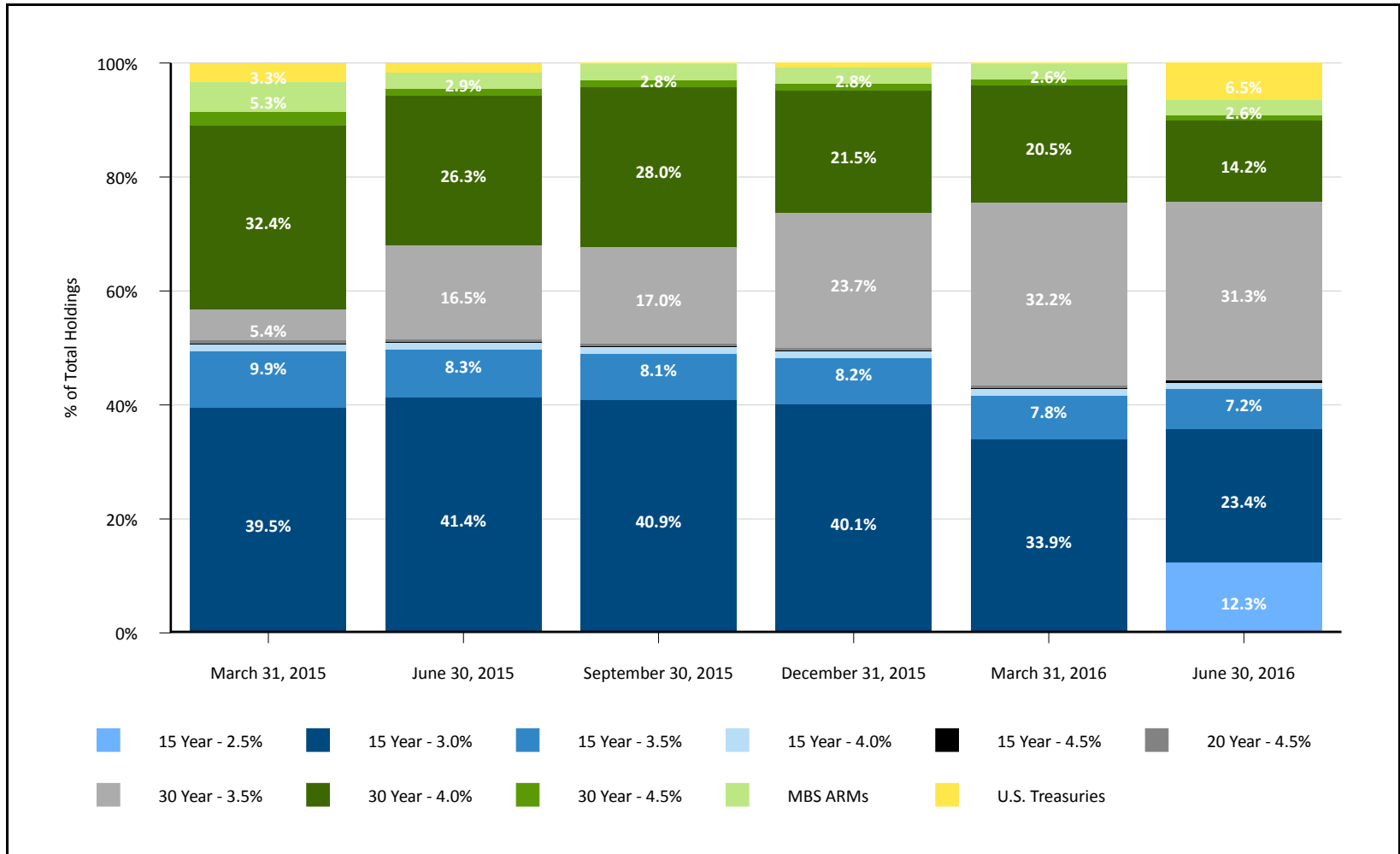
# Portfolio Composition Summary



\*Includes TBA Derivatives with a fair value of \$827.3 million and \$307.6 million at June 30, 2016 and March 31, 2016, respectively.



# Portfolio Composition Trends



\*Includes TBA Derivatives with a fair value of \$827.3 million and \$307.6 million at June 30, 2016 and March 31, 2016, respectively.

# Hedging Summary: Interest Rate Swaps and Caps



Interest Rate Swaps												
June 30, 2016							March 31, 2016					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Weighted Average				Notional Amount (in 000's)	Fair Value (in 000's)	Weighted Average			
			Duration <sup>(1)</sup>	Pay Rate	Receive Rate	Net Pay Rate			Duration <sup>(1)</sup>	Pay Rate	Receive Rate	Net Pay Rate
≤ 3 Years	\$ 3,000,000	\$(9,095)	(1.28)	0.90	0.67	0.23	\$ 4,250,000	\$(14,120)	(1.56)	0.98	0.63	0.35
> 3 to ≤ 5 Years	3,450,000	(56,300)	(4.37)	1.33	0.64	0.69	2,300,000	(37,585)	(4.10)	1.51	0.62	0.89
> 5 to ≤ 7 Years	500,000	(26,212)	(5.99)	1.98	0.63	1.35	900,000	(32,141)	(6.13)	1.93	0.62	1.31
Subtotal	\$ 6,950,000	\$(91,607)	(3.15)	1.19	0.65	0.54	\$ 7,450,000	\$(83,846)	(2.90)	1.26	0.62	0.64

Interest Rate Caps												
June 30, 2016							March 31, 2016					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Weighted Average				Notional Amount (in 000's)	Fair Value (in 000's)	Weighted Average			
			Duration <sup>(1)</sup>	Cap Rate	Receive Rate	Net Cap Rate			Duration <sup>(1)</sup>	Cap Rate	Receive Rate	Net Cap Rate
≤ 3 Years	\$ —	—	—	—	—	—	\$ —	—	—	—	—	—
> 3 to ≤ 5 Years	2,500,000	16,021	(1.35)	1.28	—	1.28	2,500,000	29,325	(1.79)	1.28	—	1.28
> 5 to ≤ 7 Years	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	\$ 2,500,000	\$16,021	(1.35)	1.28	—	1.28	\$ 2,500,000	\$29,325	(1.79)	1.28	—	1.28

Total Interest Rate Swaps and Caps												
June 30, 2016							March 31, 2016					
Total	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Cap Rate	Receive Rate	Net Cap Rate	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Cap Rate	Receive Rate	Net Cap Rate

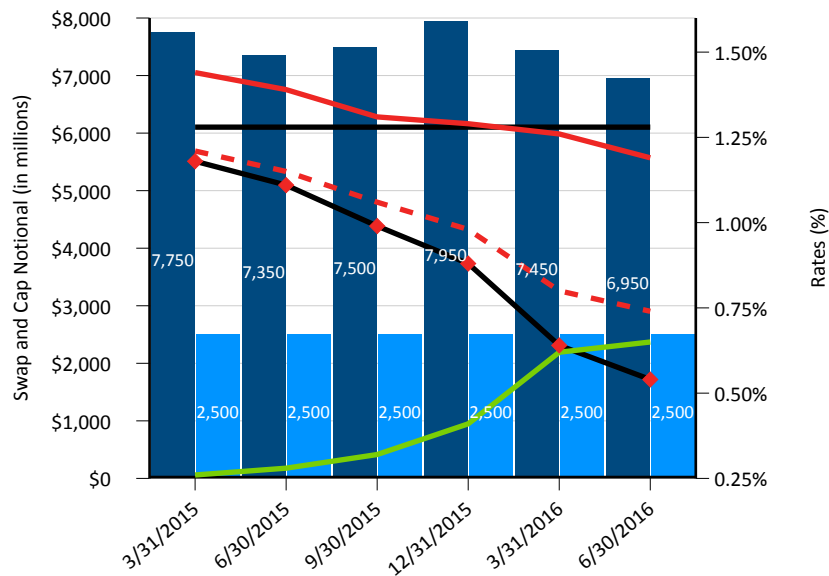
➤ In the Second Quarter, we terminated swaps with a combined notional of \$2.2 billion and a weighted-average pay rate of 1.43% and entered into new swaps with a combined notional of \$1.7 billion and a weighted-average pay rate of 1.21%. Post repositioning, the weighted-average fixed pay rate on swaps decreased to 1.19% at June 30, 2016, from 1.26% at March 31, 2016.

➤ At June 30, 2016 the aggregate interest rate swaps and caps combined notional totaled \$9.45 billion, constituting 91% of the Company's repurchase agreements and FHLBC Advances, compared to \$9.95 billion and 97%, respectively, at March 31, 2016.

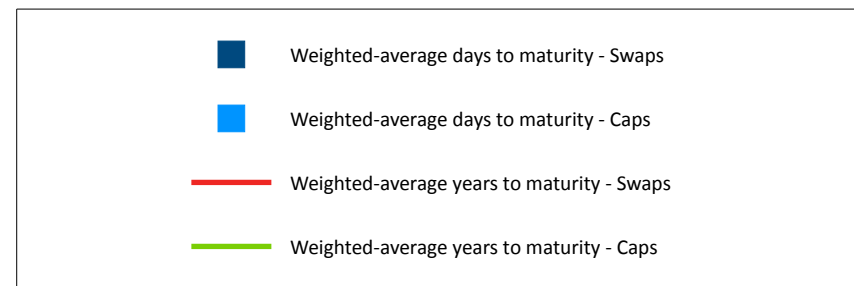
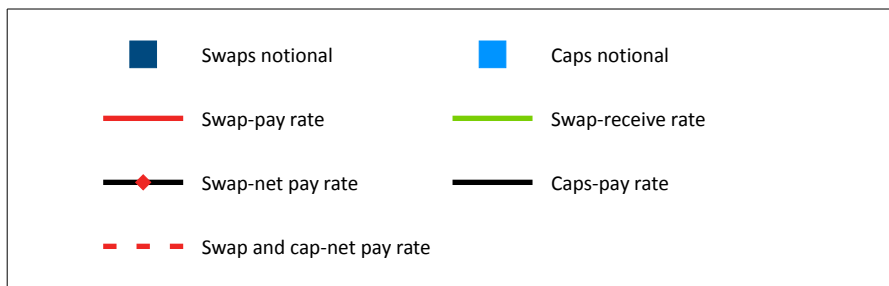
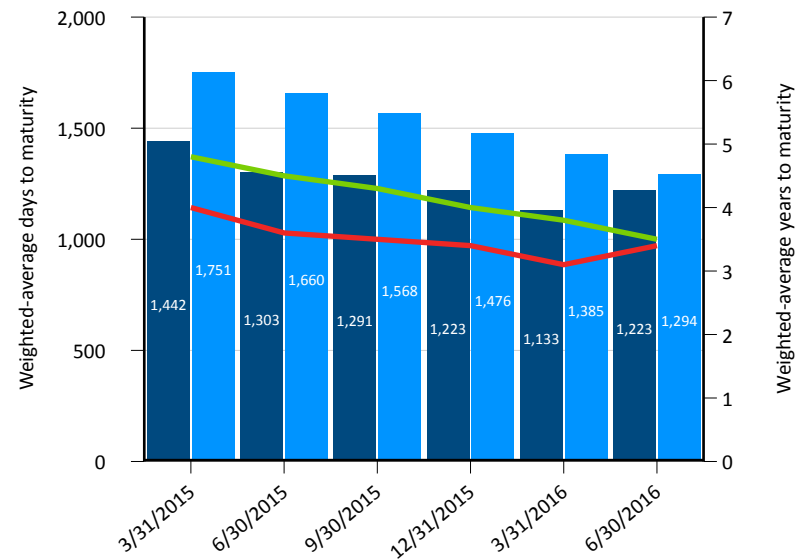
(1) Duration measures the market price volatility of financial instruments as interest rates change, using DV01 methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different duration figures for the same securities. Analytics provided by The Yield Book® software.

# Hedge Notional, Cost and Maturity Trends

### Hedge Notional and Cost Trends



### Maturity Trends



- During the Second Quarter, the swap net-pay rate decreased to 54 basis points from 64 basis points in the First Quarter.
- The cap rate remained unchanged at 1.28%.

# Sensitivity Analysis and Duration Gap

Interest Rate Sensitivity <sup>(1)</sup>					
June 30, 2016					
Interest Rate Change (bps)	Projected Change in Net Income		Projected Change in the Fair Value of Our Investments	Projected Change in Stockholders' Equity	Net Duration Gap <sup>(4)</sup>
-75	8.40%	<sup>(2)(3)</sup>	(0.25)%	(1.99)%	(0.39)
-50	6.72%	<sup>(2)(3)</sup>	0.02%	0.13%	(0.31)
-25	3.36%	<sup>(2)(3)</sup>	0.09%	0.69%	0.02
—	—%		—%	—%	0.35
25	(6.21)%	<sup>(2)</sup>	(0.22)%	(1.69)%	0.67
50	(14.61)%	<sup>(2)</sup>	(0.57)%	(4.47)%	0.98
75	(23.02)%	<sup>(2)</sup>	(1.03)%	(8.12)%	1.21

Interest Rate Sensitivity <sup>(1)</sup>					
March 31, 2016					
Interest Rate Change (bps)	Projected Change in Net Income		Projected Change in the Fair Value of Our Investments	Projected Change in Stockholders' Equity	Net Duration Gap <sup>(4)</sup>
-75	7.75%	<sup>(2)(3)</sup>	(0.18)%	(1.36)%	(0.43)
-50	6.72%	<sup>(2)(3)</sup>	0.04%	0.33%	(0.22)
-25	5.04%	<sup>(2)(3)</sup>	0.07%	0.57%	0.04
—	—%		—%	—%	0.30
25	(5.16)%	<sup>(2)</sup>	(0.20)%	(1.53)%	0.63
50	(10.31)%	<sup>(2)</sup>	(0.55)%	(4.23)%	0.94
75	(15.47)%	<sup>(2)</sup>	(1.01)%	(7.82)%	1.21

- The yield curve flattened in the Second Quarter as the Federal Reserve indicated a slower rise in the Fed funds rate.

Note: Footnotes appear on page 27.

Net Duration Gap <sup>(1)</sup>					
As of June 30, 2016			As of March 31, 2016		
Component	Duration	Notional (Face Value) (in 000's)	Duration	Notional (Face Value) (in 000's)	
Interest rate swaps	(3.15)	\$ 6,950,000	(2.90)	\$ 7,450,000	
Interest rate caps	(1.35)	2,500,000	(1.79)	2,500,000	
Agency RMBS and U.S. Treasuries	2.58	12,914,771	2.65	12,552,588	
Net Duration Gap (years)	0.35		0.30		

➤ The net duration gap was 0.30 at March 31, 2016, and increased marginally to 0.35 at June 30, 2016.

(1) Net duration gap calculated as a weighted-average of the total portfolio including the aggregate notional amount on our interest rate swaps and caps, using DV01 methodology. Analytics provided by The Yield Book® software.

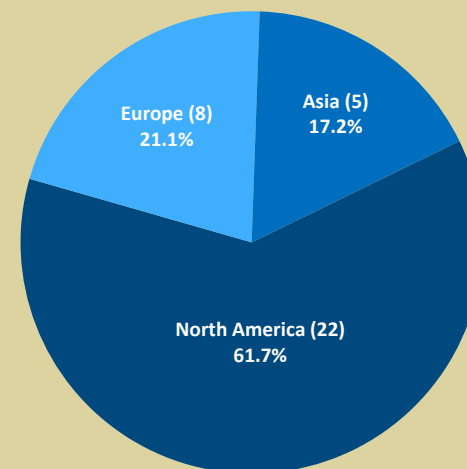
## Repo Borrowings and FHLBC Advances Collateralized with Agency RMBS and U.S. Treasuries As of June 30, 2016

Original Days to Maturity	Repo Borrowings and FHLBC Advances Outstanding (in 000's)	Repo Borrowings and FHLBC Advances Outstanding Percentage	Weighted-Average Interest Rate	Weighted-Average Remaining Days to Maturity	Weighted-Average Original Days to Maturity
<b>Agency RMBS</b>					
≤ 30 Days	\$ 1,709,546	17%	0.66%	18	30
> 30 to ≤ 60 Days	3,042,650	29%	0.67%	23	38
> 60 Days	4,823,186	46%	0.80%	98	167
Subtotal	\$ 9,575,382	92%	0.73%	60	101
<b>U.S. Treasuries</b>					
≤ 30 Days	849,119	8%	0.06%	15	30
Total/ Wtd.-Avg.	\$ 10,424,501	100%	0.68%	56	96

## As of March 31, 2016

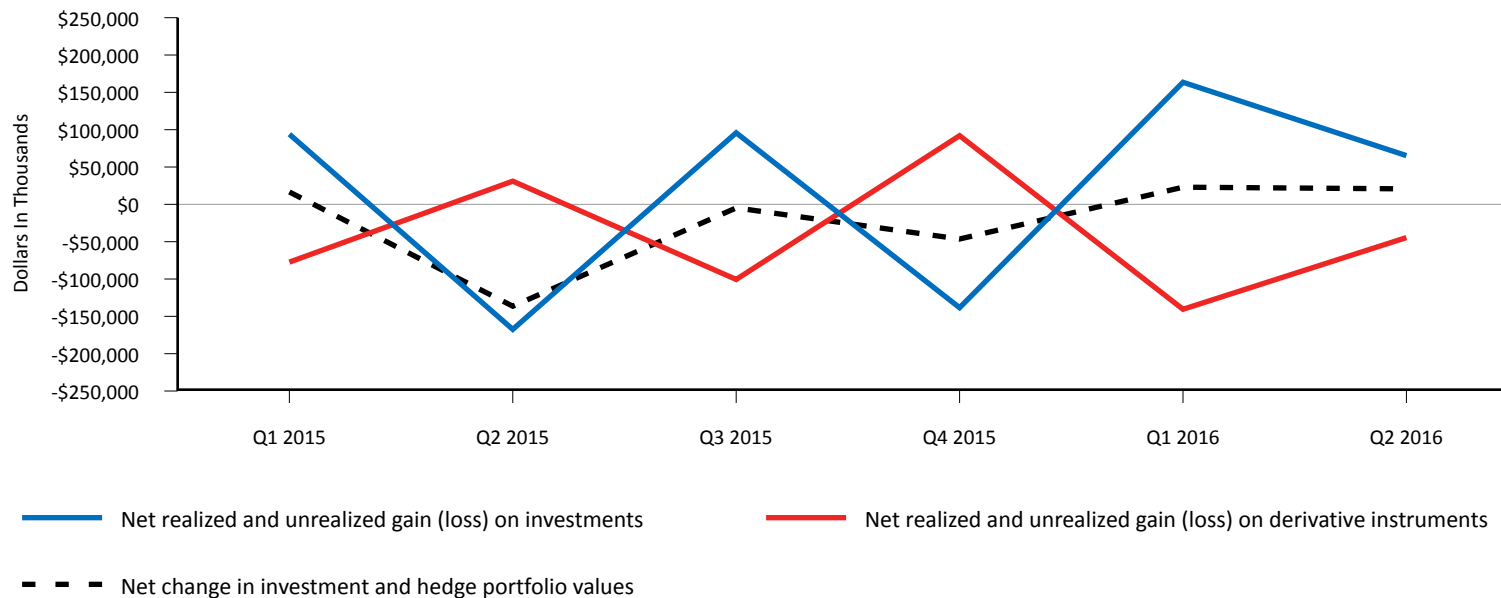
Total/ Wtd.-Avg	\$ 10,306,969	100%	0.73%	51	87
-----------------	---------------	------	-------	----	----

## 35 Total Active Counterparties at June 30, 2016



- During the Second Quarter, we paid down \$75.0 million of FHLBC Advances and replaced the advances with repo borrowings from existing counterparties. At June 30, 2016, \$575.0 million of FHLBC Advances remain outstanding that are required to be repaid on or prior to February 19, 2017. We expect to repay all FHLBC Advances outstanding at June 30, 2016 in August 2016.
- The Company has repo borrowings and FHLBC Advances outstanding with 35 counterparties, and repo agreements in place with a total of 48 counterparties.
- At June 30, 2016, the weighted-average interest rate on outstanding repo borrowings and FHLBC Advances was 0.68% as compared to 0.73% at March 31, 2016.
- Our average cost of funds during the Second Quarter increased to 0.72%, compared to 0.68% in the First Quarter.

# Investment and Hedge Portfolio Performance Trends

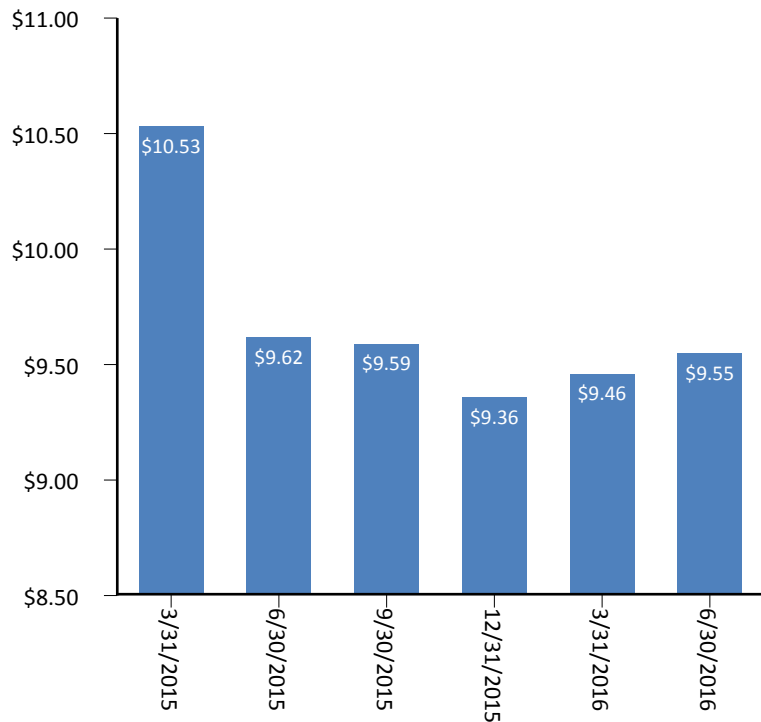


Net Change in Investment and Hedge Portfolio						
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Net realized and unrealized gain (loss) on investments	\$ 93,942	\$ (167,464)	\$ 95,822	\$ (138,412)	\$ 163,488	\$ 65,274
Net realized and unrealized gain (loss) on derivative instruments*	(77,368)	31,047	(100,597)	91,986	(140,524)	(44,535)
Net change in investment and hedge portfolio values	\$ 16,574	\$ (136,417)	\$ (4,775)	\$ (46,426)	\$ 22,964	\$ 20,739

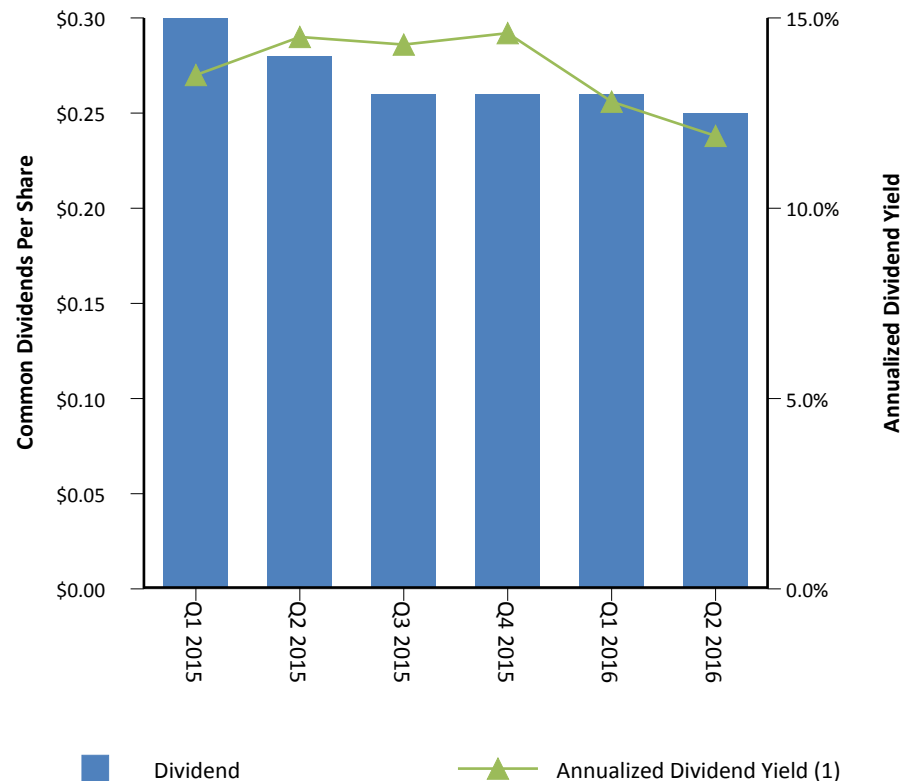
➤ During the Second Quarter and First Quarter, the Investment Portfolio outperformed the Hedge Portfolio

\* Net realized and unrealized gain (loss) on derivative instruments includes net realized and unrealized gains on TBA Derivatives of \$6.5 million and \$7.5 million in the Second Quarter and First Quarter, respectively.

Book Value Per Common Share



CYS Common Stock Dividends

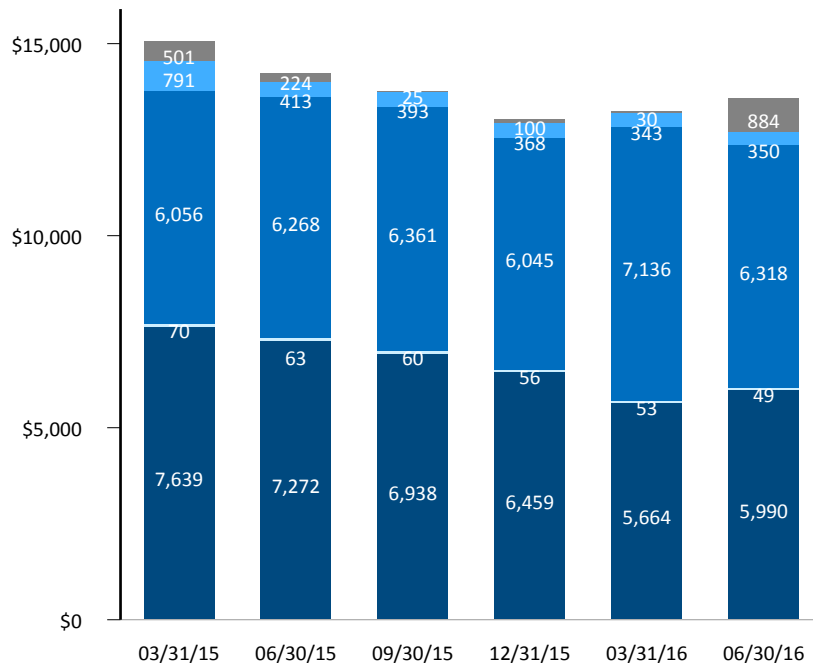


(1) The annualized dividend yield is calculated using the stock price at the quarter end.

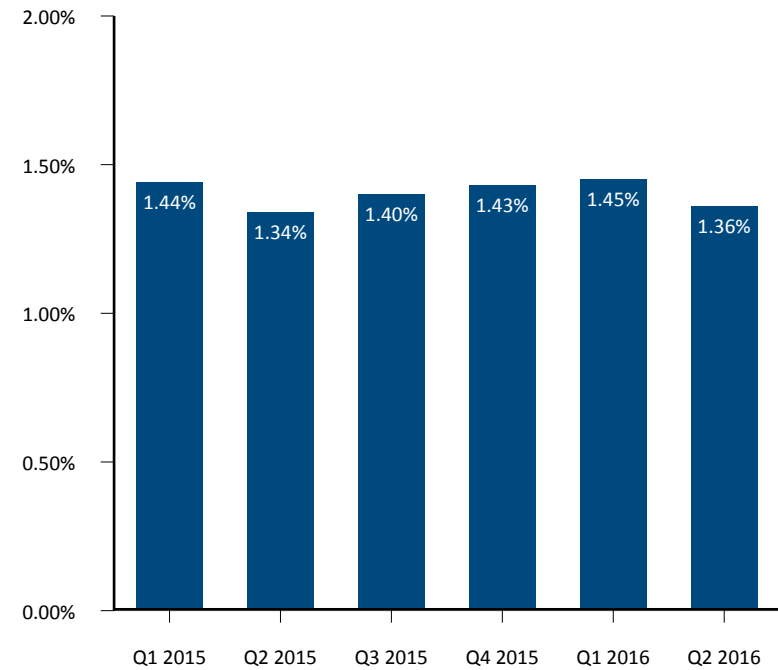


## Debt Securities Portfolio at Fair Value

(dollars in millions)



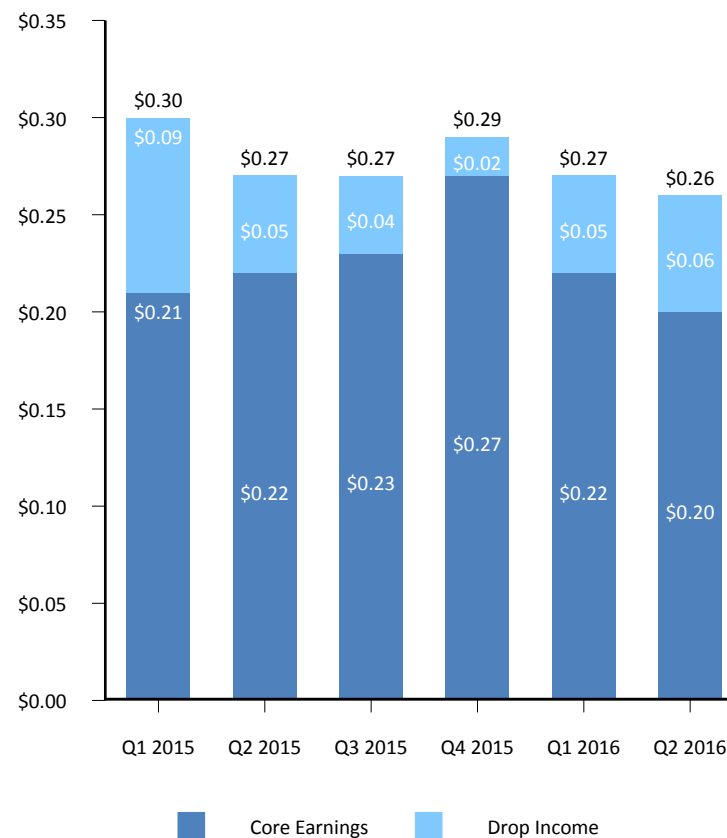
## Interest Rate Spread Net of Hedge Including Drop Income



**GAAP Net Income (Loss) Per Common Share**

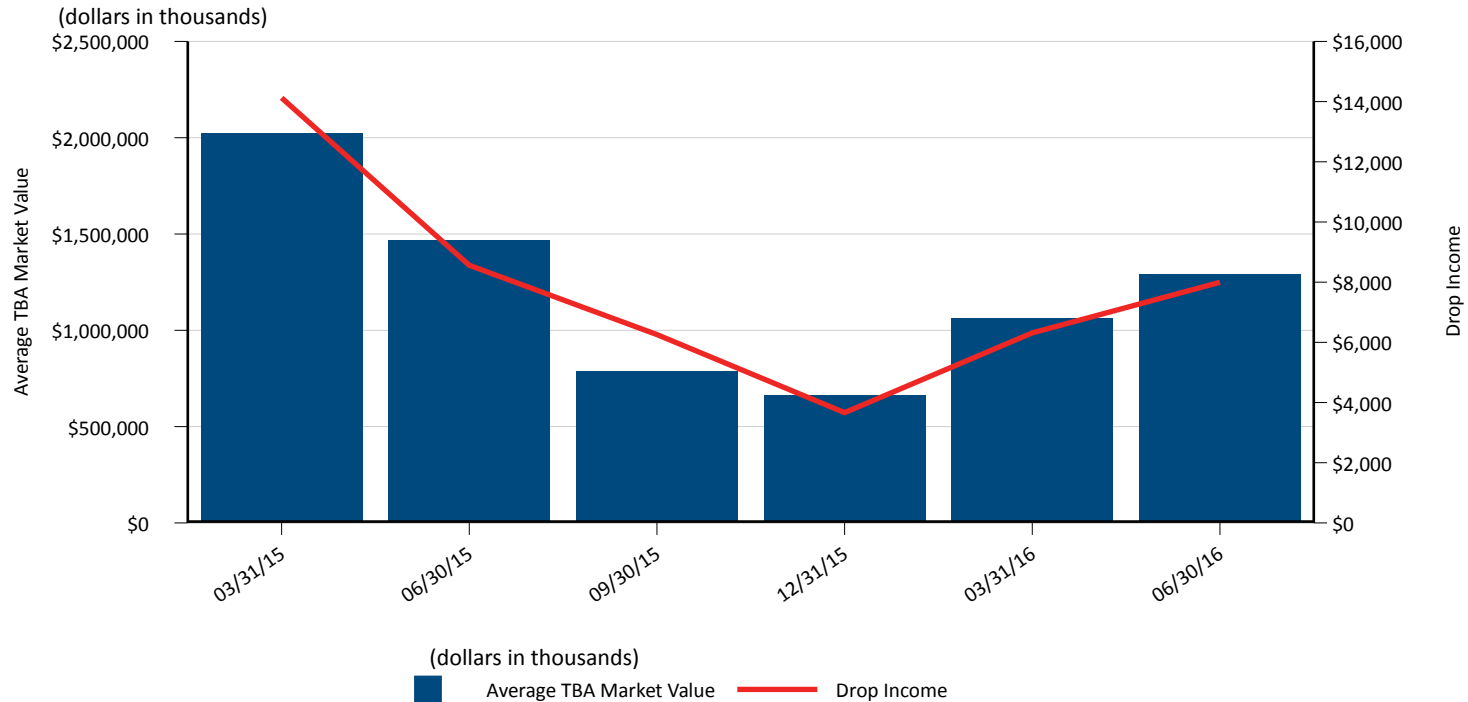


**Core Earnings<sup>(1)</sup> Plus Drop Income Per Common Share**



(1) A reconciliation of the non-GAAP measure Core Earnings can be found on page 24.

# TBA and Drop Income Trends\*



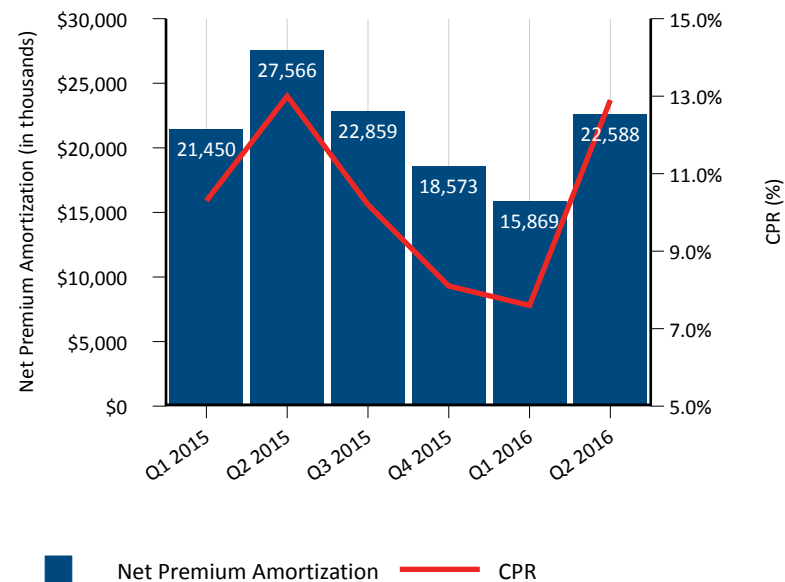
Average TBA Market Values and Drop Income						
(dollars in thousands)						
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Average TBA Market Value	\$ 2,022,951	\$ 1,468,467	\$ 787,630	\$ 661,319	\$ 1,060,866	\$ 1,290,798
Drop Income	\$ 14,125	\$ 8,561	\$ 6,258	\$ 3,665	\$ 6,315	\$ 7,996

\*Includes TBA Derivatives with a fair value of \$827.3 million and \$307.6 million for the period ended June 30 and March 31, 2016, respectively.

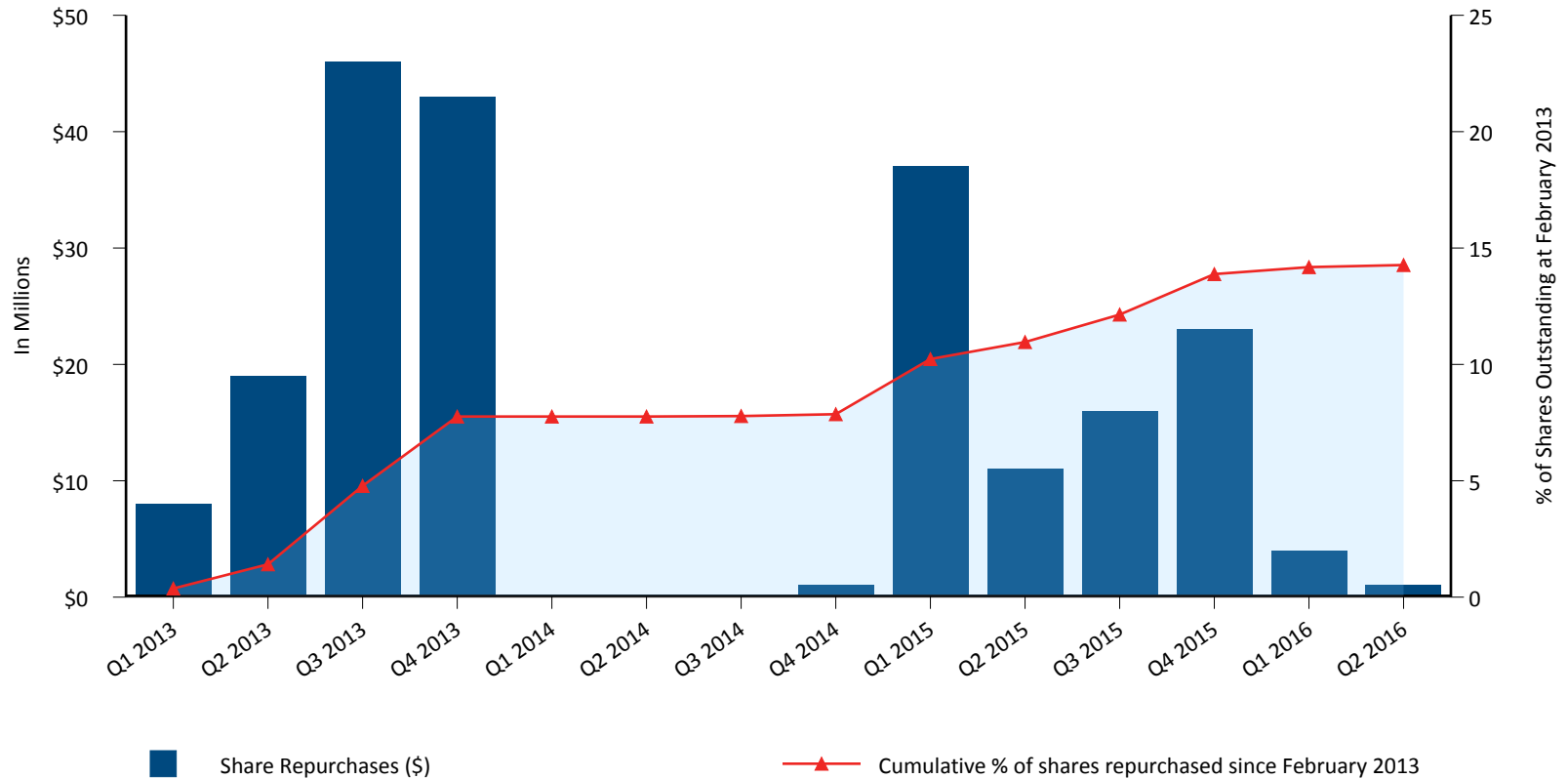
### Leverage and Liquidity at Quarter-End\*



### Amortization and CPR



\* Leverage includes TBA Derivatives with a fair value of \$827.3 million and \$307.6 million at June 30, 2016 and March 31, 2016, respectively.



- During the Second Quarter, the Company repurchased 162,548 shares of its common stock at a weighted-average price of \$7.93 per share.
- During the First Quarter, the Company repurchased 510,618 shares of its common stock at a weighted-average price of \$7.82 per share.
- From inception of the share repurchase activity in February 2013 through June 30, 2016, the Company repurchased approximately 25.0 million shares of the Company's common stock, constituting 14.3% of the total shares outstanding at the time the share repurchase activity began for approximately \$210.2 million.

# Consolidated Balance Sheets



(dollars in 000's, except per share data)	As of					
	6/30/2016	03/31/2016	12/31/2015 <sup>(1)</sup>	9/30/2015	06/30/2015	3/31/2015
<b>Assets:</b>	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	(Unaudited)
Cash	\$ 13,182	\$ 6,262	\$ 9,982	\$ 28,622	\$ 49,919	\$ 7,170
Investments in securities, at fair value:						
Agency mortgage-backed securities	11,879,933	12,888,430	12,927,996	13,752,033	14,016,380	14,555,943
U.S. Treasury securities	884,213	29,972	99,711	25,266	223,910	501,334
Receivable for securities sold and principal repayments	1,507	1,586	1,084,844	247,207	907,661	345,006
Receivable for cash pledged as collateral	97,309	85,097	21,751	71,655	25,509	37,216
Interest receivable	32,460	34,033	34,563	36,518	37,551	37,314
Derivative assets, at fair value	24,650	32,701	100,778	53,995	101,852	91,604
Other investments	31,028	34,028	50,028	50,028	41,028	18,229
Other assets	1,625	1,219	1,051	1,250	1,304	1,205
<b>Total assets</b>	<b>\$ 12,965,907</b>	<b>\$ 13,113,328</b>	<b>\$ 14,330,704</b>	<b>\$ 14,266,574</b>	<b>\$ 15,405,114</b>	<b>\$ 15,595,021</b>
<b>Liabilities and stockholders' equity:</b>						
<b>Liabilities:</b>						
Repurchase agreements	\$ 9,849,501	\$ 9,656,969	\$ 8,987,776	\$ 9,252,681	\$ 10,115,335	\$ 10,204,901
FHLBC Advances, at fair value	575,000	649,553	2,098,701	2,100,737	1,650,011	510,000
Payable for securities purchased	652,619	937,163	1,475,974	980,615	1,732,668	2,767,042
Payable for cash received as collateral	4,826	9,141	18,534	38,641	25,104	48,229
Accrued interest payable	20,307	20,020	32,588	18,453	26,311	31,422
Accrued expenses and other liabilities	4,857	3,113	4,083	5,647	3,473	2,445
Dividends payable	42,259	43,809	4,410	44,659	48,328	51,844
Derivative liabilities, at fair value	95,529	85,461	14,024	65,317	19,778	38,502
<b>Total liabilities</b>	<b>11,244,898</b>	<b>11,405,229</b>	<b>12,636,090</b>	<b>12,506,750</b>	<b>13,621,008</b>	<b>13,654,385</b>
<b>Stockholders' equity:</b>						
Preferred Stock, \$0.01 par value, 50,000 shares authorized:						
7.75% Series A Cumulative Redeemable Preferred Stock, (3,000 shares issued and outstanding, respectively, \$75,000 in aggregate liquidation preference)	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369
7.50% Series B Cumulative Redeemable Preferred Stock, (8,000 shares issued and outstanding, respectively, \$200,000 in aggregate liquidation preference)	193,531	193,531	193,531	193,531	193,531	193,531
Common Stock, \$0.01 par value, 500,000 shares authorized (151M, 151M, 152M, 155M, 157M and 158M shares issued and outstanding, respectively)	1,514	1,515	1,517	1,548	1,568	1,581
Additional paid in capital	1,942,930	1,943,177	1,946,419	1,987,501	2,002,339	2,012,697
Retained earnings (accumulated deficit)	(489,335)	(502,493)	(519,222)	(495,125)	(485,701)	(339,542)
<b>Total stockholders' equity</b>	<b>1,721,009</b>	<b>1,708,099</b>	<b>1,694,614</b>	<b>1,759,824</b>	<b>1,784,106</b>	<b>1,940,636</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 12,965,907</b>	<b>\$ 13,113,328</b>	<b>\$ 14,330,704</b>	<b>\$ 14,266,574</b>	<b>\$ 15,405,114</b>	<b>\$ 15,595,021</b>
<b>Book value per common share</b>	<b>\$ 9.55</b>	<b>\$ 9.46</b>	<b>\$ 9.36</b>	<b>\$ 9.59</b>	<b>\$ 9.62</b>	<b>\$ 10.53</b>

(1) Derived from audited consolidated financial statements.

# Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended					
	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
<b>Interest income:</b>						
Agency RMBS	\$ 74,176	\$ 81,323	\$ 84,831	\$ 83,816	\$ 79,579	\$ 80,060
Other	681	128	1,000	166	953	790
Total interest income	74,857	81,451	85,831	83,982	80,532	80,850
<b>Interest expense:</b>						
Repurchase agreements	16,910	15,886	11,250	10,232	9,607	9,611
FHLBC Advances	1,777	2,059	2,714	2,029	655	31
Total interest expense	18,687	17,945	13,964	12,261	10,262	9,642
Net interest income	56,170	63,506	71,867	71,721	70,270	71,208
<b>Other income (loss):</b>						
Net realized gain (loss) on investments	36,359	1,202	(3,704)	(10,332)	9,435	18,253
Net unrealized gain (loss) on investments	28,915	162,286	(134,708)	106,154	(176,899)	75,689
Net unrealized gain (loss) on FHLBC advances	(448)	(851)	2,036	(726)	(11)	—
Other income	387	463	409	300	118	40
Net realized and unrealized gain (loss) on investments, FHLBC Advances and other income	65,213	163,100	(135,967)	95,396	(167,357)	93,982
Swap and cap interest expense	(14,779)	(18,398)	(22,969)	(24,681)	(24,992)	(27,468)
Net realized and unrealized gain (loss) on derivative instruments	(44,535)	(140,524)	91,986	(100,597)	31,047	(77,368)
Net gain (loss) on derivative instruments	(59,314)	(158,922)	69,017	(125,278)	6,055	(104,836)
Total other income (loss)	5,899	4,178	(66,950)	(29,882)	(161,302)	(10,854)
<b>Expenses:</b>						
Compensation and benefits	3,565	3,865	1,200	3,655	3,712	3,554
General, administrative and other	2,294	2,488	2,069	2,157	2,293	2,203
Total operating expenses	5,859	6,353	3,269	5,812	6,005	5,757
Net income (loss)	\$ 56,210	\$ 61,331	\$ 1,648	\$ 36,027	\$ (97,037)	\$ 54,597
Dividends on preferred stock	(5,203)	(5,203)	(5,204)	(5,203)	(5,203)	(5,203)
Net income (loss) available to common stockholders	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824	\$ (102,240)	\$ 49,394
Net income (loss) per common share	\$ 0.34	\$ 0.37	\$ (0.02)	\$ 0.20	\$ (0.66)	\$ 0.31

# Reconciliation of Non-GAAP Measure Core Earnings, Plus Drop Income



## Core Earnings:

The following table reconciles Net income to Core Earnings, a non-GAAP Measure, and summarizes Core Earning plus Drop Income for the periods presented.

(in 000's, except per share data) (Unaudited)	Three Months Ended					
	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Net income (loss) available to common stockholders	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824	\$ (102,240)	\$ 49,394
Net realized (gain) loss on investments	(36,359)	(1,202)	3,704	10,332	(9,435)	(18,253)
Net unrealized (gain) loss on investments	(28,915)	(162,286)	134,708	(106,154)	176,899	(75,689)
Net realized and unrealized (gain) loss on derivative instruments	44,535	140,524	(91,986)	100,597	(31,047)	77,368
Net unrealized (gain) loss on FHLBC Advances	448	851	(2,036)	726	11	—
<b>Core Earnings</b>	<b>\$ 30,716</b>	<b>\$ 34,015</b>	<b>\$ 40,834</b>	<b>\$ 36,325</b>	<b>\$ 34,188</b>	<b>\$ 32,820</b>
Core Earnings per average share	\$ 0.20	\$ 0.22	\$ 0.27	\$ 0.23	\$ 0.22	\$ 0.21
Drop Income	7,996	6,315	3,665	6,258	8,561	14,124
<b>Core Earnings plus Drop Income</b>	<b>\$ 38,712</b>	<b>\$ 40,330</b>	<b>\$ 44,499</b>	<b>\$ 42,583</b>	<b>\$ 42,749</b>	<b>\$ 46,944</b>
Core Earnings plus Drop Income per Share	\$ 0.26	\$ 0.27	\$ 0.29	\$ 0.27	\$ 0.27	\$ 0.30

"Core Earnings" represents a non-GAAP financial measure and is defined as net income (loss) available to common stockholders excluding net realized gain (loss) on investments, net unrealized gain (loss) on investments, net realized and unrealized gain (loss) on derivative instruments, and net unrealized gain (loss) on FHLBC Advances. Management uses Core Earnings to evaluate the effective yield of the portfolio after operating expenses. The Company believes that providing users of the Company's financial information with such measures, in addition to the related GAAP measures, gives investors greater transparency and insight into the information used by the Company's management in its financial and operational decision-making.

The primary limitation associated with Core Earnings as a measure of the Company's financial performance over any period is that it excludes the effects of net realized and unrealized gain (loss) on investments, swap and cap contracts, TBA Derivatives and indebtedness. In addition, the Company's presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, which may use different calculations. As a result, Core Earnings should not be considered as a substitute for the Company's GAAP net income (loss) as a measure of our financial performance or any measure of our liquidity under GAAP.

Drop Income is a component of our net realized and unrealized gain (loss) on investments and derivative instruments in the consolidated statements of operations. Drop Income is the difference between the spot price and the forward settlement price for the same security on trade date. This difference is also the economic equivalent of the assumed net interest margin (yield minus financing costs) of the bond from trade date to settlement date. We derive Drop Income through utilization of forward settling transactions.



# Reconciliation of Non-GAAP Measure: Economic Net Interest Income and Economic Interest Expense



## Economic Net Interest Income and Economic Interest Expense:

The table below provides GAAP measures of interest expense and net interest income and details with respect to reconciling the aforementioned line items on a non-GAAP basis for each respective period.

(in 000's, except per share data) (Unaudited)	Three Months Ended					
	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Net interest income	\$ 56,170	\$ 63,506	\$ 71,867	\$ 71,721	\$ 70,270	\$ 71,208
Swap and cap interest expense	14,779	18,398	22,969	24,681	24,992	27,468
Economic net interest income	\$ 41,391	\$ 45,108	\$ 48,898	\$ 47,040	\$ 45,278	\$ 43,740
Total interest expense	\$ 18,687	\$ 17,945	\$ 13,964	\$ 12,261	\$ 10,262	\$ 9,642
Swap and cap interest expense	14,779	18,398	22,969	24,681	24,992	27,468
Economic interest expense	\$ 33,466	\$ 36,343	\$ 36,933	\$ 36,942	\$ 35,254	\$ 37,110

- Commencing with the Form 10-K for the year ended December 31, 2015, "Swap and cap interest expense", which was recognized as a separate component of "Total interest expense" in the consolidated statement of operations through September 30, 2015, is now recognized as a component of "Net gain (loss) on derivative instruments". This reclassification was made in order to record income, expenses and changes in fair value related to derivative instruments in one line item in the consolidated statements of operations, consistent with common industry practice. Prior period balances have been reclassified to conform to the current period presentation.

## Footnotes Page 3, Summary Q2 2016 Results

1. Book value per common share is calculated by dividing total stockholders' equity less the liquidation value of preferred stock at period end divided by common shares outstanding at period end.
2. Core Earnings is defined as net income (loss) available to common stockholders excluding net realized and unrealized gain (loss) on investments, net realized and unrealized gain (loss) on derivative instruments, and net unrealized gain (loss) on advances from the Federal Home Loan Bank of Cincinnati ("FHLBC Advances"). See reconciliation of net income (loss) to core earnings on page 24.
3. Drop Income is a component of our net realized and unrealized gain (loss) on investments and derivative instruments on our consolidated statements of operations and therefore excluded from our Core Earnings. Drop Income is the difference between the spot price and the forward settlement price for the same security on trade date. This difference is also the economic equivalent of the assumed net interest margin (yield minus financing costs) of the bond from trade date to settlement date. We derive drop income through utilization of forward settling transactions.
4. The interest rate spread net of hedge including drop income for the period is calculated by subtracting adjusted average cost of funds and hedge from average yield on total Agency RMBS and U.S. Treasuries (collectively, "Debt Securities") including drop income.
5. The operating expense ratio for the period is calculated by dividing annualized operating expenses by average stockholders' equity.
6. The weighted average amortized cost of Agency RMBS and U.S. Treasuries is calculated using the weighted average amortized cost by security divided by the current face at period end.
7. The leverage ratio is calculated by dividing (i) the Company's repurchase agreements and FHLBC Advances balances plus payable for securities purchased minus receivable for securities sold plus gross TBA Derivatives positions by (ii) stockholders' equity.
8. The Constant Prepayment Rate ("CPR") represents weighted average 1-month CPR of the Company's Agency RMBS during the period.
9. The total stockholder return on common equity is calculated as the change in book value plus dividend distribution on common stock divided by book value per common share at end of the prior period.

## Footnotes Page 4, Key Balance Sheet & Performance Metrics

1. The average settled Debt Securities is calculated by averaging the month-end cost basis of settled Debt Securities during the period.
  2. The average total Debt Securities is calculated by averaging the month-end cost basis of total Debt Securities and all TBA contracts during the period.
  3. The average repurchase agreements and FHLBC Advances balances are calculated by averaging the month-end repurchase agreements and FHLBC Advances balances during the period.
  4. The average Debt Securities liabilities are calculated by adding the average month-end repurchase agreements and FHLBC Advances balances plus average unsettled Debt Securities (inclusive of TBA derivatives) during the period.
  5. The average stockholders' equity is calculated by averaging the month end stockholders' equity during the period.
  6. The average common shares outstanding are calculated by averaging the daily common shares outstanding during the period.
  7. The leverage ratio is calculated by dividing (i) the Company's repurchase agreements and FHLBC Advances balances plus payable for securities purchased minus receivable for securities sold plus gross TBA Derivatives positions by (ii) stockholders' equity.
  8. Book value per common share is calculated by dividing total stockholders' equity less the liquidation value of preferred stock at period end divided by common shares outstanding at period end.
  9. The weighted average amortized cost of Agency RMBS and U.S. Treasuries is calculated using a weighted average cost by security divided by current face at period end.
  10. The average yield on settled Debt Securities for the period is calculated by dividing total interest income by average settled Debt Securities.
  11. The average yield on total Debt Securities including Drop Income for the period is calculated by dividing total interest income plus drop income by average total Debt Securities. Drop income was \$8.0 million, \$6.3 million, \$3.7 million, \$6.3 million, \$8.6 million and \$14.1 million and for Q2 2016, Q1 2016, Q4 2015, Q3 2015, Q2 2015 and Q1 2015, respectively. Drop income is a component of our net realized and unrealized gain (loss) on investments and net realized and unrealized gain (loss) on derivative instruments in the accompanying unaudited consolidated statements of operations. Drop income is the difference between the spot price and the forward settlement price for the same security on trade date. This difference is also the economic equivalent of the assumed net interest margin (yield minus financing costs) of the bond from trade date to settlement date. We derive drop income through utilization of forward settling transactions.
  12. The average cost of funds for the period is calculated by dividing repurchase agreement and FHLBC Advances interest expense by average repurchase agreements and FHLBC Advances for the period.
  13. The average cost of funds and hedge for the period is calculated by dividing repurchase agreement, FHLBC Advances and swap and cap interest expense by average repurchase agreements and FHLB Advances.
  14. The adjusted average cost of funds and hedge for the period is calculated by dividing repurchase agreement, FHLBC Advances and swap and cap interest expense by average total Debt Securities liabilities.
  15. The interest rate spread net of hedge for the period is calculated by subtracting average cost of funds and hedge from average yield on settled Debt Securities.
  16. The interest rate spread net of hedge including Drop Income for the period is calculated by subtracting adjusted average cost of funds and hedge from average yield on total Debt Securities including drop income.
  17. The operating expense ratio for the period is calculated by dividing operating expenses by average stockholders' equity.
  18. The total stockholder return on common equity is calculated as the change in book value plus dividend distributions on common stock divided by book value per common share at end of the prior period.
  19. The constant prepayment rate ("CPR") represents weighted average 1-month CPR of the Company's Agency RMBS during the period.
- \* All percentages are annualized except total stockholder return on common equity.

## Footnotes Page 7, Portfolio Details as of June 30, 2016

1. To-be-announced (“TBA”) securities are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
2. Represents the historical experienced 3-month CPR of the Company’s Agency RMBS portfolio at June 30, 2016 and March 31, 2016, respectively. The historical experienced CPR is not indicative of future performance.
3. Duration measures the market price volatility of financial instruments as interest rates change, using Dollar Value of One Basis Point, or “DV01”, methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities. Analytics provided by The Yield Book® software.
4. Represents the weighted-average coupon of Hybrid ARMs.

## Footnotes Page 12, Sensitivity Analysis and Duration Gap

1. The interest rate sensitivity analysis shows the estimated impact interest rate changes would have on net income, the fair value of the Company’s investments, stockholders’ equity and net duration gap, using DV01 methodology, and assuming a static portfolio with rates suddenly falling or rising 25, 50 and 75 bps.
2. Immediate impact estimated over 12 month period.
3. Given the historically low level of interest rates at June 30, 2016 and March 31, 2016, we reduced 3-month LIBOR and our repo borrowing rates by 10, 20 and 25 bps for the 25, 50, and 75 bps down net income scenarios, respectively. All other interest rate-sensitive instruments were calculated in accordance with the table.
4. Net duration gap calculated as a weighted-average of the total portfolio including the aggregate notional amount on our interest rate swaps and caps, using DV01 methodology. Analytics provided by The Yield Book® software.



**Supplemental Earnings Presentation**  
**Second Quarter 2016**  
**July 28, 2016**