



**Supplemental Earnings Presentation**  
**Second Quarter 2014**  
**July 22, 2014**

## Q2 2014 Summary Results



- June 30, 2014 book value per common share of \$10.31
  - Increased \$0.63 per common share from \$9.68 as of March 31, 2014
- \$0.32 dividend per common share representing an annualized dividend yield of 14.2% using the closing price per common share of \$9.02 on June 30, 2014
- At June 30, 2014 the leverage ratio was 6.35:1
- GAAP net income available to common shares of \$153.2 million, or \$0.95 per diluted common share
- Core Earnings<sup>(1)</sup> plus Drop Income<sup>(2)</sup> of \$53.2 million (\$33.8 million Core Earnings and \$19.4 million Drop Income), or \$0.33 per diluted common share (\$0.21 Core Earnings and \$0.12 Drop Income)
- Weighted average amortized cost of Agency Residential Mortgage Backed Securities (“Agency RMBS”) and debt securities issued by the United States Department of Treasury (“U.S. Treasuries”) of \$102.69
- Operating expenses of 1.26% of average stockholders’ equity
- Interest rate spread net of hedge including Drop Income of 1.78%<sup>(3)</sup>
- 9.81% common book value total return for the quarter<sup>(4)</sup>
- 13.08% common stock market value total return for the quarter<sup>(5)</sup>
- \$14.2 billion investment portfolio as of June 30, 2014, at fair value
  - Includes \$2.4 billion of forward settling to-be-announced securities (“TBA”) as of June 30, 2014
- Constant Prepayment Rate (“CPR”) of 7.6% for the quarter
  - CPR of 10.8% for the month of July 2014

(1) Core Earnings is defined as net income (loss) available to common shares excluding net realized and unrealized gain (loss) on investments, net realized gain (loss) on termination of swap and cap contracts and net unrealized gain (loss) on swap and cap contracts. A reconciliation to net income (loss) can be found on page 15.

(2) Drop Income is a component of our net realized and unrealized gain (loss) on investments 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.

(3) Refer to note 13 on page 2 for a description of the calculation of this metric.

(4) Includes dividends declared during quarter.

(5) Includes dividends and assumes the reinvestment of all dividends.

# Key Balance Sheet/Performance Metrics



Key Balance Sheet Metrics (in thousands)	Three months ended				
	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014
Average settled Debt Securities <sup>(1)</sup>	\$ 16,090,148	\$ 14,143,340	\$ 13,024,294	\$ 12,472,238	\$ 11,599,873
Average total Debt Securities <sup>(2)</sup>	\$ 20,060,439	\$ 16,135,672	\$ 14,293,267	\$ 13,454,972	\$ 13,711,749
Average repurchase agreements <sup>(3)</sup>	\$ 13,871,404	\$ 12,180,713	\$ 11,384,159	\$ 10,867,627	\$ 9,981,049
Average Debt Securities liabilities <sup>(4)</sup>	\$ 17,841,695	\$ 14,173,045	\$ 12,653,132	\$ 11,850,361	\$ 12,092,925
Average stockholders' equity <sup>(5)</sup>	\$ 2,321,128	\$ 1,977,424	\$ 1,896,360	\$ 1,861,121	\$ 1,916,575
Average common shares outstanding <sup>(6)</sup>	174,145	170,351	163,850	161,831	162,031
Leverage ratio (at period end) <sup>(7)</sup>	7.54:1	6.45:1	6.97:1	6.32:1	6.35:1
<b>Key Performance Metrics *</b>					
Average yield on settled Debt Securities <sup>(8)</sup>	2.03%	2.42%	2.82%	2.71%	2.48%
Average yield on total Debt Securities including Drop Income <sup>(9)</sup>	2.27%	2.67%	2.93%	2.85%	2.67%
Average cost of funds and hedge <sup>(10)</sup>	1.17%	1.17%	1.15%	1.04%	1.08%
Adjusted average cost of funds and hedge <sup>(11)</sup>	0.91%	1.01%	1.04%	0.96%	0.89%
Interest rate spread net of hedge <sup>(12)</sup>	0.86%	1.25%	1.67%	1.67%	1.40%
Interest rate spread net of hedge including Drop Income <sup>(13)</sup>	1.36%	1.66%	1.89%	1.89%	1.78%
Operating expense ratio <sup>(14)</sup>	0.98%	1.13%	0.89%	1.25%	1.26%
Common book value total return (%) <sup>(15)</sup>	(18.10%)	2.35%	(5.35%)	8.23%	9.81%

The table above includes the Company's Agency RMBS, U.S. Treasuries and securities issued by a government sponsored entity and backed by the integrity and credit worthiness of the issuer ("U.S. Agency Debentures") portfolio ("Debt Securities")

- (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 during the period.
  - (3) The average repurchase agreements are calculated by averaging the month end repurchase agreements balance during the period.
  - (4) The average Debt Securities liabilities are calculated by adding the average month end repurchase agreements balance plus average unsettled Debt Securities 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 balance plus payable for securities purchased minus receivable for securities sold by (ii) stockholders' equity.
  - (8) The average yield on Debt Securities for the period is calculated by dividing total interest income by average settled Debt Securities.
  - (9) 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 \$32.3 million, \$22.1 million, \$12.8 million, \$11.6 million, and \$19.4 million for Q2, Q3, Q4 2013, and Q1 and Q2 2014, respectively.
  - (10) The average cost of funds and hedge for the period is calculated by dividing interest expense by average repurchase agreements.
  - (11) The adjusted average cost of funds and hedge for the period is calculated by dividing interest expense by average total Debt Securities liabilities.
  - (12) 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.
  - (13) 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.
  - (14) The operating expense ratio for the period is calculated by dividing operating expenses by average stockholders' equity.
  - (15) Not computed on annualized basis.
- \* All percentages are annualized.

# Market Information



## 2<sup>nd</sup> Quarter Market Commentary:

- U.S. Treasury curve flattened 23 basis points between the 2 year and 10 year.
- Mortgage refinancing activity remained stable and low during the quarter.
- The U.S. Federal Reserve Bank (the “Fed”) continues to dominate the holdings of Agency RMBS accounting for \$1.70 trillion as of June 2014, approximately 31% of the market.
- The Fed’s tapering of purchases of mortgage backed securities and U.S. Treasuries continues and is expected to end in October of 2014.

3.0%	\$ 102.83	\$ 103.55	\$ 102.02	\$ 102.73	\$ 103.80	\$ 1.06
3.5%	\$ 104.20	\$ 105.55	\$ 104.58	\$ 104.83	\$ 105.95	\$ 1.13
4.0%	\$ 105.42	\$ 106.23	\$ 105.92	\$ 105.80	\$ 106.14	\$ 0.34
4.5%	\$ 105.98	\$ 106.30	\$ 106.45	\$ 106.02	\$ 106.11	\$ 0.09

### 30 Year Fannie Mae Fixed Rate Mortgage Prices

3.0%	\$ 97.70	\$ 97.80	\$ 94.98	\$ 96.61	\$ 98.67	\$ 2.06
3.5%	\$ 101.48	\$ 101.92	\$ 99.36	\$ 100.67	\$ 102.80	\$ 2.13
4.0%	\$ 104.17	\$ 104.92	\$ 103.02	\$ 103.98	\$ 106.02	\$ 2.03
4.5%	\$ 105.83	\$ 106.86	\$ 105.98	\$ 106.73	\$ 108.23	\$ 1.50

### U.S. Treasuries Rates

2 YR UST	0.36%	0.32%	0.38%	0.42%	0.46%	0.04
5 YR UST	1.39%	1.38%	1.74%	1.72%	1.63%	(0.09)
7 YR UST	2.15%	2.16%	2.48%	2.36%	2.18%	(0.18)
10 YR UST	2.49%	2.61%	3.03%	2.72%	2.53%	(0.19)

### Swap Rates

2 YR Swap	0.51%	0.46%	0.49%	0.55%	0.58%	0.03
5 YR Swap	1.57%	1.54%	1.79%	1.80%	1.70%	(0.10)
10 YR Swap	2.70%	2.77%	3.09%	2.84%	2.63%	(0.21)

### 30 and 15 Year Par Priced Fannie Mae to Swap Spreads

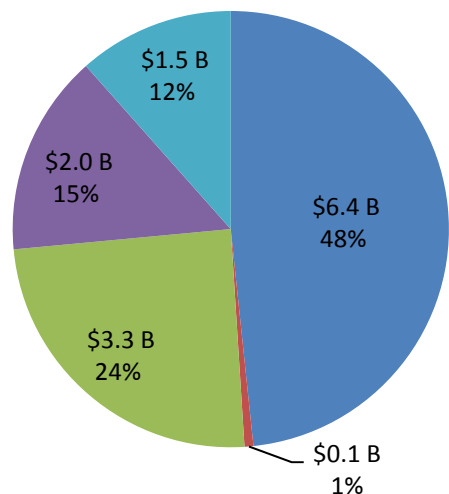
FNCL to 7 YR Swap	1.17%	1.13%	1.13%	1.09%	1.00%	(0.09)
FNCL to 4 YR Swap	1.23%	1.24%	1.34%	1.09%	0.85%	(0.24)

Source: Bloomberg

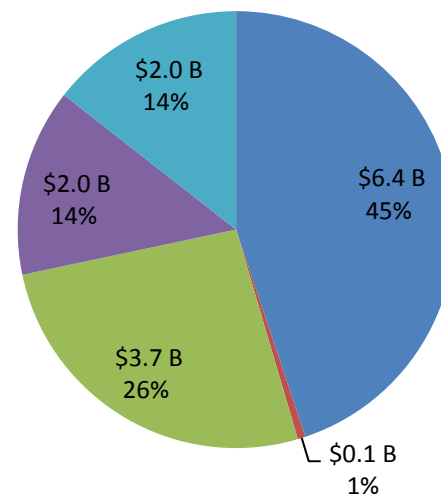
# Agency RMBS and U.S. Treasuries Portfolio at Fair Value



**As of 3/31/2014**  
\$13.3 B Agency RMBS and U.S. Treasuries Portfolio



**As of 6/30/2014**  
\$14.2 B Agency RMBS and U.S. Treasuries Portfolio



- 15 Year Fixed Rate
- 20 Year Fixed Rate
- 30 Year Fixed Rate
- Agency Hybrid ARMs
- U.S. Treasuries

<i>(dollars in thousands)</i>	<b>3/31/2014</b>	<b>6/30/2014</b>	<b>\$ Change</b>	<b>Absolute % Change</b>	<b>Relative % Change</b>
15 Year Fixed Rate	\$ 6,432,461	\$ 6,368,659	\$ (63,802)	0%	-3%
20 Year Fixed Rate	87,371	82,467	(4,904)	0%	0%
30 Year Fixed Rate	3,263,950	3,725,156	461,206	3%	2%
Agency Hybrid ARMs	1,986,641	1,970,318	(16,323)	0%	-1%
U.S. Treasury Securities	1,537,312	2,050,562	513,250	4%	2%
<b>Total</b>	<b>\$ 13,307,735</b>	<b>\$ 14,197,162</b>	<b>\$ 889,427</b>	<b>7%</b>	<b>0%</b>

Note: Our Agency RMBS and U.S. Treasuries portfolio fair value increased by 7% in the second quarter due to a 4% increase in our U.S. Treasuries position and 3% from 30 Year fixed rate securities.

# Agency RMBS and U.S. Treasuries Table as of June 30, 2014



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>
<b>15 Year Agency Mortgage Securities</b>							
					<b>Weighted Average</b>		
3.0%	\$ 3,712,952	\$ 3,862,789	\$ 102.52	\$ 263	13	5.1 %	4.31
TBA 3.0%	833,000	865,042	102.97	n/a	n/a	n/a	4.41
3.5%	1,307,882	1,387,134	103.09	231	26	7.8	3.47
4.0%	205,604	220,271	101.27	175	40	15.0	2.74
4.5%	31,008	33,423	102.85	248	53	10.5	1.98
<b>Subtotal</b>	<b>6,090,446</b>	<b>6,368,659</b>	<b>102.66</b>	<b>251</b>	<b>17</b>	<b>6.2</b>	<b>4.08</b>
<b>20 Year Agency Mortgage Securities</b>							
4.5%	75,567	82,467	103.01	222	47	22.0	2.20
<b>30 Year Agency Mortgage Securities</b>							
TBA 3.5%	229,000	235,471	101.96	n/a	n/a	n/a	6.68
4.0%	1,840,723	1,955,516	103.15	299	10	5.6	5.46
TBA 4.0%	1,253,000	1,329,542	105.07	n/a	n/a	n/a	5.21
4.5%	188,814	204,627	107.00	287	38	8.9	3.14
<b>Subtotal</b>	<b>3,511,537</b>	<b>3,725,156</b>	<b>103.97</b>	<b>298</b>	<b>12</b>	<b>5.9</b>	<b>5.33</b>
<b>Agency Hybrid ARMs</b>							
2.6% <sup>(4)</sup>	1,920,595	1,970,318	103.51	336	25	12.9	3.56
<b>U.S. Treasuries</b>							
0.9%	500,000	500,664	100.27	n/a	n/a	n/a	2.85
1.5%	1,550,000	1,549,898	99.63	n/a	n/a	n/a	4.43
<b>Subtotal</b>	<b>2,050,000</b>	<b>2,050,562</b>	<b>99.78</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>4.05</b>
<b>Total</b>	<b>\$ 13,648,145</b>	<b>\$ 14,197,162</b>	<b>\$ 102.69</b>	<b>\$ 279</b>	<b>18</b>	<b>7.6 %</b>	<b>4.31</b>

As of March 30, 2014							
15 Year Agency Mortgage Securities	\$ 6,227,169	\$ 6,432,461	\$ 102.58	\$ 262	15	5.6 %	4.44
20 Year Agency Mortgage Securities	81,294	87,371	103.04	224	44	11.5	2.93
30 Year Agency Mortgage Securities	3,149,975	3,263,950	103.24	315	11	4.1	6.47
Agency Hybrid ARMs	1,946,543	1,986,641	103.55	337	22	9.5	3.98
U.S. Treasuries	1,550,000	1,537,312	99.61	n/a	n/a	n/a	4.63
<b>Total</b>	<b>\$ 12,954,981</b>	<b>\$ 13,307,735</b>	<b>\$ 102.53</b>	<b>\$ 289</b>	<b>15</b>	<b>6.1 %</b>	<b>4.88</b>

- (1) TBAs 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) The CPR represents the 3 month CPR of the Company's Agency RMBS held at June 30, 2014 and March 31, 2014. The CPR experienced by the Company during the period may differ. Securities with no prepayment history are excluded from this calculation.
- (3) Duration essentially 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 numbers for the same securities. Analytics provided by The Yield Book® Software.
- (4) Coupon represents the weighted average coupon of Agency Hybrid ARMs.

# Hedging Summary



## Interest Rate Swaps & Caps

- Hedging activity for the second quarter included the termination of swaps and caps with an aggregate notional of \$1.95 billion and a weighted average maturity of Sep. 2017. Hedging activity also included the opening of swaps and caps with an aggregate notional of \$2 billion and a weighted average maturity of Aug. 2020.
- This combination reduced the Company's exposure to interest rate risk by expanding and lengthening the overall tenor of the Company's hedge book. Given the outlook that interest rate volatility is likely to increase, these new hedges should better position the Company for changes in the market.
- The combination of interest rate swaps and caps totaled \$9.75 billion and covered 99% of our repurchase agreements at June 30, 2014, compared to 97% at March 31, 2014.

As of June 30, 2014						
Interest Rate Swaps						
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Pay Rate	Receive Rate	
≤ 3 Years	\$ 500,000	\$ (5,553)	(2.74)	1.31	0.23	
> 3 to ≤ 5 Years	5,550,000	25,182	(3.37)	1.10	0.23	
> 5 to ≤ 7 Years	1,200,000	(5,896)	(5.21)	2.43	0.23	
<b>Subtotal / Wtd Avg</b>	<b>\$ 7,250,000</b>	<b>\$ 13,733</b>	<b>(3.63)</b>	<b>1.34</b>	<b>0.23</b>	
Interest Rate Caps						
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Cap Rate		
≤ 3 Years	\$ -	\$ -	-	-		
> 3 to ≤ 5 Years	-	-	-	-		
> 5 to ≤ 7 Years	2,500,000	131,955	(3.08)	1.28		
<b>Subtotal / Wtd Avg</b>	<b>\$ 2,500,000</b>	<b>\$ 131,955</b>	<b>(3.08)</b>	<b>1.28</b>		
<b>Total / Wtd Avg</b>	<b>\$ 9,750,000</b>	<b>\$ 145,688</b>	<b>(3.49)</b>	<b>n/a</b>		

As of March 31, 2014						
Interest Rate Swaps						
<b>Total / Wtd Avg</b>	<b>\$ 5,800,000</b>	<b>\$ 39,503</b>	<b>(3.30)</b>	<b>1.09</b>	<b>0.24</b>	
Interest Rate Caps						
<b>Total / Wtd Avg</b>	<b>\$ 3,900,000</b>	<b>\$ 204,252</b>	<b>(2.44)</b>	<b>1.40</b>		
<b>Total / Wtd Avg</b>	<b>\$ 9,700,000</b>	<b>\$ 243,755</b>	<b>(2.95)</b>	<b>n/a</b>		

(1) Duration essentially measures the market price volatility of financial instruments as interest rates change. 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.

# Sensitivity Analysis and Duration Gap



Interest Rate Sensitivity <sup>(1)</sup>				
As of June 30, 2014				
Interest Rate Change (bps)	Net Duration Gap	Projected Change in the Fair Value of Our Assets	Projected Change in Stockholders' Equity	
-75	0.56	0.5%	3.5%	
-50	0.70	0.5%	3.6%	
-25	0.86	0.4%	2.7%	
0	1.06	0.0%	0.0%	
25	1.23	(0.5%)	(3.5%)	
50	1.33	(1.0%)	(7.4%)	
75	1.39	(1.6%)	(11.5%)	

Net Duration Gap <sup>(2)</sup>			
As of June 30, 2014			
Investment Type	Duration	Notional / Face Value (in 000's)	
Interest rate swaps	(3.63)	\$	7,250,000
Interest rate caps	(3.08)		2,500,000
Agency RMBS and U.S. Treasuries	4.31		13,648,145
Net Duration Gap	1.06	\$	23,398,145
Leverage	6.35:1		

As of March 31, 2014			
Interest rate swaps	(3.30)	\$	5,800,000
Interest rate caps	(2.44)		3,900,000
Agency RMBS and U.S. Treasuries	4.88		12,954,981
Net Duration Gap	1.52	\$	22,654,981
Leverage	6.32:1		

Interest rates were range bound during the quarter as volatility remained low. Agency RMBS continued to outperform U.S. Treasuries as the Fed continues its bond purchase program. The combination of declining volatility and low net Agency RMBS issuance continues to be the main driver for strong Agency RMBS performance during the second quarter.

- (1) The interest rate sensitivity analysis shows the estimated impact interest rate changes would have on net duration gap, using DV01 methodology, the projected change in the fair value of our interest rate sensitive investments and stockholders' equity assuming a static portfolio and that rates instantaneously fall 25, 50 and 75 basis points and rise 25, 50 and 75 basis points.
- (2) Calculated as a weighted average of the total portfolio including the aggregate notional on interest rate swaps and caps, using DV01 methodology.



# Financing Summary



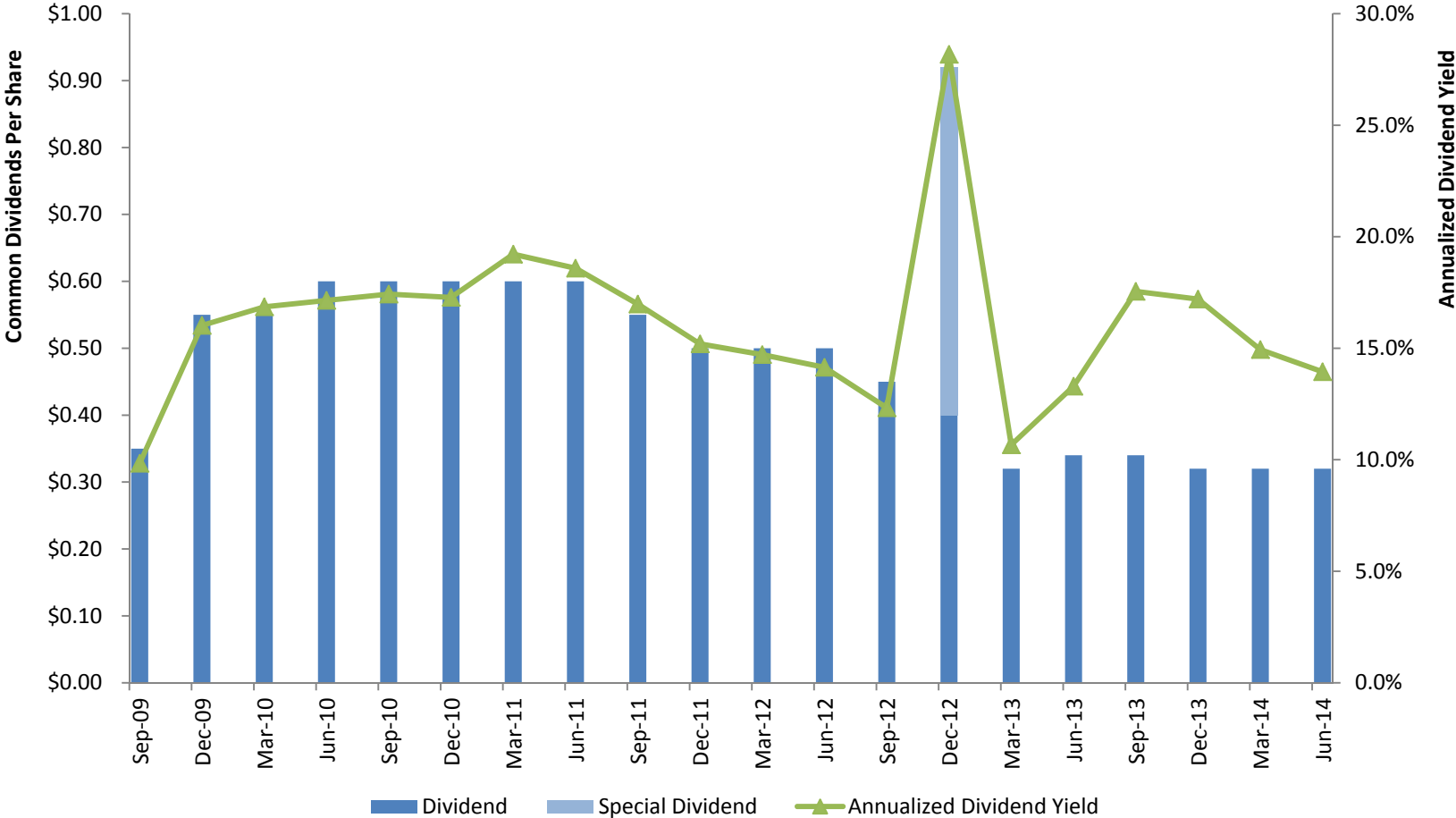
Repurchase Agreements					
As of June 30, 2014					
Original Days to Maturity	Repo Outstanding (in 000's)	Repo Outstanding Percentage	Weighted Average		
			Interest Rate	Remaining Days to Maturity	Original Days to Maturity
Agency RMBS					
≤ 30 Days	\$ 688,247	7%	0.30%	5	29
> 30 to ≤ 60 Days	522,624	5%	0.32%	14	32
> 60 Days	6,625,442	67%	0.35%	52	104
Subtotal	7,836,313	79%	0.34%	46	93
U.S. Treasuries					
Overnight	221,618	2%	0.15%	1	1
> 1 to ≤ 7 Days	99,750	1%	0.15%	7	7
> 8 to ≤ 14 Days	501,065	5%	0.17%	7	12
> 14 Days	1,215,091	13%	0.10%	17	30
Subtotal	2,037,524	21%	0.12%	12	21
Total/ Wtd Avg	\$ 9,873,837	100%	0.30%	39	78
As of March 31, 2014					
Total/ Wtd Avg	\$ 10,014,048	100%	0.31%	43	74

As of June 30, 2014		
Counterparty Region	Number of Counterparties	Percent of Repo Exposure
North America	15	49%
Europe	10	27%
Asia	5	24%
<b>Total</b>	<b>30</b>	<b>100%</b>

- Repurchase agreement rates remained stable during the quarter due to the combination of excess cash on the front end of the curve and shortage of Agency RMBS collateral in the sector. Haircuts have also been stable during the quarter with U.S. Treasuries ranging from 0%-2% and Agency RMBS from 3%-7% during the quarter.
- During the quarter we added five new counterparties, three of which have outstanding repo balances.
- We had repurchase agreements in place with 43 counterparties and indebtedness outstanding with 30 counterparties as of June 30, 2014.

# Historical Common Stock Dividends

CYS Common Stock Dividends  
September 2009 – June 2014

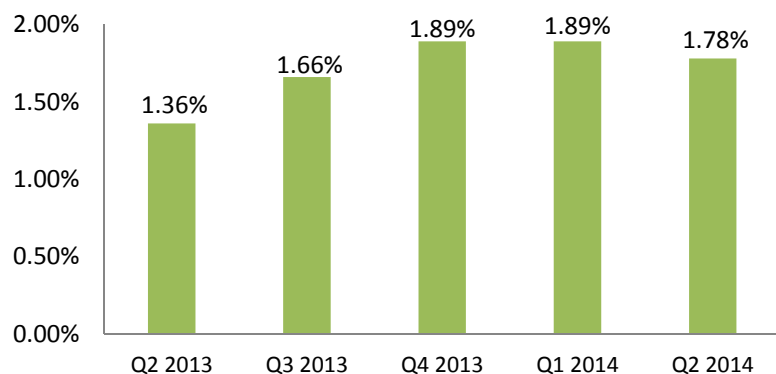


(1) The annualized dividend yield is calculated using the stock price on the declaration date.  
 (2) The December 2012 dividend was composed of \$0.40 quarterly cash dividend and \$0.52 special cash dividend.

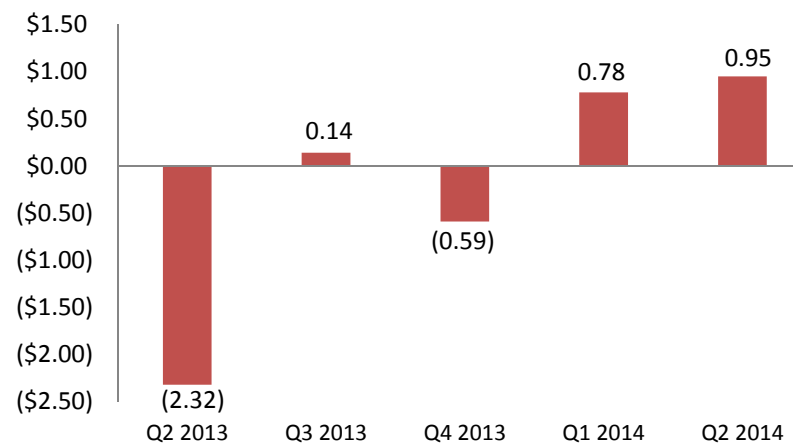
# Historical Overview



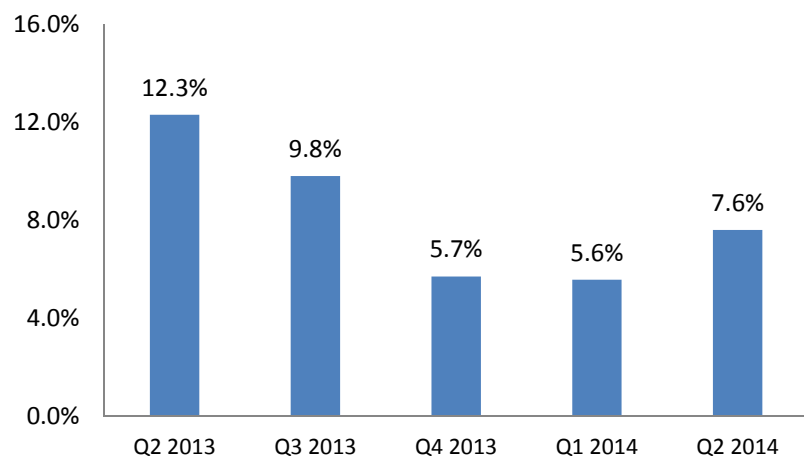
Interest Rate Spread Net of Hedge Including Drop Income



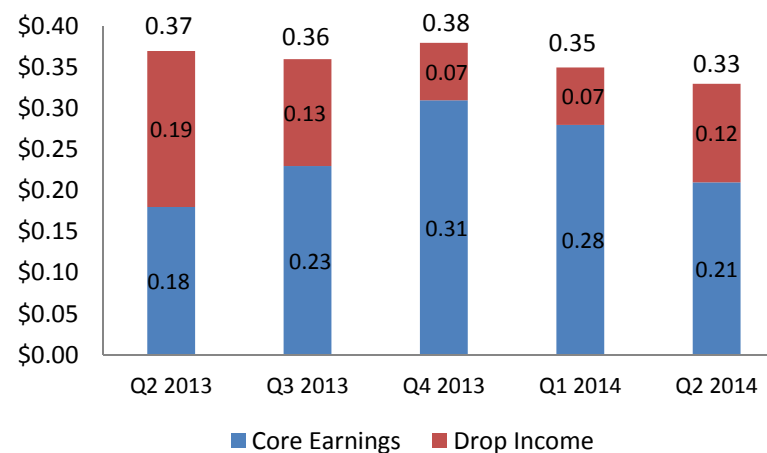
GAAP Net Income (Loss) per Common Share Basic & Diluted



Constant Prepayment Rate



Core Earnings<sup>(1)</sup> plus Drop Income per Diluted Common Share

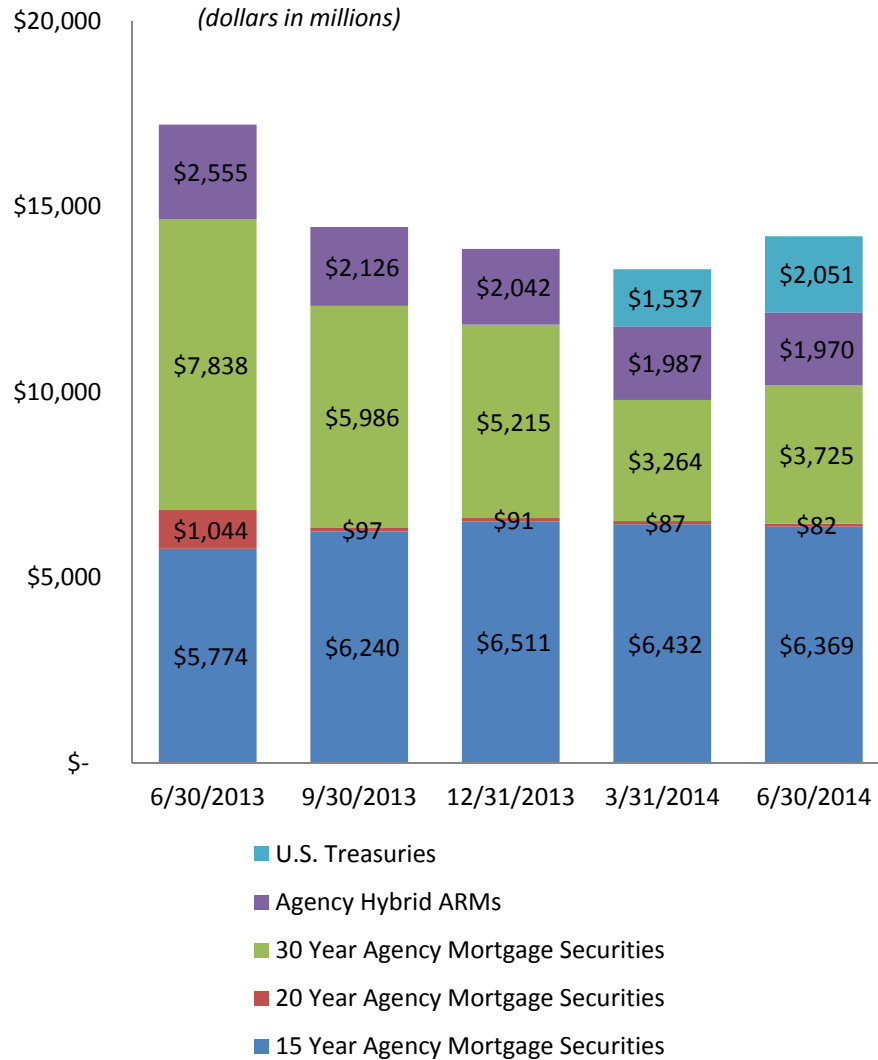


(1) A reconciliation of the non-GAAP measure Core Earnings can be found on page 15

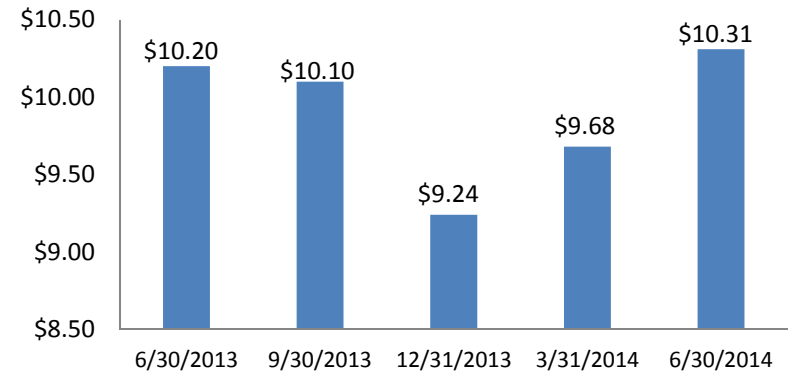
# Historical Overview, Continued



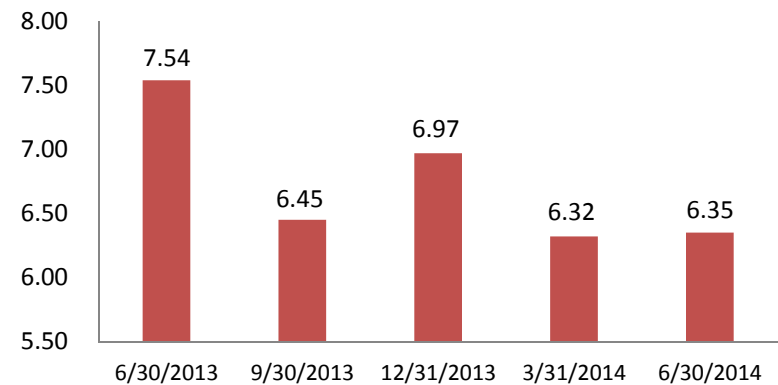
Debt Securities Portfolio at Fair Value



Book Value Per Common Share



Leverage



# Consolidated Balance Sheets



(dollars in 000's, except per share data) (Unaudited)	As of				
	6/30/2013	9/30/2013	12/31/2013 (1)	3/31/2014	6/30/2014
<b>Assets:</b>					
Investments in securities, at fair value	\$ 17,218,204	\$ 14,456,252	\$ 13,865,793	\$ 13,314,680	\$ 14,204,107
Derivative assets, at fair value	365,067	267,409	295,707	261,522	165,487
Cash	11,302	10,597	4,992	13,396	16,736
Receivable for securities sold and principal repayments	4,583,565	744,491	429,233	3,582	74,591
Interest receivable	44,212	38,773	36,731	33,984	32,790
Other assets	1,175	892	608	334	986
<b>Total assets</b>	<b>22,223,525</b>	<b>15,518,414</b>	<b>14,633,064</b>	<b>13,627,498</b>	<b>14,494,697</b>
<b>Liabilities and stockholders' equity:</b>					
<b>Liabilities:</b>					
Repurchase agreements	13,809,319	11,735,071	11,206,950	10,014,048	9,873,837
Derivative liabilities, at fair value	54,242	49,537	29,458	17,767	19,799
Payable for securities purchased	6,126,222	1,656,724	1,556,821	1,641,598	2,562,827
Payable for cash received as collateral	106,742	35,488	37,938	37,956	12,944
Distribution payable	62,530	61,149	4,410	56,258	56,256
Accrued interest payable	24,810	15,139	24,613	14,982	20,284
Accrued expenses and other liabilities	3,007	5,219	4,218	1,616	3,034
<b>Total liabilities</b>	<b>20,186,872</b>	<b>13,558,327</b>	<b>12,864,408</b>	<b>11,784,225</b>	<b>12,548,981</b>
<b>Stockholders' equity:</b>					
Preferred stock, \$25.00 par value, 500 M shares authorized:					
7.75% Series A Cumulative Redeemable Preferred Stock (3 M shares issued and outstanding)	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369
7.50% Series B Cumulative Redeemable Preferred Stock (8 M shares issued and outstanding)	193,550	193,550	193,531	193,531	193,531
Common Stock, \$0.01 par value, 500,000 shares authorized (173 M, 167 M, 162 M, 162 M, and 162 M shares issued and outstanding, respectively)	1,728	1,669	1,616	1,620	1,620
Additional paid in capital	2,212,529	2,167,393	2,046,530	2,047,508	2,048,619
Accumulated deficit	(443,523)	(474,894)	(545,390)	(471,755)	(370,423)
<b>Total stockholders' equity:</b>	<b>\$ 2,036,653</b>	<b>\$ 1,960,087</b>	<b>\$ 1,768,656</b>	<b>\$ 1,843,273</b>	<b>\$ 1,945,716</b>
<b>Total liabilities and stockholders' equity:</b>	<b>\$ 22,223,525</b>	<b>\$ 15,518,414</b>	<b>\$ 14,633,064</b>	<b>\$ 13,627,498</b>	<b>\$ 14,494,697</b>
<b>Book value per common share</b>	<b>\$ 10.20</b>	<b>\$ 10.10</b>	<b>\$ 9.24</b>	<b>\$ 9.68</b>	<b>\$ 10.31</b>

(1) Derived from audited financial statements

# Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended				
	June 30, 2013	September 30, 2013	December 31, 2013 <sup>(1)</sup>	March 31, 2014	June 30, 2014
<b>Interest income:</b>					
Interest income from Agency RMBS	\$ 80,991	\$ 85,599	\$ 91,739	\$ 80,186	\$ 65,420
Other interest income	520	-	4	4,181	6,558
<b>Total interest income</b>	<b>81,511</b>	<b>85,599</b>	<b>91,743</b>	<b>84,367</b>	<b>71,978</b>
<b>Interest expense:</b>					
Repurchase agreement interest expense	14,047	11,969	11,716	9,423	7,583
Swap and cap interest expense	26,699	23,744	21,098	18,923	19,456
<b>Total interest expense</b>	<b>40,746</b>	<b>35,713</b>	<b>32,814</b>	<b>28,346</b>	<b>27,039</b>
<b>Net interest income</b>	<b>40,765</b>	<b>49,886</b>	<b>58,929</b>	<b>56,021</b>	<b>44,939</b>
<b>Other income (loss):</b>					
Net realized gain (loss) on investments	(211,418)	(407,728)	(22,650)	16,670	33,118
Net unrealized gain (loss) on investments	(444,877)	423,509	(167,671)	89,234	157,479
Net realized gain (loss) on termination of swap and cap contracts	7,329	25,707	(10,891)	(9,323)	(6,004)
Net unrealized gain (loss) on swap and cap contracts	215,546	(55,243)	54,633	(16,240)	(65,181)
Other income	40	37	-	119	50
<b>Total other income (loss)</b>	<b>(433,380)</b>	<b>(13,718)</b>	<b>(146,579)</b>	<b>80,460</b>	<b>119,462</b>
<b>Expenses:</b>					
Compensation and benefits	3,425	3,453	2,401	3,629	3,712
General, administrative and other	2,246	2,144	1,813	2,165	2,308
<b>Total expenses</b>	<b>5,671</b>	<b>5,597</b>	<b>4,214</b>	<b>5,794</b>	<b>6,020</b>
<b>Net income (loss)</b>	<b>\$ (398,286)</b>	<b>\$ 30,571</b>	<b>\$ (91,864)</b>	<b>\$ 130,687</b>	<b>\$ 158,381</b>
Dividends on preferred stock	(3,995)	(5,203)	(5,203)	(5,203)	(5,203)
<b>Net income (loss) available to common shares</b>	<b>\$ (402,281)</b>	<b>\$ 25,368</b>	<b>\$ (97,067)</b>	<b>\$ 125,484</b>	<b>\$ 153,178</b>
<b>Net income (loss) per common share basic &amp; diluted</b>	<b>\$ (2.32)</b>	<b>\$ 0.14</b>	<b>\$ (0.59)</b>	<b>\$ 0.78</b>	<b>\$ 0.95</b>

(1) Derived from audited financial statements

## Non-GAAP Measure/Reconciliation



(in 000's, except per share data) (Unaudited)	Three Months Ended				
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014
NET INCOME (LOSS) AVAILABLE TO COMMON SHARES	\$ (402,281)	\$ 25,368	\$ (97,067)	\$ 125,484	\$ 153,178
Net realized (gain) loss on investments	211,418	407,728	22,650	(16,670)	(33,118)
Net unrealized (gain) loss on investments	444,877	(423,509)	167,671	(89,234)	(157,479)
Net realized (gain) loss on termination of swap and cap contracts	(7,329)	(25,707)	10,891	9,323	6,004
Net unrealized (gain) loss on swap and cap contracts	(215,546)	55,243	(54,633)	16,240	65,181
Core Earnings	<u>\$ 31,139</u>	<u>\$ 39,123</u>	<u>\$ 49,512</u>	<u>\$ 45,143</u>	<u>\$ 33,766</u>
Core Earnings per Average Share	\$ 0.18	\$ 0.23	\$ 0.31	\$ 0.28	\$ 0.21

### Core Earnings:

Core Earnings represents a non-GAAP financial measure and is defined as net income (loss) available to common shares excluding net realized gain (loss) on investments, net unrealized gain (loss) on investments, net realized gain (loss) on termination of swap and cap contracts and net unrealized gain (loss) on swap and cap contracts. Management uses Core Earnings to evaluate the effective yield of the portfolio after operating expenses. In addition, management utilizes Core Earnings as a key metric in conjunction with other portfolio and market factors to determine the appropriate leverage and hedging ratios, as well as the overall structure of the portfolio.

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 and swap and cap contracts. 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.

# Forward-Looking Statements



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, including information relating to the Company’s Agency RMBS prices, prepayments, interest rates, hedges, refinance activity, and governmental actions 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, the likelihood that proposed legislation is made law and the anticipated impact thereof, actions by the U.S. government or any agency thereof, including the Federal Reserve, and the effects of such actions 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. The Company undertakes no obligations to update any forward-looking information, whether as a result of new information, future events or otherwise.





**Supplemental Earnings Presentation**  
**Second Quarter 2014**  
**July 22, 2014**