



Supplemental Earnings Presentation
Third Quarter 2016
October 26, 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 obligation to update any forward-looking information, whether as a result of new information, future events or otherwise.

Summary Q3 2016 as compared to Q2 2016 Results

- At September 30, 2016, book value per common share of \$9.79⁽¹⁾, an increase of \$0.24 from June 30, 2016 book value per common share of \$9.55⁽¹⁾
- Declared a quarterly dividend per common share of \$0.25 during the quarter ended September 30, 2016 ("Third Quarter"), unchanged from the prior quarter, representing an annualized dividend yield of 11.5% and 11.9%, based upon the closing price per common share of \$8.72 and \$8.37 at September 30, 2016 and June 30, 2016, respectively.
- GAAP net income available to common stockholders of \$73.8 million, or \$0.49 per diluted common share, compared to net income of \$51.0 million, or \$0.34 per diluted common share for the previous quarter.
- Core Earnings⁽²⁾ plus Drop Income⁽³⁾ of \$39.1 million (\$28.6 million Core Earnings and \$10.5 million Drop Income), or \$0.26 per diluted common share (\$0.19 Core Earnings and \$0.07 Drop Income), as compared to \$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), for the prior quarter.
- Interest rate spread net of hedge, including Drop Income, of 1.37%⁽⁴⁾, relatively unchanged from 1.36% at June 30, 2016.
- Operating expense ratio of 1.42%⁽⁵⁾ during the Third Quarter as compared to 1.36% during the prior quarter.
- Weighted-average amortized cost of Agency RMBS and U.S. Treasuries⁽⁶⁾ (collectively, "Debt Securities") of \$103.72 at September 30, 2016, compared to \$103.42 at June 30, 2016.
- Leverage ratio⁽⁷⁾ increased marginally to 6.96:1 at September 30, 2016 from 6.91:1 at June 30, 2016.
- The weighted-average quarterly Constant Prepayment Rate ("CPR")⁽⁸⁾ increased to 14.0% at September 30, 2016 from 12.9% at June 30, 2016.
- The Company did not repurchase shares of its common stock during the Third Quarter. During the three months ended June 30, 2016 (the "Second Quarter") the Company repurchased 162,548 shares of the Company's common stock at a weighted-average purchase price of \$7.93 per share for an aggregate of approximately of \$1.3 million.
- Total stockholder return on common equity⁽⁹⁾ of 5.13% and 3.59% for the Third Quarter and Second Quarter, respectively.

Note: Footnotes appear on page 26.

Key Balance Sheet & Performance Metrics



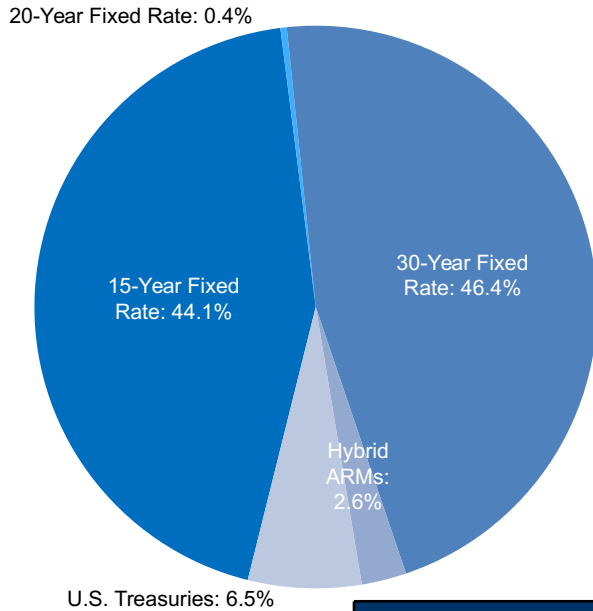
Key Balance Sheet Metrics (in thousands)	Three Months Ended					
	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Average settled Debt Securities ⁽¹⁾	\$ 11,725,021	\$ 11,887,351	\$ 11,905,997	\$ 12,811,091	\$ 13,099,727	\$ 13,219,744
Average total Debt Securities ⁽²⁾	\$ 13,596,739	\$ 13,230,800	\$ 12,945,855	\$ 13,424,661	\$ 13,928,756	\$ 14,711,932
Average repurchase agreements and FHLBC Advances ⁽³⁾	\$ 10,223,051	\$ 10,412,784	\$ 10,492,636	\$ 11,309,499	\$ 11,557,064	\$ 11,610,144
Average Debt Securities liabilities ⁽⁴⁾	\$ 12,094,769	\$ 11,756,233	\$ 11,532,494	\$ 11,923,069	\$ 12,386,093	\$ 13,102,332
Average stockholders' equity ⁽⁵⁾	\$ 1,749,543	\$ 1,725,879	\$ 1,714,728	\$ 1,739,317	\$ 1,790,420	\$ 1,893,445
Average common shares outstanding ⁽⁶⁾	151,414	151,452	151,788	153,183	155,702	157,334
Leverage ratio (at period end) ⁽⁷⁾	6.96:1	6.91:1	6.76:1	6.77:1	6.87:1	7.06:1
Book value per common share (at period end) ⁽⁸⁾	\$ 9.79	\$ 9.55	\$ 9.46	\$ 9.36	\$ 9.59	\$ 9.62
Weighted average amortized cost of Agency RMBS and U.S. Treasuries ⁽⁹⁾	\$ 103.72	\$ 103.42	\$ 103.76	\$ 103.69	\$ 103.94	\$ 103.98
Key Performance Metrics*	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Average yield on settled Debt Securities ⁽¹⁰⁾	2.38%	2.52%	2.74%	2.68%	2.56%	2.44%
Average yield on total Debt Securities including Drop Income ⁽¹¹⁾	2.36%	2.50%	2.71%	2.67%	2.59%	2.42%
Average cost of funds ⁽¹²⁾	0.68%	0.72%	0.68%	0.49%	0.42%	0.35%
Average cost of funds and hedge ⁽¹³⁾	1.17%	1.29%	1.39%	1.31%	1.28%	1.21%
Adjusted average cost of funds and hedge ⁽¹⁴⁾	0.99%	1.14%	1.26%	1.24%	1.19%	1.08%
Interest rate spread net of hedge ⁽¹⁵⁾	1.21%	1.23%	1.35%	1.37%	1.28%	1.23%
Interest rate spread net of hedge including Drop Income ⁽¹⁶⁾	1.37%	1.36%	1.45%	1.43%	1.40%	1.34%
Operating expense ratio ⁽¹⁷⁾	1.42%	1.36%	1.48%	0.75%	1.30%	1.27%
Total stockholder return on common equity ⁽¹⁸⁾	5.13%	3.59%	3.85%	0.31%	2.39%	(5.98%)
Constant prepayment rate (weighted average experienced 1-month) ⁽¹⁹⁾	14.0%	12.9%	7.6%	8.1%	10.2%	13.0%

Note: Footnotes appear on page 26.

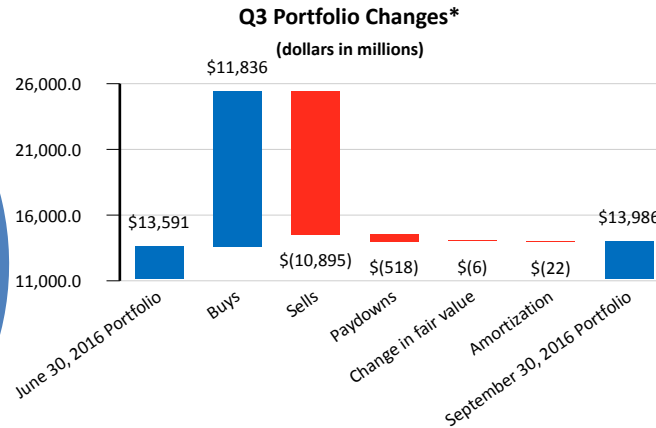
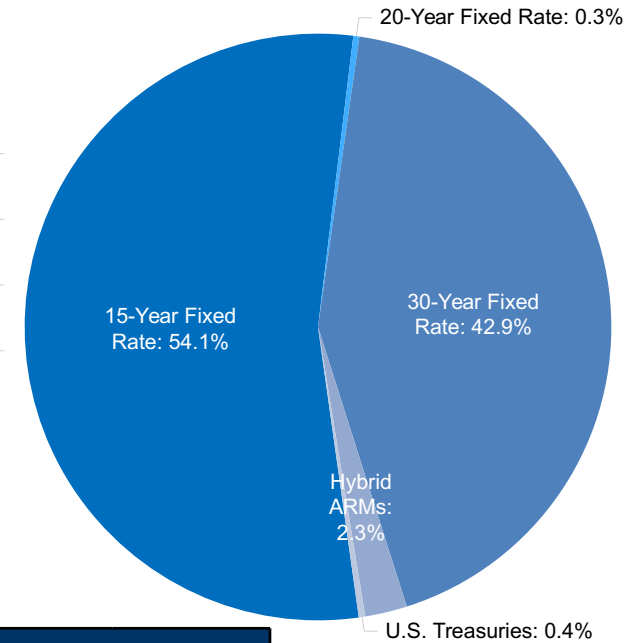
Security Type	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016	9/30/2016	Q2 2016 Δ to Q3 2016
15-Year Fannie Mae Fixed Rate MBS Prices							
2.5%	\$101.11	\$102.02	\$100.86	\$102.70	\$103.52	\$103.58	\$0.06
3.0%	\$103.48	\$104.17	\$103.08	\$104.52	\$104.86	\$104.98	\$0.12
3.5%	\$105.36	\$105.64	\$104.77	\$105.67	\$105.98	\$105.42	\$(0.56)
4.0%	\$104.95	\$104.73	\$104.17	\$104.20	\$103.73	\$103.20	\$(0.53)
30-Year Fannie Mae Fixed Rate MBS Prices							
3.0%	\$99.42	\$101.45	\$100.05	\$102.67	\$103.83	\$103.98	\$0.15
3.5%	\$102.89	\$104.39	\$103.23	\$104.92	\$105.55	\$105.55	\$—
4.0%	\$105.83	\$106.73	\$105.86	\$106.92	\$107.23	\$107.42	\$0.19
U.S. Treasuries Rates							
2-Yr UST	0.64%	0.63%	1.05%	0.72%	0.58%	0.76%	0.18%
5-Yr UST	1.65%	1.36%	1.76%	1.20%	1.00%	1.15%	0.15%
7-Yr UST	2.08%	1.74%	2.09%	1.53%	1.28%	1.42%	0.14%
10-Yr UST	2.35%	2.04%	2.27%	1.77%	1.47%	1.59%	0.12%
2-Yr UST to 10-Yr UST Spread	1.71%	1.41%	1.22%	1.05%	0.89%	0.83%	(0.06)%
LIBOR Rates							
1 Month Libor	0.19%	0.19%	0.43%	0.44%	0.47%	0.53%	0.06%
3 Month Libor	0.28%	0.33%	0.61%	0.63%	0.65%	0.85%	0.20%
Swap Rates							
2-Yr Swap	0.90%	0.75%	1.18%	0.84%	0.73%	1.01%	0.28%
5-Yr Swap	1.79%	1.38%	1.74%	1.17%	0.98%	1.18%	0.20%
7-Yr Swap	2.15%	1.70%	1.95%	1.39%	1.15%	1.30%	0.15%
10-Yr Swap	2.46%	2.00%	2.19%	1.64%	1.36%	1.46%	0.10%
30- and 15-Year Fannie Mae Yield Spread to Swap Rates							
30-Yr to 7-Yr Swap	0.95%	1.10%	1.05%	1.18%	1.16%	1.06%	(0.10)%
15-Yr to 5-Yr Swap	0.50%	0.72%	0.57%	0.70%	0.71%	0.54%	(0.17)%

- At September 30, 2016, the 10-year U.S. Treasury yield rose to 1.59%, or 12 basis points ("bps") from the June 30, 2016 level, and is 68 bps lower on a year-to-date basis.
- During the Third Quarter the spread between the 2- and 10-year Treasuries flattened 6 bps.
- At September 30, 2016, the spread between Fannie Mae MBS and Swap rates declined marginally and is virtually unchanged on a year-to-date basis.

June 30, 2016
\$13.6B Portfolio*



September 30, 2016
\$14.0B Portfolio*



<i>(dollars in thousands)</i>	6/30/2016*	% of Portfolio	9/30/2016*	% of Portfolio	\$ Change	% Change
15-Year Fixed Rate	\$ 5,989,553	44.1%	\$ 7,572,953	54.1%	\$ 1,583,400	12%
20-Year Fixed Rate	49,494	0.4%	46,353	0.3%	(3,141)	0%
30-Year Fixed Rate	6,318,345	46.4%	5,993,108	42.9%	(325,237)	-2%
Hybrid ARMs	349,814	2.6%	323,851	2.3%	(25,963)	0%
U.S. Treasuries	884,213	6.5%	49,891	0.4%	(834,322)	-6%
Total	\$ 13,591,419	100.0%	\$ 13,986,156	100.0%	\$ 394,737	4.0%

*Q3 Portfolio changes include TBA dollar roll transactions whereby the Company is not contractually obligated to accept delivery on the settlement date ("TBA Derivatives") (\$4.8 billion, \$3.5 billion, and \$12.4 million of buys, sells, and change in fair value, respectively). Fair value of TBA Derivatives at June 30, 2016 and September 30, 2016 was \$827.3 million and \$2.2 billion, respectively.

Portfolio Detail as of September 30, 2016

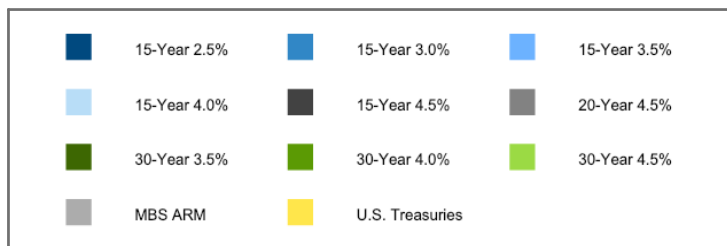
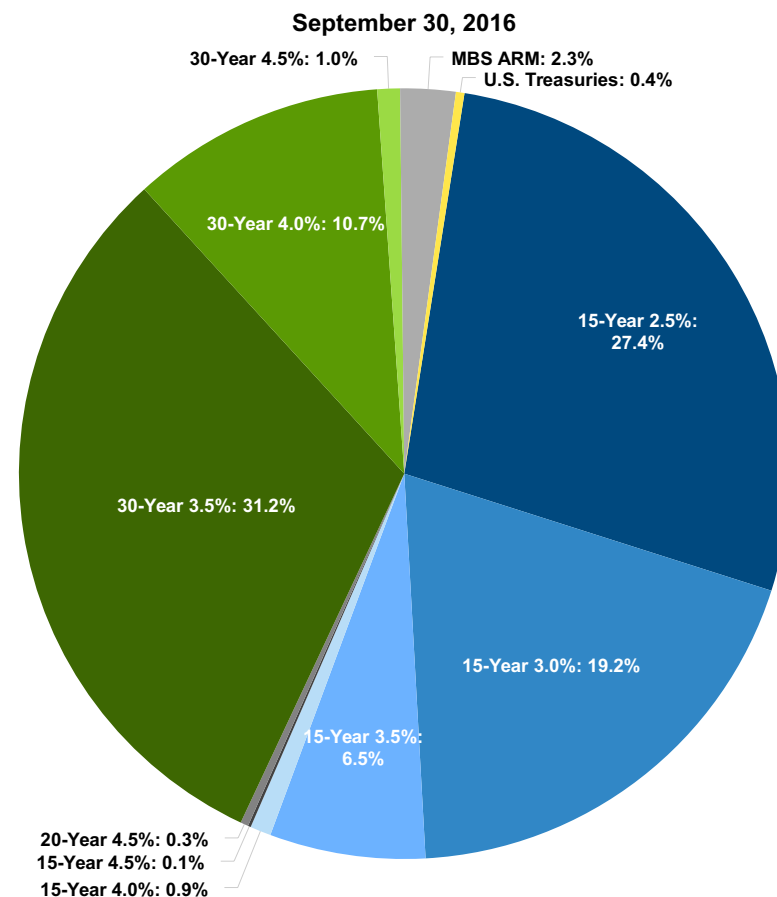
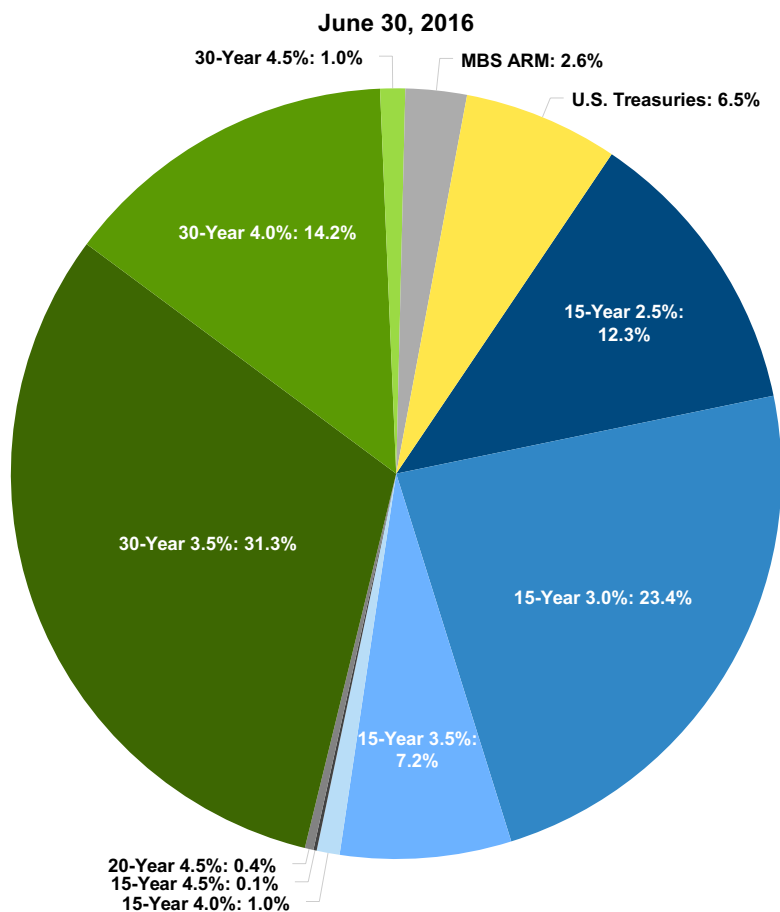


Coupon	Face Value (in 000's)	Fair Value (in 000's)*	Amortized Cost Basis as % of Face Value	Loan Balance ⁽¹⁾ (in 000's)	Loan Age ⁽¹⁾ (in months)	3-Month CPR ⁽¹⁾⁽²⁾	Duration ⁽³⁾
15-Year Agency Mortgage Backed Securities							
Weighted-Average							
2.5%	\$621,776	\$644,657	\$102.94	\$328	3	5.3%	2.73
TBA 2.5%	3,080,000	3,189,117	103.12	n/a	n/a	n/a	2.49
3.0%	2,555,742	2,686,304	102.70	260	28	12.8	2.51
3.5%	863,787	913,627	103.03	216	49	15.6%	2.44
4.0%	115,378	122,550	101.06	168	67	14.6%	2.39
4.5%	15,710	16,698	102.30	243	80	26.0%	1.97
Subtotal	7,252,393	7,572,953	102.91	259	30	12.8%	2.51
20-Year Agency Mortgage Backed Securities							
4.5%	42,226	46,353	102.70	214	74	19.2%	2.11
Subtotal	42,226	46,353	102.70	214	74	19.2%	2.11
30-Year Agency Mortgage Backed Securities							
3.5%	4,732,529	5,001,136	104.80	333	8	10.2%	2.83
TBA 3.5%	(600,000)	(632,355)	105.02	n/a	n/a	n/a	2.43
4.0%	1,380,416	1,491,323	104.95	246	27	18.7%	2.38
4.5%	121,088	133,004	106.67	282	65	23.4%	2.27
Subtotal	5,634,033	5,993,108	104.85	312	13	12.8%	2.75
Hybrid ARMs							
2.9% ⁽⁴⁾	311,042	323,851	102.76	314	36	24.4%	1.64
Subtotal	311,042	323,851	102.76	314	36	24.4%	1.64
U.S. Treasuries							
0.6%	50,000	49,891	99.89	n/a	n/a	n/a	1.73
Subtotal	50,000	49,891	99.89	n/a	n/a	n/a	1.73
Portfolio Total	\$13,289,694	\$13,986,156	\$103.72	\$291	18	13.2%	2.59
As of June 30, 2016							
Coupon	Face Value (in 000's)	Fair Value (in 000's)*	Amortized Cost Basis per Face Value	Loan Balance ⁽¹⁾ (in 000's)	Loan Age ⁽¹⁾ (in months)	3-Month CPR ⁽¹⁾⁽²⁾	Duration ⁽³⁾
15-Year Agency	\$5,714,808	\$5,989,553	\$102.77	\$259	28	10.8%	2.55
20-Year Agency	45,186	49,494	102.75	216	71	17.1%	2.18
30-Year Agency	5,939,447	6,318,345	104.59	311	12	10.6%	2.63
Hybrid ARMs	335,330	349,814	102.79	314	35	21.7%	1.63
U.S. Treasuries	880,000	884,213	100.12	n/a	n/a	n/a	2.84
Portfolio Total	\$12,914,771	\$13,591,419	\$103.42	\$289	20	11.1%	2.58

*Includes TBA Derivatives with a fair value of \$2.2 billion and \$827.3 million at September 30, 2016 and June 30, 2016, respectively.

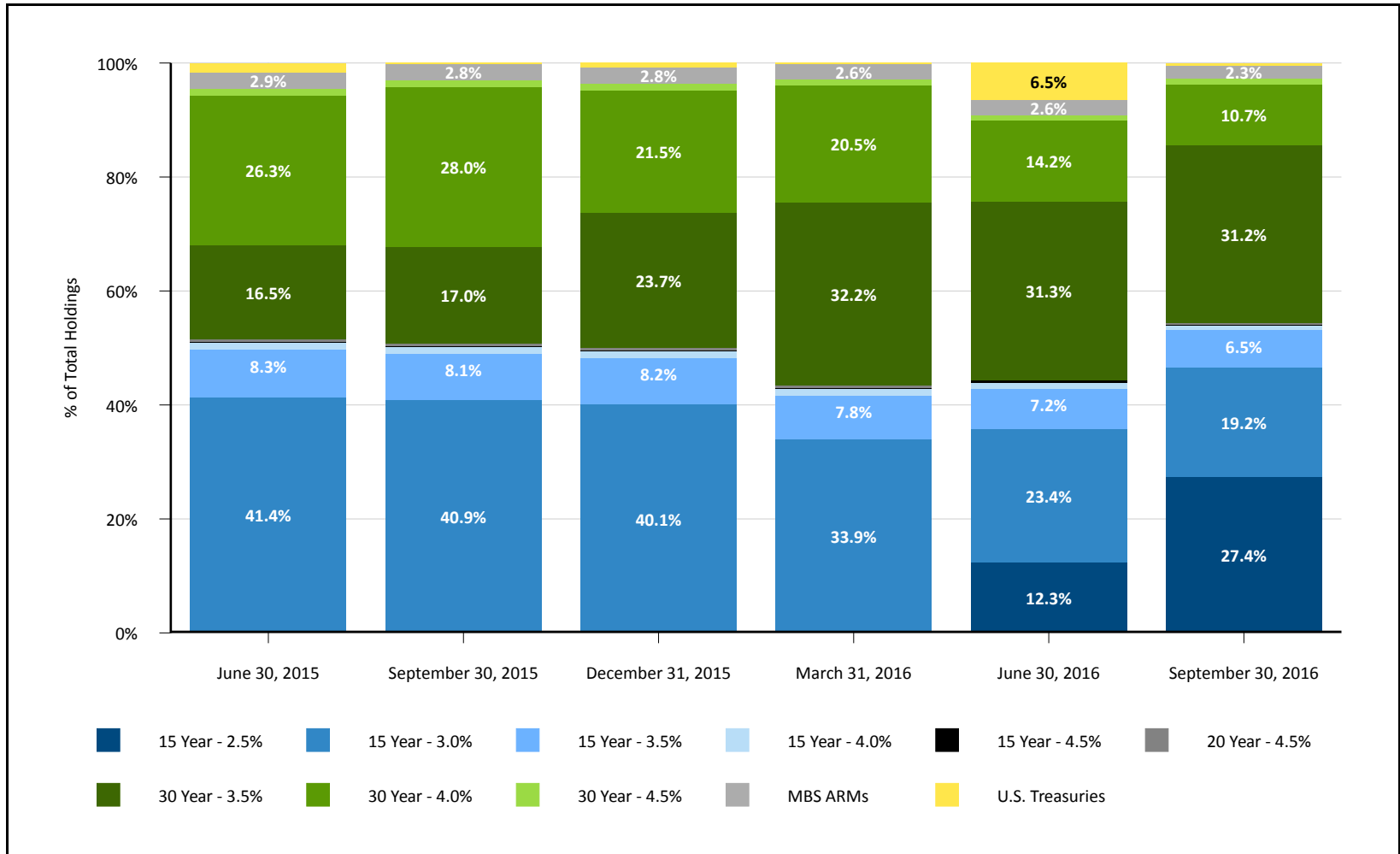
Note: Footnotes appear on page 27.

Portfolio Composition Summary



*Includes TBA Derivatives with a fair value of \$827.3 million and \$2.2 billion as of June 30, 2016 and September 30, 2016, respectively.

Portfolio Composition Trends



*Includes TBA Derivatives with a fair value of \$2.2 billion and \$827.3 million as of September 30, 2016 and June 30, 2016, respectively

Hedging Summary: Interest Rate Swaps and Caps



Interest Rate Swaps												
September 30, 2016							June 30, 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 ⁽¹⁾	Pay Rate	Receive Rate	Net Pay Rate			Duration ⁽¹⁾	Pay Rate	Receive Rate	Net Pay Rate
≤ 3 Years	\$ 2,500,000	\$707	(1.08)	0.93	0.80	0.13	\$ 3,000,000	\$ (9,095)	(1.28)	0.90	0.67	0.23
> 3 to ≤ 5 Years	3,450,000	(25,240)	(4.08)	1.33	0.74	0.59	3,450,000	(56,300)	(4.37)	1.33	0.64	0.69
> 5 to ≤ 7 Years	500,000	(20,887)	(5.67)	1.98	0.78	1.20	500,000	(26,212)	(5.99)	1.98	0.63	1.35
Subtotal	\$ 6,450,000	\$ (45,420)	(3.04)	1.23	0.77	0.46	\$ 6,950,000	\$ (91,607)	(3.15)	1.19	0.65	0.54

Interest Rate Caps												
September 30, 2016							June 30, 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 ⁽¹⁾	Cap Rate	Receive Rate	Net Cap Rate			Duration ⁽¹⁾	Cap Rate	Receive Rate	Net Cap Rate
≤ 3 Years	\$ 800,000	2,988	(1.01)	1.34	—	1.34	\$ —	—	—	—	—	—
> 3 to ≤ 5 Years	1,700,000	12,929	(1.64)	1.25	—	1.25	2,500,000	16,021	(1.35)	1.28	—	1.28
> 5 to ≤ 7 Years	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	\$ 2,500,000	\$15,917	(1.44)	1.28	—	1.28	\$ 2,500,000	\$16,021	(1.35)	1.28	—	1.28

Total Interest Rate Swaps and Caps									
September 30, 2016					June 30, 2016				
	Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Net Swap and Cap Pay Rate	Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Net Swap and Cap Pay Rate	
Total	\$ 8,950,000	\$ (29,503)	(2.59)	0.69	\$ 9,450,000	\$ (75,586)	(2.67)	0.74	

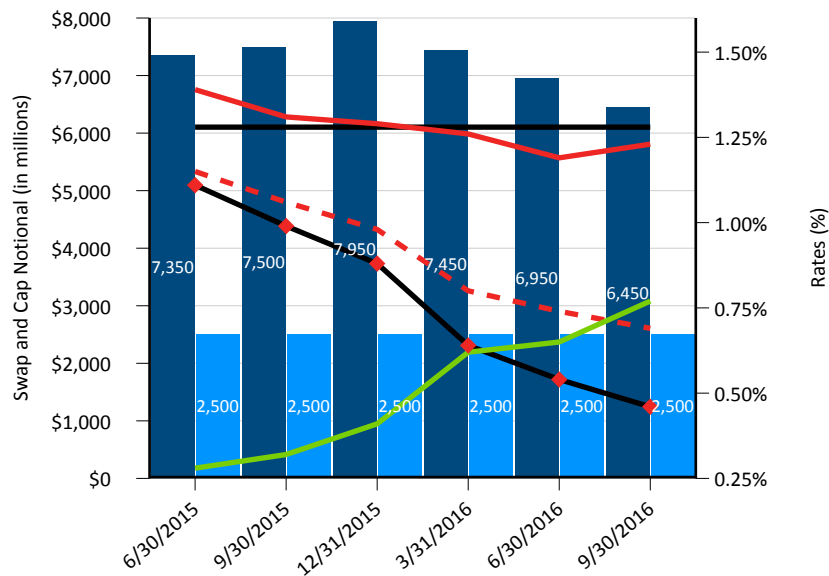
➤ In the Third Quarter, we terminated a swap with a notional of \$0.5 billion, a net pay rate of 0.77% and a weighted-average expiration of 0.9 years. The weighted-average net pay rate on swaps decreased to .46% at September 30, 2016, from .54% at June 30, 2016.

➤ At September 30, 2016 the aggregate interest rate swaps and caps combined notional totaled \$8.95 billion, constituting 93% of the Company's repurchase agreements and FHLBC Advances, compared to \$9.45 billion and 91%, respectively, at June 30, 2016.

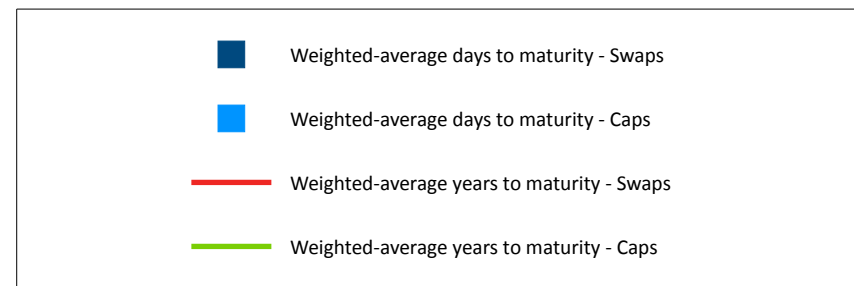
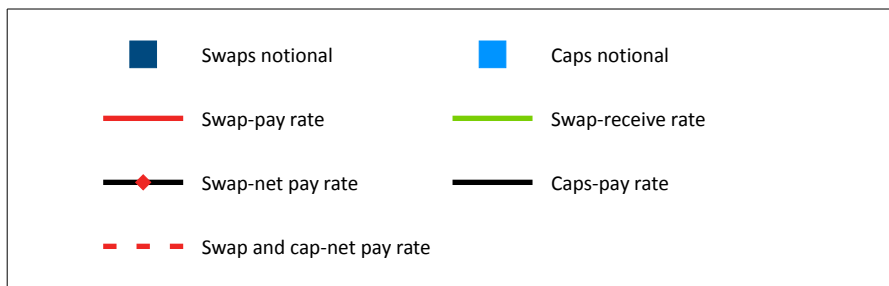
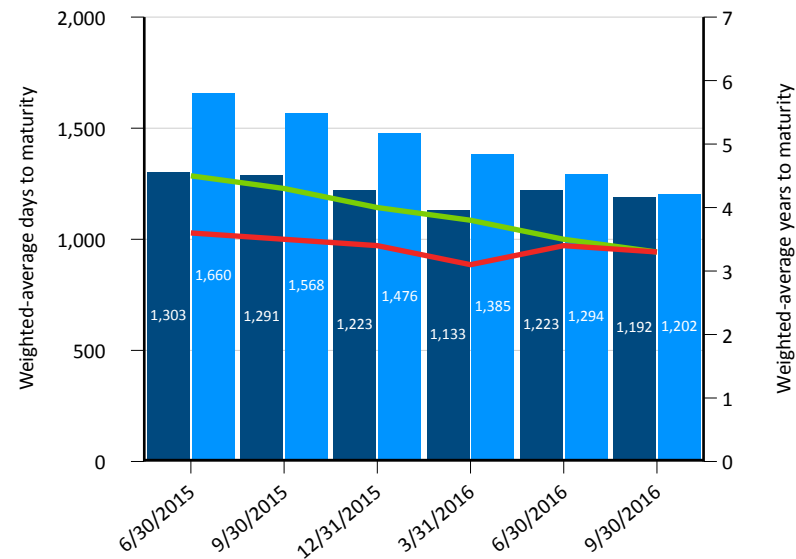
(1) Duration measures the market price volatility of financial instruments as interest rates change using DV01 methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for 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 Third Quarter, the swap net-pay rate decreased to 46 bps from 54 bps in the Second Quarter primarily resulting from an increase in the receive leg of our swaps due to an increase in the London Interbank Offered Rate ("LIBOR") during the Third Quarter.

➤ The interest rate caps notional and rate remained unchanged during the Third Quarter.

Sensitivity Analysis and Duration Gap

Interest Rate Sensitivity ⁽¹⁾					
September 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 ⁽⁴⁾
-75	12.63%	⁽²⁾⁽³⁾	(0.06)%	(0.48)%	(0.51)
-50	10.11%	⁽²⁾⁽³⁾	0.10%	0.81%	(0.22)
-25	5.05%	⁽²⁾⁽³⁾	0.13%	1.00%	0.13
—	—%		—%	—%	0.50
25	(12.63)%	⁽²⁾	(0.28)%	(2.23)%	0.87
50	(25.27)%	⁽²⁾	(0.71)%	(5.62)%	1.18
75	(37.90)%	⁽²⁾	(1.24)%	(9.84)%	1.41

Interest Rate Sensitivity ⁽¹⁾					
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 ⁽⁴⁾
-75	8.40%	⁽²⁾⁽³⁾	(0.25)%	(1.99)%	(0.39)
-50	6.72%	⁽²⁾⁽³⁾	0.02%	0.13%	(0.31)
-25	3.36%	⁽²⁾⁽³⁾	0.09%	0.69%	0.02
—	—%		—%	—%	0.35
25	(6.21)%	⁽²⁾	(0.22)%	(1.69)%	0.67
50	(14.61)%	⁽²⁾	(0.57)%	(4.47)%	0.98
75	(23.02)%	⁽²⁾	(1.03)%	(8.12)%	1.21

- The Yield curve flattened during the Third Quarter as the market anticipates an increase of the Federal Funds Target Rate by the U.S. Federal Reserve Bank (the "Fed") in the fourth quarter.

Note: Footnotes appear on page 27.

Net Duration Gap ⁽¹⁾					
(dollars in thousands)					
As of September 30, 2016			As of June 30, 2016		
Component	Duration	Notional (Face Value)	Duration	Notional (Face Value)	
Interest rate swaps	(3.04)	\$ 6,450,000	(3.15)	\$ 6,950,000	
Interest rate caps	(1.44)	2,500,000	(1.35)	2,500,000	
Agency RMBS and U.S. Treasuries	2.59	13,289,694	2.58	12,914,771	
Net Duration Gap (years)	0.50		0.35		

➤ The net duration gap increased to 0.50 at September 30, 2016 from 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.

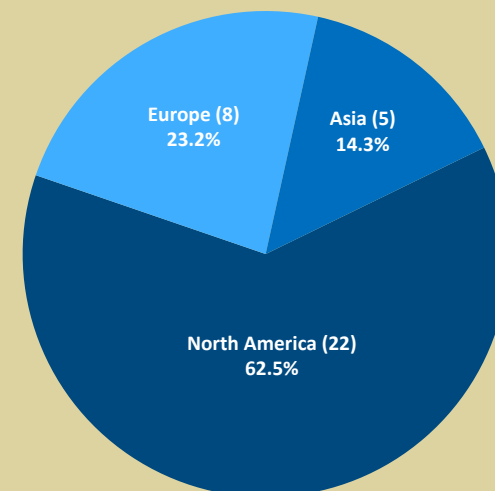
Repo Borrowings and FHLBC Advances Collateralized with Agency RMBS and U.S. Treasuries As of September 30, 2016

Original Days to Maturity	Repo Borrowings Outstanding (in 000's)	Percentage of Total	Weighted-Average Interest Rate	Weighted-Average Remaining Days to Maturity	Weighted-Average Original Days to Maturity
Agency RMBS					
≤ 30 Days	\$ 1,470,975	15%	0.75%	18	27
> 30 to ≤ 60 Days	2,086,492	22%	0.71%	31	46
> 60 Days	6,063,174	63%	0.79%	93	141
Total/ Wtd.-Avg.	\$ 9,620,641	100%	0.77%	68	103

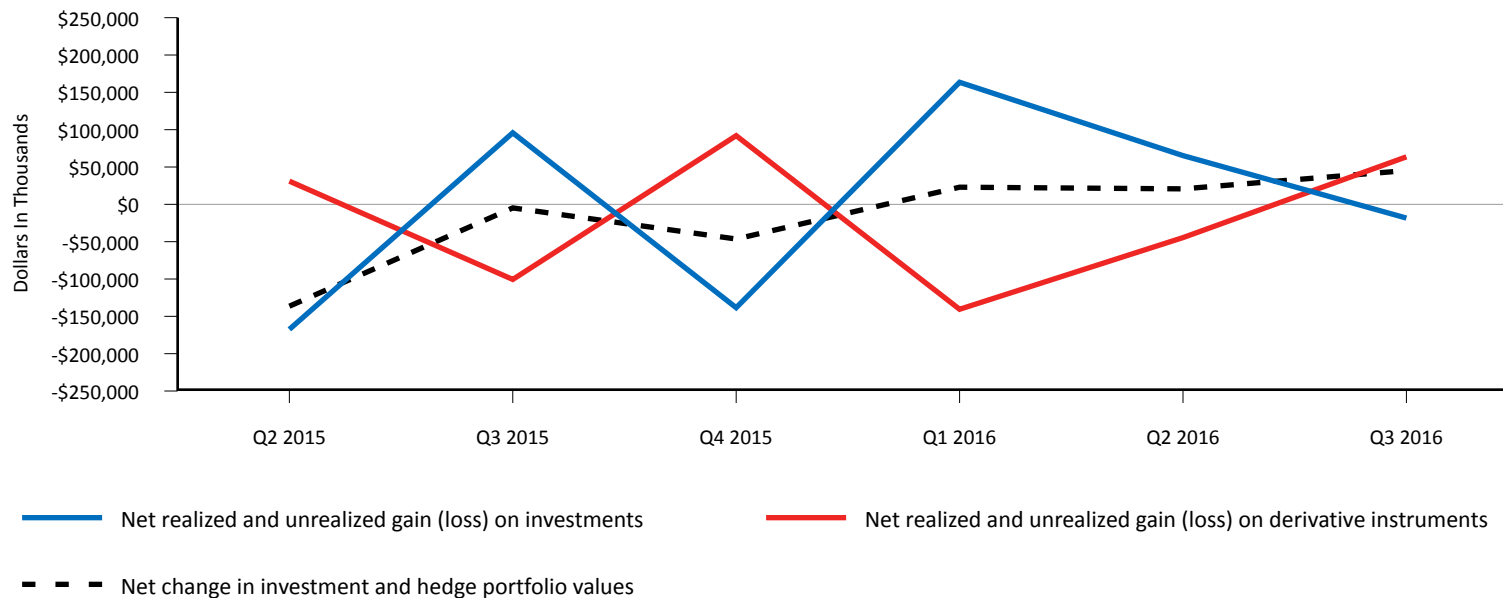
As of June 30, 2016

Original Days to Maturity	Repo Borrowings and FHLBC Advances Outstanding (in 000's)	Percentage of Total	Weighted-Average Interest Rate	Weighted-Average Remaining Days to Maturity	Weighted-Average Original Days to Maturity
Total/ Wtd.-Avg	\$ 10,424,501	100%	0.68%	56	96

35 Total Active Counterparties at September 30, 2016



- During the Third Quarter, we repaid all of the \$575.0 million of FHLBC Advances outstanding at June 30, 2016 with repo borrowings from existing counterparties. At September 30, 2016, no FHLBC Advances remain outstanding.
- At September 30, 2016, the Company had repo borrowings outstanding with 35 counterparties, and repo agreements in place with a total of 49 counterparties.
- At September 30, 2016, the weighted-average interest rate on outstanding repo borrowings was 0.77% as compared to 0.68% at June 30, 2016.
- Our average cost of funds during the Third Quarter decreased to 0.68%, from 0.72% during the Second Quarter.

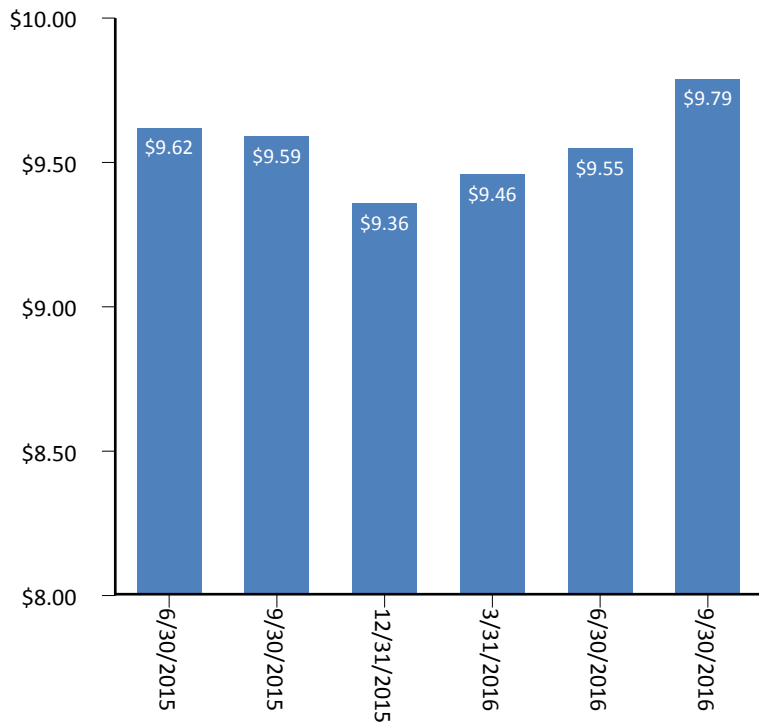


Net Change in Investment and Hedge Portfolio						
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Net realized and unrealized gain (loss) on investments	\$(167,464)	\$95,822	\$(138,412)	\$163,488	\$65,274	\$(18,385)
Net realized and unrealized gain (loss) on derivative instruments*	31,047	(100,597)	91,986	(140,524)	(44,535)	63,625
Net change in investment and hedge portfolio values	\$(136,417)	\$(4,775)	\$(46,426)	\$22,964	\$20,739	\$45,240

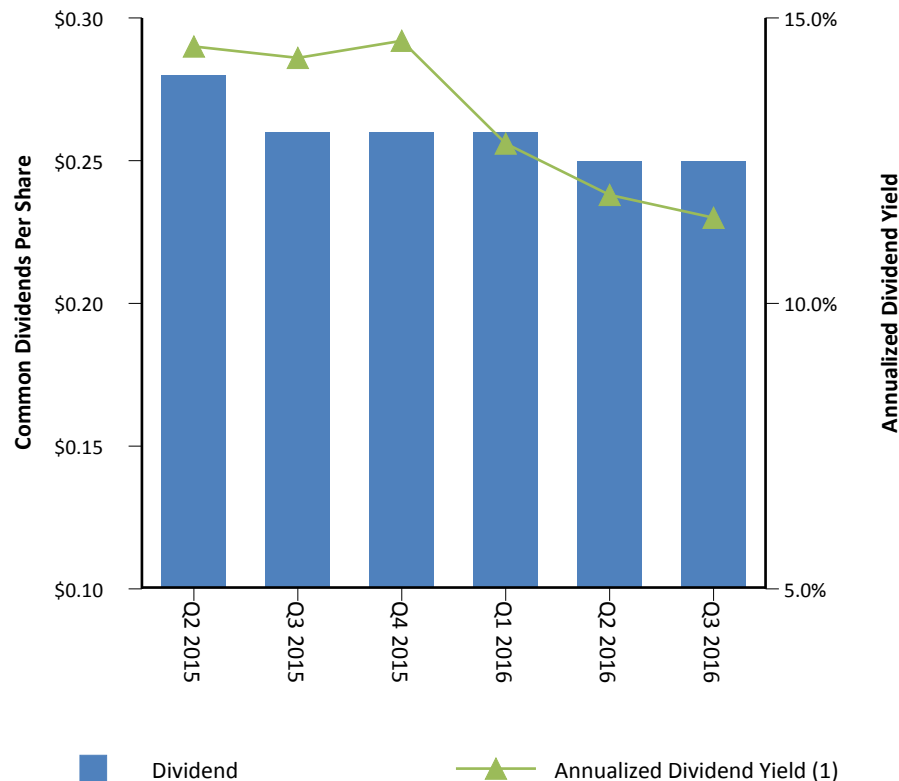
➤ During the Third Quarter the hedge portfolio outperformed the investment portfolio by approximately \$45.2 million, contributing to the increase in book value during the Third Quarter.

* Net realized and unrealized gain (loss) on derivative instruments includes net realized and unrealized gains on TBA Derivatives of \$12.4 million and \$6.5 million in the Third Quarter and Second Quarter, respectively.

Book Value Per Common Share



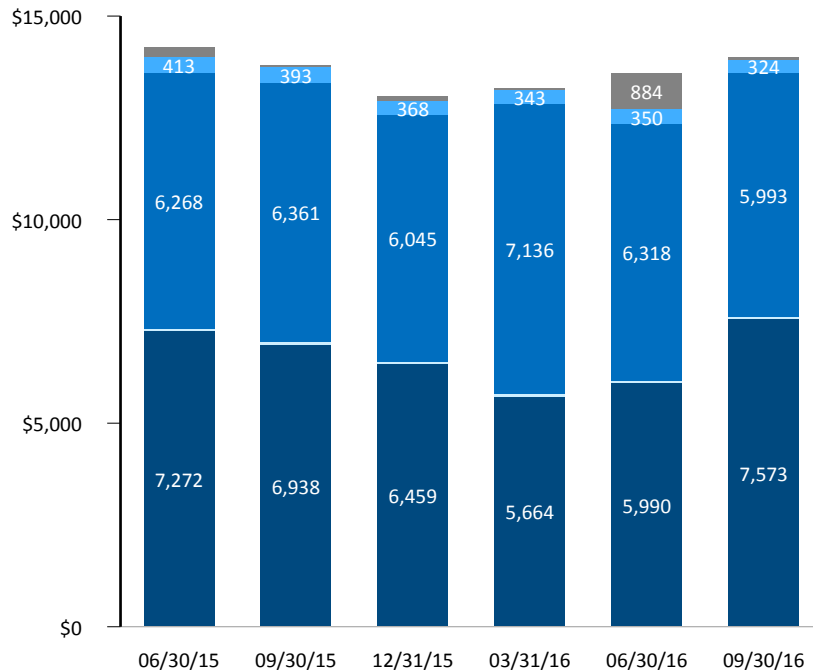
Common Stock Dividends



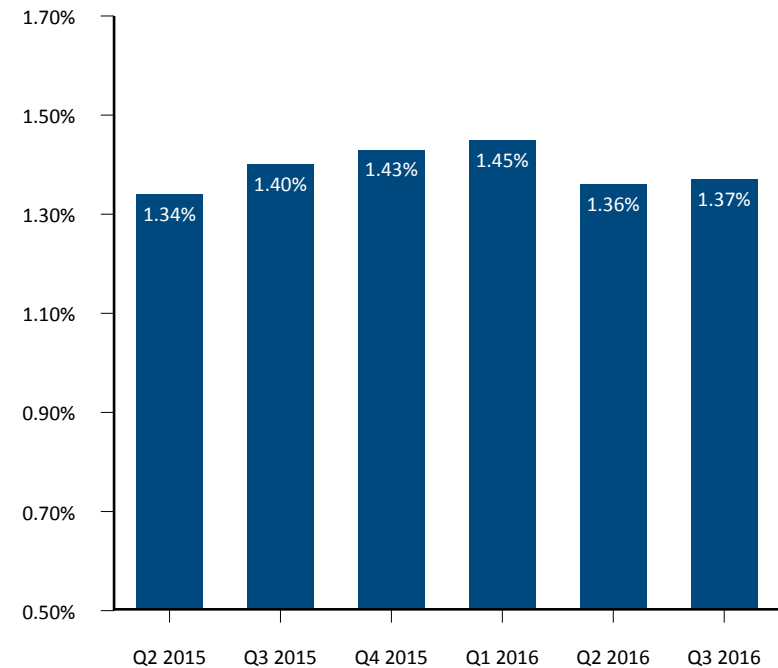
(1) The annualized dividend yield is calculated using the stock price at the respective quarter end.

Debt Securities Portfolio at Fair Value

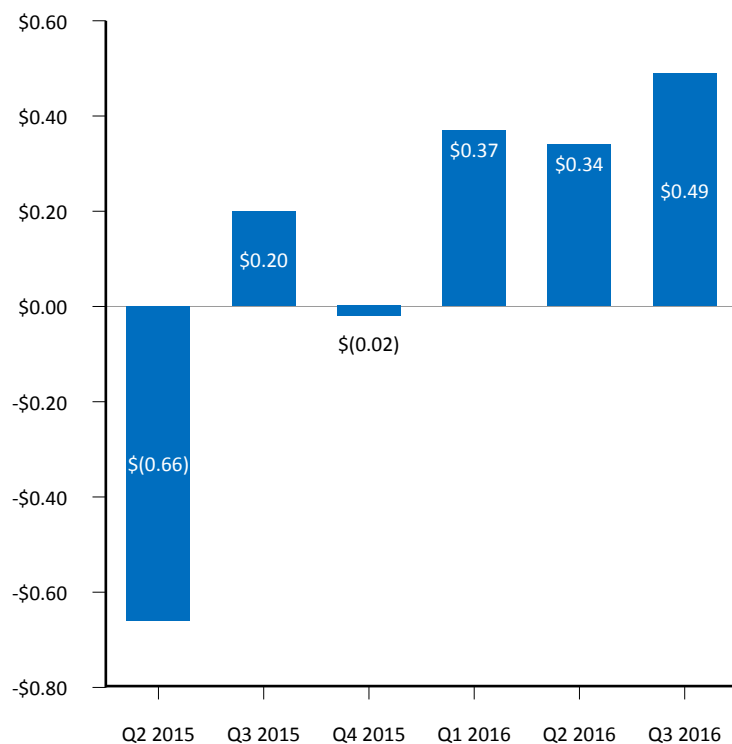
(dollars in millions)



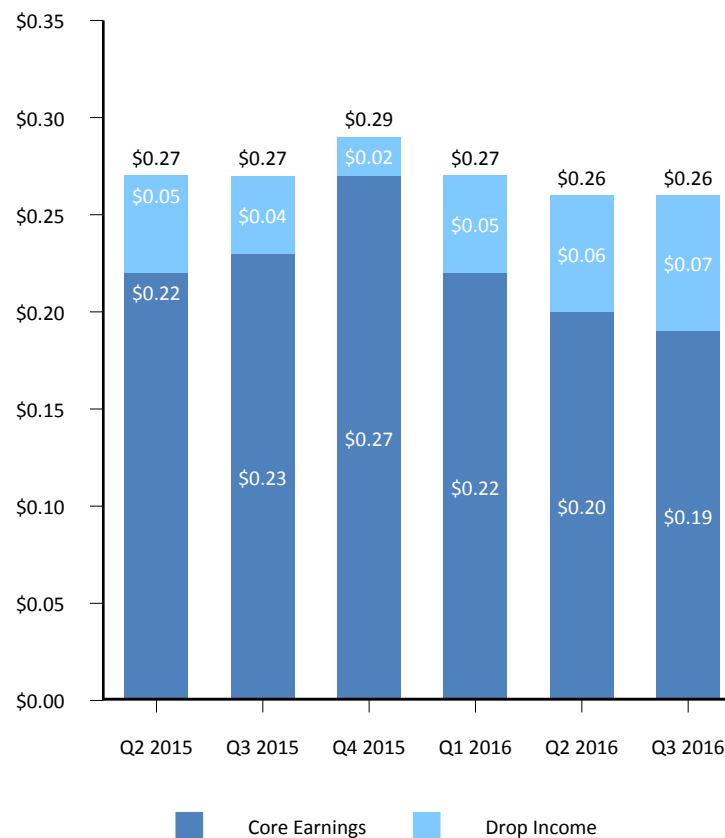
Interest Rate Spread Net of Hedge Including Drop Income



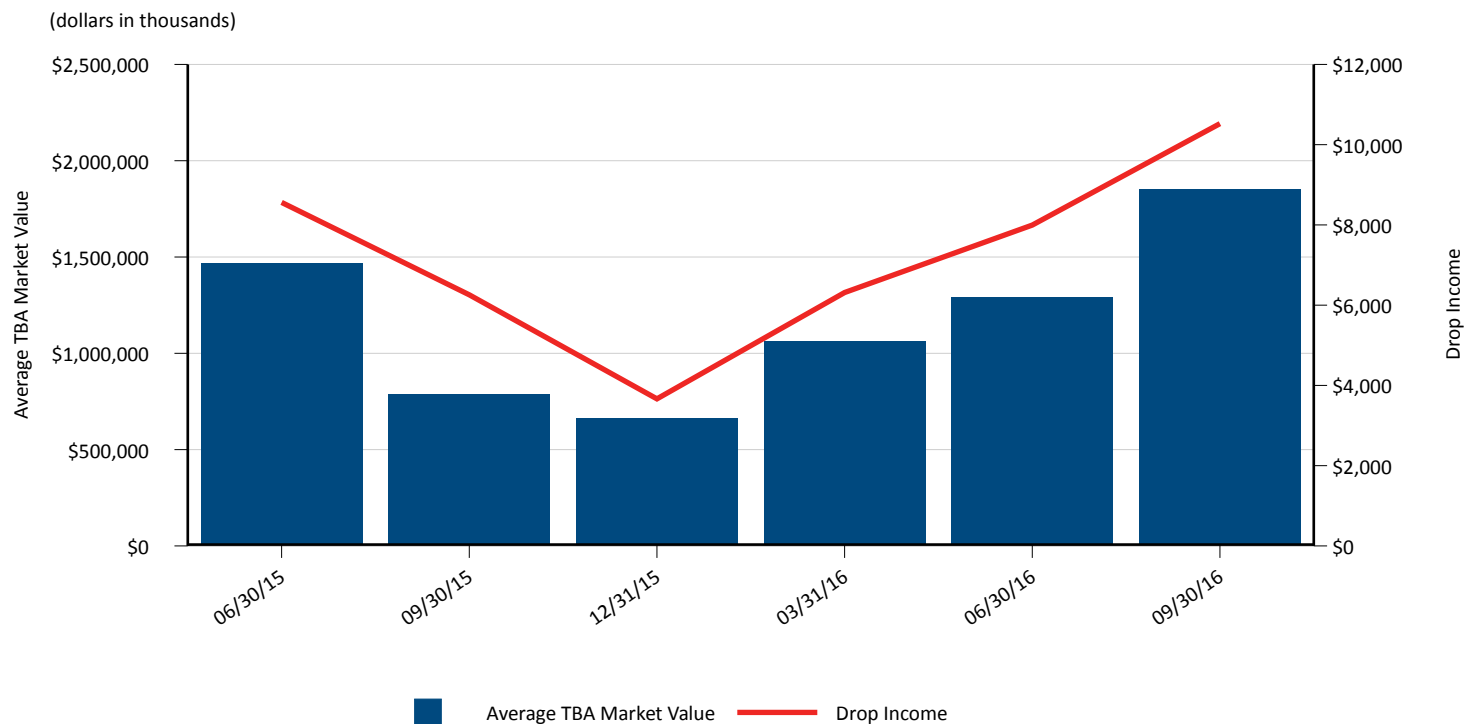
GAAP Net Income (Loss) Per Common Share



Core Earnings⁽¹⁾ Plus Drop Income Per Common Share



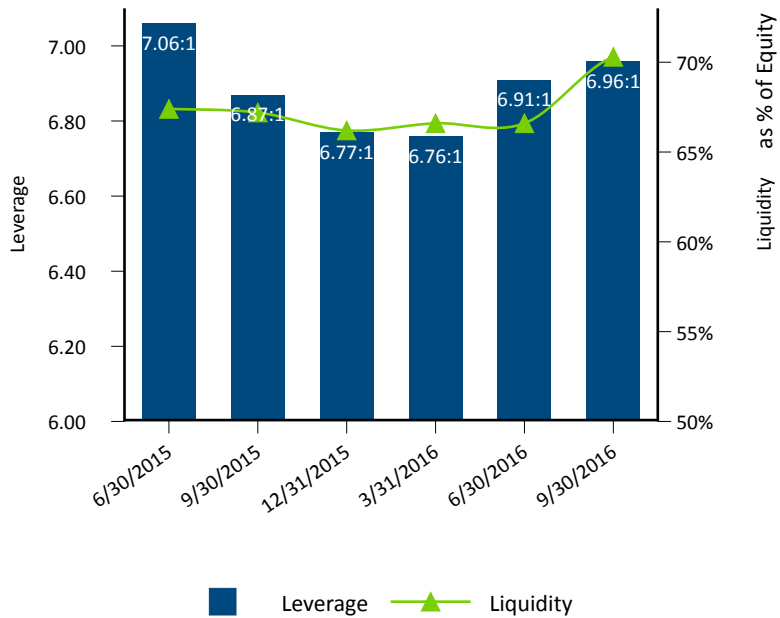
(1) A reconciliation of the non-GAAP financial measure Core Earnings can be found on page 24.



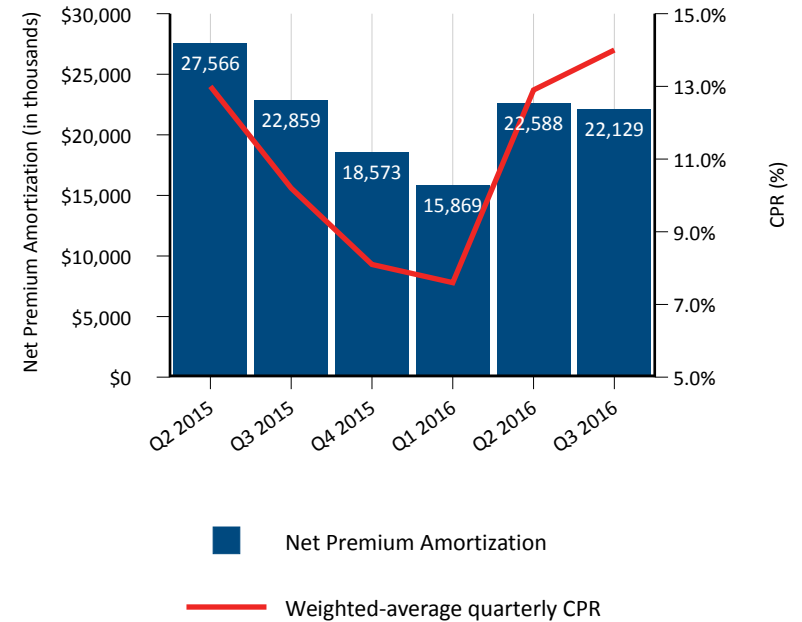
Average TBA Market Values and Drop Income						
(dollars in thousands)						
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Average TBA Market Value	\$ 1,468,467	\$ 787,630	\$ 661,319	\$ 1,060,866	\$ 1,290,798	\$ 1,851,353
Drop Income	\$ 8,561	\$ 6,258	\$ 3,665	\$ 6,315	\$ 7,996	\$ 10,524

*Includes TBA Derivatives with a fair value of \$2.2 billion and \$827.3 million at September 30, 2016 and June 30, 2016, respectively.

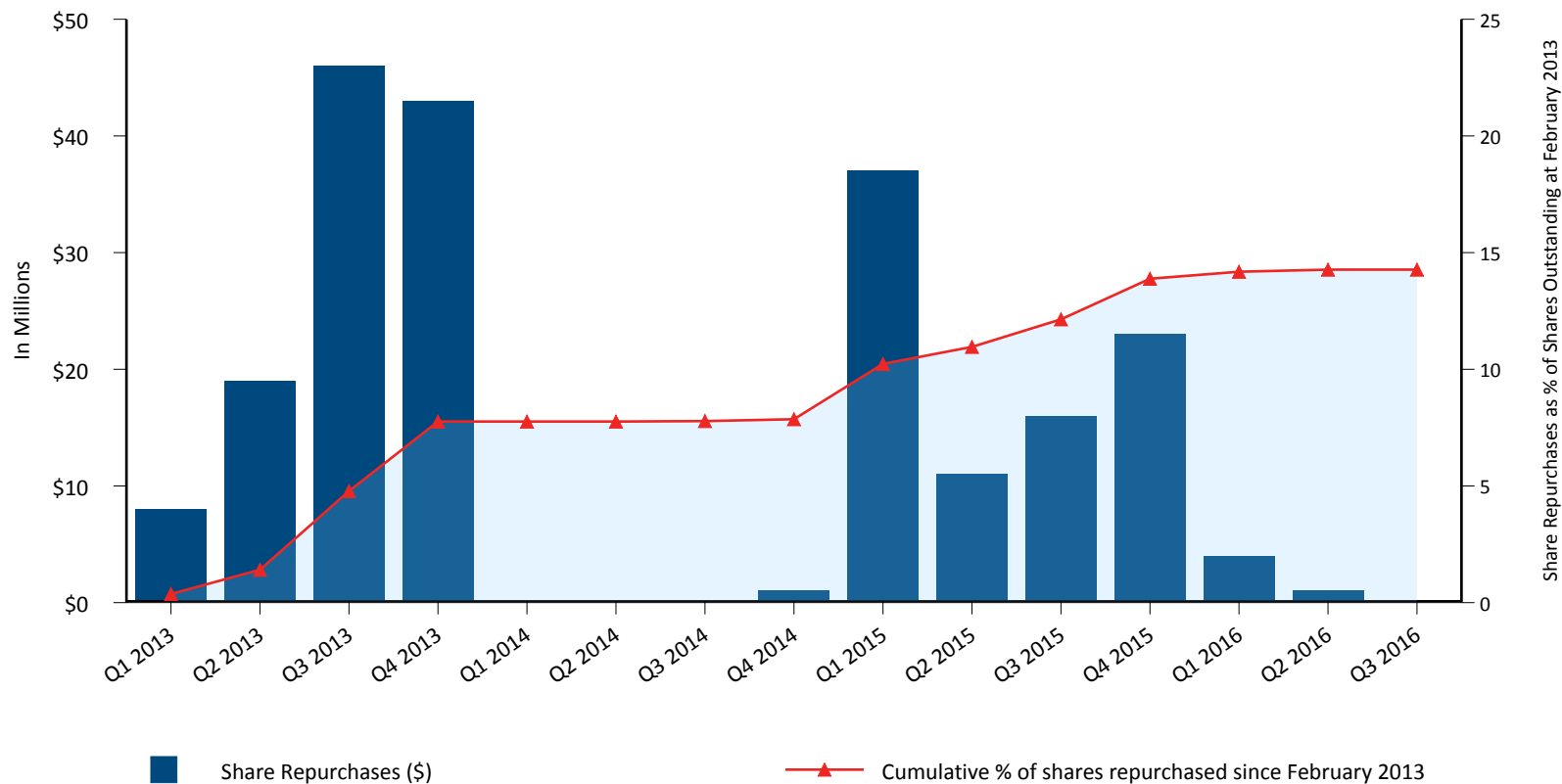
Leverage and Liquidity at Quarter-End*



Amortization and CPR



* Leverage includes TBA Derivatives with a fair value of \$2.2 billion and \$827.3 million at September 30, 2016 and June 30, 2016, respectively.



- During the Third Quarter, the Company did not repurchase any shares of its common stock.
- During the Second Quarter, the Company repurchased 162,548 shares of its common stock at a weighted-average price of \$7.93 per share.
- From inception of the share repurchase activity in February 2013 through September 30, 2016, the Company has 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					
	9/30/2016	6/30/2016	03/31/2016	12/31/2015 ⁽¹⁾	9/30/2015	6/30/2015
Assets:	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
Cash	\$ 2,192	\$ 13,182	\$ 6,262	\$ 9,982	\$ 28,622	\$ 49,919
Investments in securities, at fair value:						
Agency mortgage-backed securities	11,742,018	11,879,933	12,888,430	12,927,996	13,752,033	14,016,380
U.S. Treasury securities	49,891	884,213	29,972	99,711	25,266	223,910
Receivable for securities sold and principal repayments	2,598	1,507	1,586	1,084,844	247,207	907,661
Receivable for cash pledged as collateral	63,464	97,309	85,097	21,751	71,655	25,509
Interest receivable	33,273	32,460	34,033	34,563	36,518	37,551
Derivative assets, at fair value	29,869	24,650	32,701	100,778	53,995	101,852
Other investments	8,028	31,028	34,028	50,028	50,028	41,028
Other assets	2,787	1,625	1,219	1,051	1,250	1,304
Total assets	\$ 11,934,120	\$ 12,965,907	\$ 13,113,328	\$ 14,330,704	\$ 14,266,574	\$ 15,405,114
Liabilities and stockholders' equity:						
Liabilities:						
Repurchase agreements	\$ 9,620,641	\$ 9,849,501	\$ 9,656,969	\$ 8,987,776	\$ 9,252,681	\$ 10,115,335
FHLBC Advances, at fair value	—	575,000	649,553	2,098,701	2,100,737	1,650,011
Payable for securities purchased	424,476	652,619	937,163	1,475,974	980,615	1,732,668
Payable for cash received as collateral	10,882	4,826	9,141	18,534	38,641	25,104
Accrued interest payable	21,521	20,307	20,020	32,588	18,453	26,311
Accrued expenses and other liabilities	6,111	4,857	3,113	4,083	5,647	3,473
Dividends payable	42,264	42,259	43,809	4,410	44,659	48,328
Derivative liabilities, at fair value	50,240	95,529	85,461	14,024	65,317	19,778
Total liabilities	10,176,135	11,244,898	11,405,229	12,636,090	12,506,750	13,621,008
Stockholders' equity:						
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, 151M, 152M, 155M and 157M shares issued and outstanding, respectively)	1,514	1,514	1,515	1,517	1,548	1,568
Additional paid in capital	1,943,952	1,942,930	1,943,177	1,946,419	1,987,501	2,002,339
Retained earnings (accumulated deficit)	(453,381)	(489,335)	(502,493)	(519,222)	(495,125)	(485,701)
Total stockholders' equity	1,757,985	1,721,009	1,708,099	1,694,614	1,759,824	1,784,106
Total liabilities and stockholders' equity	\$ 11,934,120	\$ 12,965,907	\$ 13,113,328	\$ 14,330,704	\$ 14,266,574	\$ 15,405,114
Book value per common share	\$ 9.79	\$ 9.55	\$ 9.46	\$ 9.36	\$ 9.59	\$ 9.62

(1) Derived from audited consolidated financial statements.

Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended					
	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Interest income:						
Agency RMBS	\$ 68,602	\$ 74,176	\$ 81,323	\$ 84,831	\$ 83,816	\$ 79,579
Other	1,059	681	128	1,000	166	953
Total interest income	69,661	74,857	81,451	85,831	83,982	80,532
Interest expense:						
Repurchase agreements	17,265	16,910	15,886	11,250	10,232	9,607
FHLBC Advances	214	1,777	2,059	2,714	2,029	655
Total interest expense	17,479	18,687	17,945	13,964	12,261	10,262
Net interest income	52,182	56,170	63,506	71,867	71,721	70,270
Other income (loss):						
Net realized gain (loss) on investments	18,155	36,359	1,202	(3,704)	(10,332)	9,435
Net unrealized gain (loss) on investments	(36,540)	28,915	162,286	(134,708)	106,154	(176,899)
Net unrealized gain (loss) on FHLBC advances	—	(448)	(851)	2,036	(726)	(11)
Other income	308	387	463	409	300	118
Net realized and unrealized gain (loss) on investments, FHLBC Advances and other income	(18,077)	65,213	163,100	(135,967)	95,396	(167,357)
Swap and cap interest expense	(12,493)	(14,779)	(18,398)	(22,969)	(24,681)	(24,992)
Net realized and unrealized gain (loss) on derivative instruments	63,625	(44,535)	(140,524)	91,986	(100,597)	31,047
Net gain (loss) on derivative instruments	51,132	(59,314)	(158,922)	69,017	(125,278)	6,055
Total other income (loss)	33,055	5,899	4,178	(66,950)	(29,882)	(161,302)
Expenses:						
Compensation and benefits	3,619	3,565	3,865	1,200	3,655	3,712
General, administrative and other	2,608	2,294	2,488	2,069	2,157	2,293
Total operating expenses	6,227	5,859	6,353	3,269	5,812	6,005
Net income (loss)	\$ 79,010	\$ 56,210	\$ 61,331	\$ 1,648	\$ 36,027	\$ (97,037)
Dividends on preferred stock	(5,203)	(5,203)	(5,203)	(5,204)	(5,203)	(5,203)
Net income (loss) available to common stockholders	\$ 73,807	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824	\$ (102,240)
Net income (loss) per common share	\$ 0.49	\$ 0.34	\$ 0.37	\$ (0.02)	\$ 0.20	\$ (0.66)

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



Core Earnings:

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

(in 000's, except per share data) (Unaudited)	Three Months Ended					
	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Net income (loss) available to common stockholders	\$ 73,807	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824	\$ (102,240)
Net realized (gain) loss on investments	(18,155)	(36,359)	(1,202)	3,704	10,332	(9,435)
Net unrealized (gain) loss on investments	36,540	(28,915)	(162,286)	134,708	(106,154)	176,899
Net realized and unrealized (gain) loss on derivative instruments	(63,625)	44,535	140,524	(91,986)	100,597	(31,047)
Net unrealized (gain) loss on FHLBC Advances	—	448	851	(2,036)	726	11
Core Earnings ⁽¹⁾	\$ 28,567	\$ 30,716	\$ 34,015	\$ 40,834	\$ 36,325	\$ 34,188
Core Earnings per average share	\$ 0.19	\$ 0.20	\$ 0.22	\$ 0.27	\$ 0.23	\$ 0.22
Drop Income ⁽²⁾	10,524	7,996	6,315	3,665	6,258	8,561
Core Earnings plus Drop Income	\$ 39,091	\$ 38,712	\$ 40,330	\$ 44,499	\$ 42,583	\$ 42,749
Core Earnings plus Drop Income per share	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.29	\$ 0.27	\$ 0.27

Note: Footnotes appear on page 28.

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 net interest income and total interest expense and details with respect to reconciling the aforementioned line items on a non-GAAP basis for each respective period.

(in 000's) (Unaudited)	Three Months Ended					
	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Net interest income	\$ 52,182	\$ 56,170	\$ 63,506	\$ 71,867	\$ 71,721	\$ 70,270
Swap and cap interest expense	12,493	14,779	18,398	22,969	24,681	24,992
Economic net interest income ⁽¹⁾	\$ 39,689	\$ 41,391	\$ 45,108	\$ 48,898	\$ 47,040	\$ 45,278
Total interest expense	\$ 17,479	\$ 18,687	\$ 17,945	\$ 13,964	\$ 12,261	\$ 10,262
Swap and cap interest expense ⁽³⁾	12,493	14,779	18,398	22,969	24,681	24,992
Economic interest expense ⁽²⁾	\$ 29,972	\$ 33,466	\$ 36,343	\$ 36,933	\$ 36,942	\$ 35,254

Note: Footnotes appear on page 28.

Footnotes Page 3, Summary Q3 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 and 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 the 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 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 the weighted average 1-month CPR of the Company's Agency RMBS during the respective 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 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 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 the 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 \$10.5 million, \$8.0 million, \$6.3 million, \$3.7 million, \$6.3 million and \$8.6 million and for Q3 2016, Q2 2016, Q1 2016, Q4 2015, Q3 2015, and Q2 2015, respectively. 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.
 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 FHLBC 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 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 at the end of the prior period.
 19. CPR represents the 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 Detail as of September 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 September 30, 2016 and June 30, 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 estimates of duration 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 and yield curve 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 September 30, 2016 and June 30, 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.

Footnotes Page 24, Reconciliation of Non-GAAP Measure Core Earnings, Plus Drop Income

1. "Core Earnings" represents a non-GAAP financial measure and is defined as net income (loss) available to common stockholders excluding net realized and unrealized gain (loss) on investments and 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 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 a substitute for the Company's GAAP net income (loss), a measure of our financial performance or any measure of our liquidity under GAAP.

2. "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 the 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.

Footnotes Page 25, Reconciliation of Non-GAAP Measure: Economic Net Interest Income and Economic Interest Expense

1. Our economic net interest income, a non-GAAP measure, is generated primarily from the net spread, or difference, between the interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. The amount of economic net interest income we earn on our investments depends in part on our ability to control our financing costs, which comprise a significant portion of our operating expenses.
2. Economic interest expense, a non-GAAP measure, is comprised of interest expense, as computed in accordance with GAAP, plus swap and cap interest expense used to hedge our cost of funds, a component of net gain (loss) on derivative instruments in the company's consolidated statements of operations. The Company uses interest rate swaps to manage its exposure to changes in interest rates on its interest bearing liabilities by economically hedging cash flows associated with these borrowings. Presenting the contractual interest payments on interest rate swaps and caps with the interest paid on interest-bearing liabilities reflects the total contractual interest payments. This presentation depicts the economic cost of our financing strategy.
3. 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 company's 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 the fair value of 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.



Supplemental Earnings Presentation
Third Quarter 2016
October 26, 2016