



**Supplemental Earnings Presentation**  
**Third Quarter 2014**  
**October 24, 2014**

## Q3 2014: Summary Results



- September 30, 2014 book value per common share of \$10.14.
- \$0.30 dividend per common share representing an annualized dividend yield of 14.6% using the closing price per common share of \$8.24 on September 30, 2014.
- At September 30, 2014 the leverage ratio was 6.63:1.
- GAAP net income available to common shares of \$19.8 million, or \$0.12 per diluted common share.
- Core Earnings<sup>(1)</sup> plus Drop Income<sup>(2)</sup> of \$49.7 million (\$32.5 million Core Earnings and \$17.2 million Drop Income), or \$0.31 per diluted common share (\$0.20 Core Earnings and \$0.11 Drop Income).
- Weighted average amortized cost of Agency RMBS and U.S. Treasuries of \$103.63.
- Operating expenses of 1.25% of average stockholders' equity.
- Interest rate spread net of hedge including Drop Income of 1.60%.<sup>(3)</sup>
- 1.26% common book value total return for the quarter.<sup>(4)</sup>
- (5.44)% common stock market value total return for the quarter.<sup>(5)</sup>
- \$14.5 billion<sup>(6)</sup> investment portfolio as of September 30, 2014, which included \$2.1 billion of forward settling to-be-announced ("TBA") Securities.
- Constant Prepayment Rate ("CPR") of 9.3% for the quarter.

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(1) Core Earnings is defined as net income (loss) available to common shareholders 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 14 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.

(6) At fair value.

# Q3 2014: Key Balance Sheet & Performance Metrics



Key Balance Sheet Metrics (in thousands)	Three Months Ended				
	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2013	June 30, 2014	Sept. 30, 2014
Average settled Debt Securities <sup>(1)</sup>	\$14,143,340	\$13,024,294	\$12,472,238	\$11,599,873	\$11,837,201
Average total Debt Securities <sup>(2)</sup>	\$16,135,672	\$14,293,267	\$13,454,972	\$13,711,749	\$14,138,849
Average repurchase agreements <sup>(3)</sup>	\$12,180,713	\$11,384,159	\$10,867,627	\$ 9,981,049	\$10,189,360
Average Debt Securities liabilities <sup>(4)</sup>	\$14,173,045	\$12,653,132	\$11,850,361	\$12,092,925	\$12,491,008
Average stockholders' equity <sup>(5)</sup>	\$ 1,977,424	\$ 1,896,360	\$ 1,861,121	\$ 1,916,575	\$ 1,937,700
Average common shares outstanding <sup>(6)</sup>	170,351	163,850	161,831	162,031	162,008
Leverage ratio (at period end) <sup>(7)</sup>	6.45:1	6.97:1	6.32:1	6.35:1	6.63:1
<b>Key Performance Metrics *</b>					
Average yield on settled Debt Securities <sup>(8)</sup>	2.42%	2.82%	2.71%	2.48%	2.61%
Average yield on total Debt Securities including Drop Income <sup>(9)</sup>	2.67%	2.93%	2.85%	2.67%	2.67%
Average cost of funds <sup>(10)</sup>	0.39%	0.41%	0.35%	0.30%	0.30%
Average cost of funds and hedge <sup>(11)</sup>	1.17%	1.15%	1.04%	1.08%	1.31%
Adjusted average cost of funds and hedge <sup>(12)</sup>	1.01%	1.04%	0.96%	0.89%	1.07%
Interest rate spread net of hedge <sup>(13)</sup>	1.25%	1.67%	1.67%	1.40%	1.30%
Interest rate spread net of hedge including Drop Income <sup>(14)</sup>	1.66%	1.89%	1.89%	1.78%	1.60%
Operating expense ratio <sup>(15)</sup>	1.13%	0.89%	1.25%	1.26%	1.25%
Common book value total return (%) <sup>(16)</sup>	2.35%	(5.35%)	8.23%	9.81%	1.26%

This table includes the Company's Agency RMBS and U.S. Treasuries 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 \$22.1 million, \$12.8 million, \$11.6 million, \$19.4 million, and \$17.2 million for Q3 and Q4 2013, and Q1, Q2, and Q3 2014, respectively.
- (10) The average cost of funds for the period is calculated by dividing repurchase agreement interest expense by average repurchase agreements.
- (11) The average cost of funds and hedge for the period is calculated by dividing interest expense by average repurchase agreements.
- (12) The adjusted average cost of funds and hedge for the period is calculated by dividing interest expense by average total Debt Securities liabilities.
- (13) 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.
- (14) 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.
- (15) The operating expense ratio for the period is calculated by dividing operating expenses by average stockholders' equity.
- (16) Not computed on annualized basis.

\* All percentages are annualized.

# Q3 2014: Market Data & Commentary



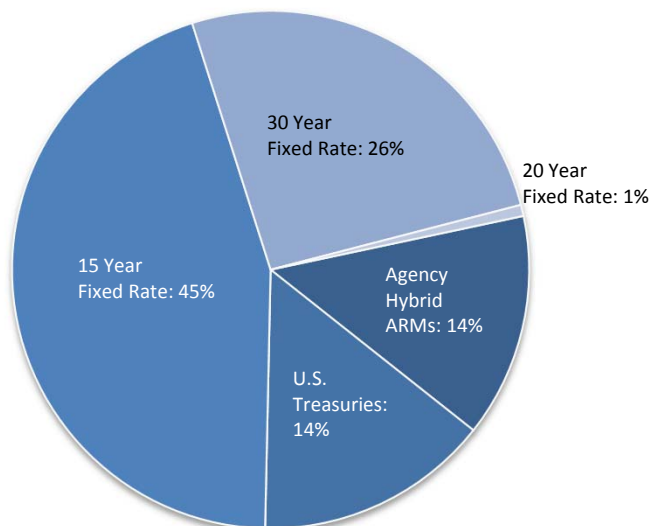
Security Type	Sept. 30, 2013	Dec. 30, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	Q3 2014 Δ
<b>15 Year Fannie Mae Fixed Rate Mortgage Prices</b>						
3.0%	\$ 103.55	\$ 102.02	\$ 102.73	\$ 103.80	\$ 103.08	\$ (0.72)
3.5%	\$ 105.55	\$ 104.58	\$ 104.83	\$ 105.95	\$ 105.17	\$ (0.78)
4.0%	\$ 106.23	\$ 105.92	\$ 105.80	\$ 106.14	\$ 105.98	\$ (0.16)
4.5%	\$ 106.30	\$ 106.45	\$ 106.02	\$ 106.11	\$ 105.70	\$ (0.41)
<b>30 Year Fannie Mae Fixed Rate Mortgage Prices</b>						
4.0%	\$ 104.92	\$ 103.02	\$ 103.98	\$ 106.02	\$ 105.45	\$ (0.57)
4.5%	\$ 106.86	\$ 105.98	\$ 106.73	\$ 108.23	\$ 107.95	\$ (0.28)
<b>U.S. Treasuries Rates</b>						
2 YR UST	0.32%	0.38%	0.42%	0.46%	0.57%	0.11
5 YR UST	1.38%	1.74%	1.72%	1.63%	1.76%	0.13
7 YR UST	2.00%	2.45%	2.30%	2.13%	2.20%	0.07
10 YR UST	2.61%	3.03%	2.72%	2.53%	2.49%	(0.04)
30 YR UST	3.68%	3.97%	3.56%	3.36%	3.20%	(0.16)
<b>Swap Rates</b>						
2 YR Swap	0.46%	0.49%	0.55%	0.58%	0.82%	0.24
5 YR Swap	1.54%	1.79%	1.80%	1.70%	1.93%	0.23
10 YR Swap	2.77%	3.09%	2.84%	2.63%	2.64%	0.01
<b>30 and 15 Year Par Priced Fannie Mae to Swap Spreads</b>						
30 YR to 7 YR Swap	1.13%	1.13%	1.09%	1.00%	0.89%	(0.11)
15 YR to 4 YR Swap	1.24%	1.34%	1.09%	0.85%	0.71%	(0.14)

- The U.S. Treasuries yield curve flattened 15 basis points (bps) between the 2 year and 10 year rates.
- Mortgage refinancing activity remained stable yet low during the quarter.
- The Fed continues to dominate Agency RMBS holdings: \$1.74 trillion as of September 2014, or approximately 32% of Agency RMBS outstanding.
- The Fed's tapering of Agency RMBS and U.S. Treasuries purchases is expected to end in October 2014.

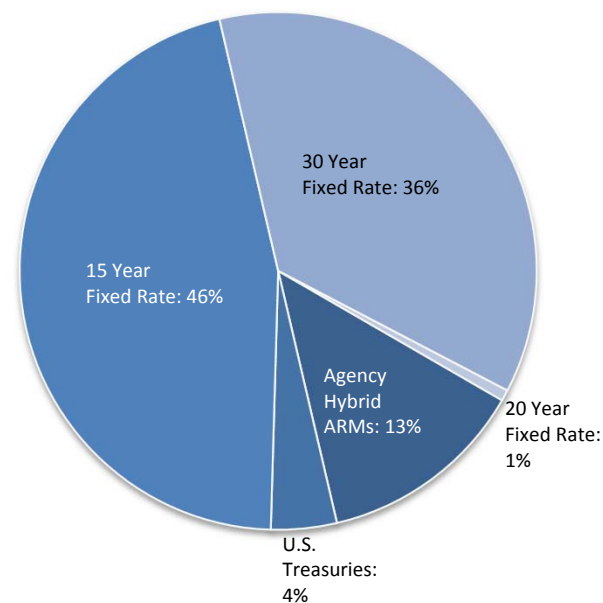
# Portfolio at Fair Value



**June 30, 2014**  
**\$14.2B Portfolio**



**September 30, 2014**  
**\$14.5B Portfolio**



<i>(dollars in thousands)</i>	June 30, 2014	Sept. 30, 2014	\$ Change	Absolute % Change	Relative % Change
15 Year Fixed Rate	\$ 6,368,659	\$ 6,670,580	\$ 301,921	2%	1%
20 Year Fixed Rate	82,467	78,005	(4,462)	0%	0%
30 Year Fixed Rate	3,725,156	5,267,793	1,542,637	11%	10%
Agency Hybrid ARMs	1,970,318	1,901,530	(68,788)	0%	-1%
U.S. Treasury Securities	2,050,562	556,150	(1,494,412)	-11%	-10%
<b>Total</b>	<b>\$ 14,197,162</b>	<b>\$ 14,474,058</b>	<b>\$ 276,896</b>	<b>2%</b>	<b>0%</b>

# Portfolio Detail as of September 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</b>							
<b>Weighted Average</b>							
3.00%	\$4,033,599	\$4,162,732	\$102.63	\$268	14	7.2 %	4.30
TBA 3.0%	482,000	496,460	103.03	n/a	n/a	n/a	4.45
3.50%	1,481,398	1,559,939	103.45	232	25	10.4	3.65
TBA 3.5%	205,000	215,490	105.18	n/a	n/a	n/a	3.58
4.00%	192,407	205,345	101.24	175	43	17.3	2.81
4.50%	28,581	30,613	102.78	248	56	21.4	2.08
<b>Subtotal</b>	<b>6,422,985</b>	<b>6,670,579</b>	<b>102.89</b>	<b>253</b>	<b>17</b>	<b>8.5</b>	<b>4.08</b>
<b>20 Year</b>							
4.50%	71,568	78,005	102.98	221	50	15.4	2.25
<b>30 Year</b>							
4.00%	3,467,839	3,661,551	104.91	294	6	5.2	5.61
TBA 4.0%	1,339,000	1,410,512	105.44	n/a	n/a	n/a	5.23
4.50%	180,949	195,730	106.96	287	41	14.9	3.05
<b>Subtotal</b>	<b>4,987,788</b>	<b>5,267,793</b>	<b>105.13</b>	<b>294</b>	<b>8</b>	<b>5.9</b>	<b>5.42</b>
<b>Hybrid ARMs</b>							
2.6% <sup>(4)</sup>	\$1,857,254	\$1,901,530	103.48	336	27	15.5	3.44
<b>U.S. Treasuries</b>							
1.63%	560,000	556,150	99.31	n/a	n/a	n/a	4.73
<b>Total</b>	<b>\$13,899,595</b>	<b>\$14,474,057</b>	<b>\$103.63</b>	<b>\$281</b>	<b>16</b>	<b>9.2 %</b>	<b>4.49</b>
<b>As of June 30, 2014</b>							
15 Year Agency	\$6,090,446	\$6,368,659	\$102.66	\$251	17	6.2 %	4.08
20 Year Agency	75,567	82,467	103.01	222	47	22.0	2.20
30 Year Agency	3,511,537	3,725,156	103.97	298	12	5.9	5.33
Agency Hybrid ARMs	1,920,595	1,970,318	103.51	336	25	12.9	3.56
U.S. Treasuries	2,050,000	2,050,562	99.78	n/a	n/a	n/a	4.05
<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>

- (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 September 30, 2014 and June 30, 2014. The CPR experienced by the Company during the period may differ. Securities with no prepayment history are excluded from this calculation.
- (3) 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 numbers for the same securities. Analytics provided by The Yield Book® Software.
- (4) Represents the weighted average coupon of Agency Hybrid ARMs.

# Hedging Summary: Interest Rate Swaps and Caps



As of September 30, 2014											
Interest Rate Swaps						Interest Rate Caps					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Pay Rate	Receive Rate	Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Cap Rate	
≤ 3 Years	\$ 2,250,000	\$ 19,372	(2.64)	0.92	0.23	≤ 3 Years	\$ -	\$ -	-	-	
> 3 to ≤ 5 Years	3,800,000	40,762	(3.35)	1.24	0.23	> 3 to ≤ 5 Years	800,000	34,986	(2.74)	1.34	
> 5 to ≤ 7 Years	1,600,000	2,026	(4.98)	2.43	0.23	> 5 to ≤ 7 Years	1,700,000	103,077	(3.39)	1.25	
Subtotal /Wtd Avg	\$ 7,650,000	\$ 62,160	(3.48)	1.39	0.23	Subtotal / Wtd Avg	\$ 2,500,000	\$ 138,063	(3.18)	1.28	
							<b>Total / Wtd Avg</b>	<b>\$ 10,150,000</b>	<b>\$ 200,223</b>	<b>(3.41)</b>	<b>n/a</b>

As of June 30, 2014											
Interest Rate Swaps						Interest Rate Caps					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Pay Rate	Receive Rate	Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Duration <sup>(1)</sup>	Cap Rate	
Total / Wtd Avg	\$ 7,250,000	\$ 13,733	(3.63)	1.34	0.23	Total / Wtd Avg	\$ 2,500,000	\$ 131,955	(3.08)	1.28	
							<b>Total / Wtd Avg</b>	<b>\$ 9,750,000</b>	<b>\$ 145,688</b>	<b>(3.49)</b>	<b>n/a</b>

- Hedging activity for the third quarter included opening a notional \$0.4 billion 7-year swap cancelable in one year with a July 30, 2021 maturity.
- New hedges are designed to lessen the impact of interest rate changes on the portfolio.
- Interest rate swaps and caps, totaling \$10.15 billion, cover 98% of our repurchase agreements at September 30, 2014, compared to \$9.75 billion or 99% coverage at June 30, 2014.

(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 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 September 30, 2014				
Interest Rate Change (bps)	Projected Change in Net Income	Projected Change in the Fair Value of Our Assets	Projected Change in Stockholders' Equity	Net Duration Gap
-75	6.7% <sup>(2)</sup>	0.6%	4.7%	0.55
-50	4.9% <sup>(2)</sup>	0.6%	4.4%	0.73
-25	2.4% <sup>(2)</sup>	0.4%	3.1%	0.93
0.0%	0.0%	0.0%	0.0%	1.16
25	(6.1%)	(0.5%)	(4.0%)	1.35
50	(12.2%)	(1.1%)	(8.5%)	1.46
75	(18.3%)	(1.7%)	(13.2%)	1.52

Net Duration Gap <sup>(3)</sup> As of September 30, 2014			
Investment Type	Duration	Notional/ Face Value (in 000's)	
Interest rate swaps	(3.48)	\$	7,650,000
Interest rate caps	(3.18)		2,500,000
Agency RMBS and U.S. Treasuries	4.49		13,899,595
Net Duration Gap	1.16		
Leverage	6.63:1		

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		
Leverage	6.35:1		

- Interest rates remained range-bound during the quarter; volatility also remained low.

(1) The interest rate sensitivity analysis shows the estimated impact interest rate changes would have on net income, the fair value of our investments, stockholders' equity and net duration gap, using DV01 methodology. assuming a static portfolio with rates suddenly falling or rising 25, 50 and 75 basis points .

(2) Given the low level of interest rates at September 30, 2014, reduced 3-month LIBOR by 10, 20 and 25 bps and repurchase agreement rates by 10, 20 and 25 bps for the down 25, 50 and 75 bps net income scenarios, respectively.

(3) Net Duration gap calculated as a weighted average of the total portfolio including the aggregate notional on interest rate swaps and caps, using DV01 methodology.



# Financing Summary



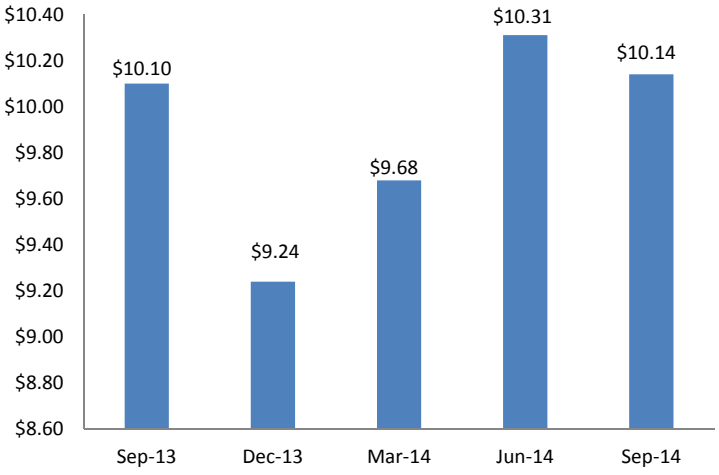
Repurchase Agreements As of September 30, 2014						
Original Days to Maturity	Repo Outstanding (in 000's)	Repo Outstanding %	Weighted Average			
			Interest Rate	Remaining Days to Maturity	Original Days to Maturity	
<b>Agency RMBS</b>						
≤ 30 Days	\$ 926,016	9%	0.30%	15	30	
> 30 to ≤ 60 Days	3,047,068	29%	0.31%	15	33	
> 60 Days	5,876,485	57%	0.35%	64	103	
Subtotal	9,849,569	95%	0.33%	44	74	
<b>U.S. Treasuries</b>						
Overnight	553,519	5%	(2.20%)	1	1	
Subtotal	553,519	5%	(2.20%)	1	1	
Total/ Wtd Avg	\$10,403,088	100%	0.20%	42	70	
<b>As of June 30, 2014</b>						
Total/ Wtd Avg	9,873,837	100%	0.30%	39	78	

Active Counterparties As of September 30, 2014		
Region	# of Counterparties	% of Agreement Funding
North America	16	47.4%
Europe	11	33.2%
Asia	5	19.4%
<b>Total</b>	<b>32</b>	<b>100%</b>

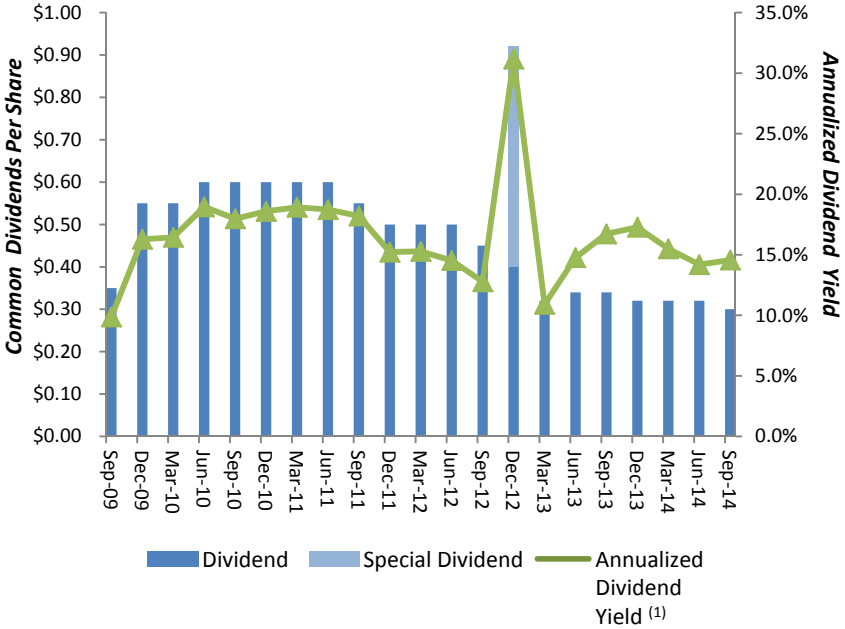
- Repurchase agreement (repo) rates for Agency RMBS remained stable due to a combination of 1) excess cash on the front end of the curve and 2) shortage of Agency RMBS collateral.
- Haircuts remained stable during the quarter with U.S. Treasuries (UST) ranging from 0% - 2%, Agency RMBS from 3% - 7%.
- High demand for UST collateral towards quarter-end led to commensurately attractive repo funding, and ability to capture 220 bp's in overnight UST lending - resulting in a weighted-average funding rate of 0.20% (at quarter-end). Weighted-average rate for the entire quarter was 0.30%.

# Book Value and Common Stock Dividends

**Book Value Per Common Share  
Sept 2013 - Sept 2014**



**CYS Common Stock Dividends  
Sept 2009 - Sept 2014**

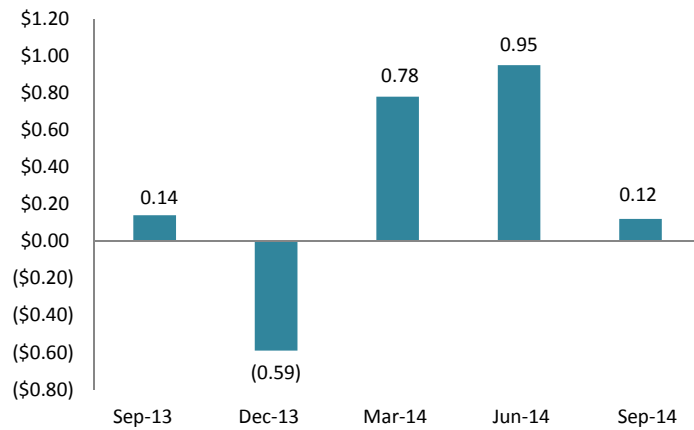


(1) Annualized dividend yield is calculated using the stock price at the quarter end.

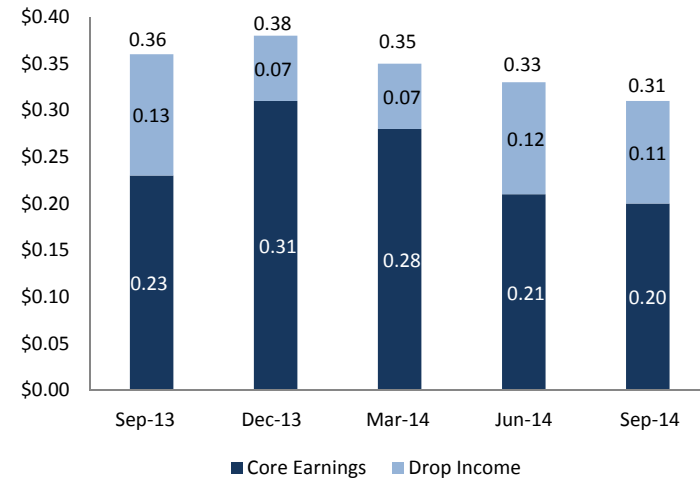
# Historic Metrics: GAAP Net Income & Core+Drop



**GAAP Net Income (Loss) per Common Share  
Sept 2013 - Sept 2014**



**Core Earnings<sup>(1)</sup> plus Drop Income  
Sept 2013 - Sept 2014**

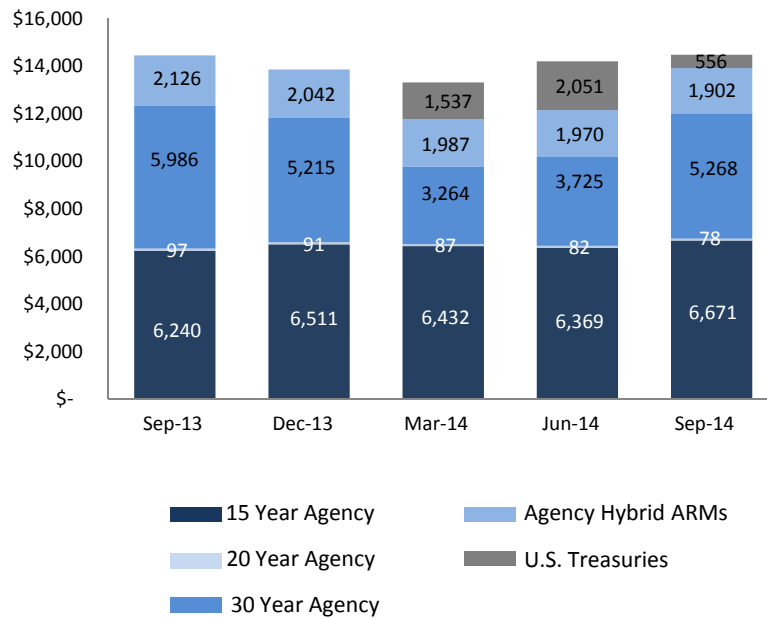


(1) A reconciliation of the non-GAAP measure Core Earnings can be found on page 15.

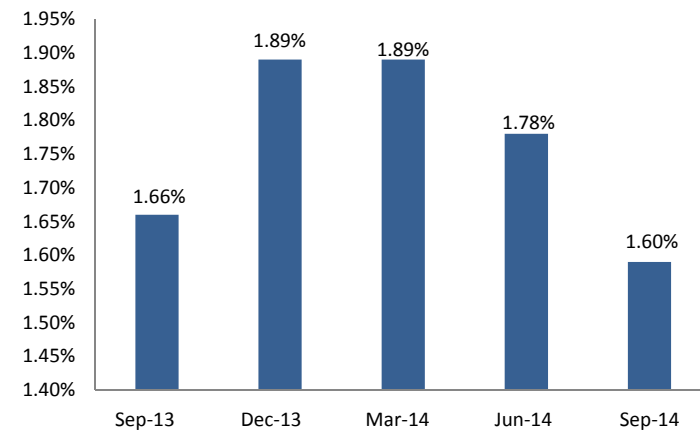
# Historic Metrics: Portfolio & Interest Rate Spread



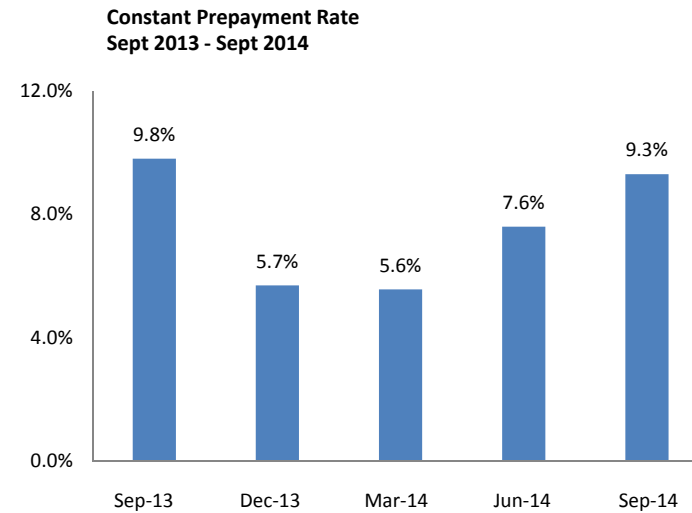
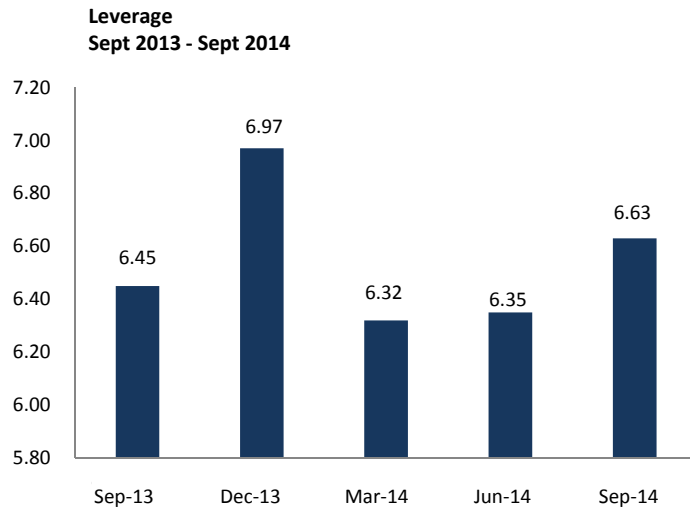
**Debt Securities Portfolio at Fair Value  
Sept 2013 - Sept 2014**  
*(dollars in millions)*



**Interest Rate Spread Net of Hedge  
Including Drop Income  
Sept 2013 - Sept 2014**



# Historic Metrics Leverage & Constant Prepayment Rate



# Consolidated Balance Sheets



(dollars in 000's, except per share data) (Unaudited)	Sept. 30, 2013	Dec. 31, 2013 <sup>(1)</sup>	As of Mar. 31, 2014	June 30, 2014	Sept. 30, 2014
<b>Assets:</b>					
Investments in securities, at fair value	\$ 14,456,252	\$ 13,865,793	\$ 13,314,680	\$ 14,204,107	\$ 14,481,002
Derivative assets, at fair value	267,409	295,707	261,522	165,487	203,657
Cash	10,597	4,992	13,396	16,736	10,370
Receivable for securities sold and principal repayments	744,491	429,233	3,582	74,591	214,578
Interest receivable	38,773	36,731	33,984	32,790	36,158
Other assets	892	608	334	986	688
Total assets	<u>15,518,414</u>	<u>14,633,064</u>	<u>13,627,498</u>	<u>14,494,697</u>	<u>14,946,453</u>
<b>Liabilities and stockholders' equity:</b>					
<b>Liabilities:</b>					
Repurchase agreements	11,735,071	11,206,950	10,014,048	9,873,837	10,403,088
Derivative liabilities, at fair value	49,537	29,458	17,767	19,799	3,434
Payable for securities purchased	1,656,724	1,556,821	1,641,598	2,562,827	2,519,002
Payable for cash received as collateral	35,488	37,938	37,956	12,944	16,212
Distribution payable	61,149	4,410	56,258	56,256	53,008
Accrued interest payable	15,139	24,613	14,982	20,284	28,874
Accrued expenses and other liabilities	5,219	4,218	1,616	3,034	5,109
Total liabilities	<u>13,558,327</u>	<u>12,864,408</u>	<u>11,784,225</u>	<u>12,548,981</u>	<u>13,028,727</u>
<b>Stockholders' equity:</b>					
Preferred stock, \$25.00 par value, 50 M shares authorized:					
7.75% Series A Cumulative Redeemable Preferred Stock (3M shares issued and outstanding)	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369	\$ 72,369
7.50% Series B Cumulative Redeemable Preferred Stock (8M shares issued and outstanding)	193,550	193,531	193,531	193,531	193,531
Common Stock, \$0.01 par value, 500,000 shares authorized (167M, 162M, 162M, 162M and 162M shares issued and outstanding, respectively)					
	1,669	1,616	1,620	1,620	1,620
Additional paid in capital	2,167,393	2,046,530	2,047,508	2,048,619	2,049,507
Accumulated deficit	(474,894)	(545,390)	(471,755)	(370,423)	(399,301)
Total stockholders' equity:	<u>\$ 1,960,087</u>	<u>\$ 1,768,656</u>	<u>\$ 1,843,273</u>	<u>\$ 1,945,716</u>	<u>\$ 1,917,726</u>
Total liabilities and stockholders' equity:	<u>\$ 15,518,414</u>	<u>\$ 14,633,064</u>	<u>\$ 13,627,498</u>	<u>\$ 14,494,697</u>	<u>\$ 14,946,453</u>
Book value per common share	\$ 10.10	\$ 9.24	\$ 9.68	\$ 10.31	\$ 10.14

(1) Derived from audited financial statements.

# Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended				
	Sept. 30, 2013	Dec. 31, 2013 <sup>(1)</sup>	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014
<b>Interest income:</b>					
Interest income from Agency RMBS	\$ 85,599	\$ 91,739	\$ 80,186	\$ 65,420	\$ 74,052
Other interest income	-	4	4,181	6,558	3,080
<b>Total interest income</b>	<b>85,599</b>	<b>91,743</b>	<b>84,367</b>	<b>71,978</b>	<b>77,132</b>
<b>Interest expense:</b>					
Repurchase agreement interest expense	11,969	11,716	9,423	7,583	7,657
Swap and cap interest expense	23,744	21,098	18,923	19,456	25,789
<b>Total interest expense</b>	<b>35,713</b>	<b>32,814</b>	<b>28,346</b>	<b>27,039</b>	<b>33,446</b>
Net interest income	49,886	58,929	56,021	44,939	43,686
<b>Other income (loss):</b>					
Net realized gain (loss) on investments	(407,728)	(22,650)	16,670	33,118	40,470
Net unrealized gain (loss) on investments	423,509	(167,671)	89,234	157,479	(112,085)
Net realized gain (loss) on termination of swap and cap contracts	25,707	(10,891)	(9,323)	(6,004)	-
Net unrealized gain (loss) on swap and cap contracts	(55,243)	54,633	(16,240)	(65,181)	58,909
Other income	37	-	119	50	50
<b>Total other income (loss)</b>	<b>(13,718)</b>	<b>(146,579)</b>	<b>80,460</b>	<b>119,462</b>	<b>(12,656)</b>
<b>Expenses:</b>					
Compensation and benefits	3,453	2,401	3,629	3,712	3,767
General, administrative and other	2,144	1,813	2,165	2,308	2,278
<b>Total expenses</b>	<b>5,597</b>	<b>4,214</b>	<b>5,794</b>	<b>6,020</b>	<b>6,045</b>
Net income (loss)	\$ 30,571	\$ (91,864)	\$ 130,687	\$ 158,381	\$ 24,985
Dividends on preferred stock	(5,203)	(5,203)	(5,203)	(5,203)	(5,203)
Net income (loss) available to common shareholders	\$ 25,368	\$ (97,067)	\$ 125,484	\$ 153,178	\$ 19,782
Net income (loss) per common share	\$ 0.14	\$ (0.59)	\$ 0.78	\$ 0.95	\$ 0.12

(1) Derived from audited financial statements.

## Non-GAAP Measure/Reconciliation



(in 000's, except per share data) (Unaudited)	Three Months Ended				
	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 25,368	\$ (97,067)	\$ 125,484	\$ 153,178	\$ 19,782
Net realized (gain) loss on investments	407,728	22,650	(16,670)	(33,118)	(40,470)
Net unrealized (gain) loss on investments	(423,509)	167,671	(89,234)	(157,479)	112,085
Net realized (gain) loss on termination of swap and cap contracts	(25,707)	10,891	9,323	6,004	-
Net unrealized (gain) loss on swap and cap contracts	55,243	(54,633)	16,240	65,181	(58,909)
Core Earnings	<u>\$ 39,123</u>	<u>\$ 49,512</u>	<u>\$ 45,143</u>	<u>\$ 33,766</u>	<u>\$ 32,488</u>
Core Earnings per Average Share	\$ 0.23	\$ 0.31	\$ 0.28	\$ 0.21	\$ 0.20

### 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 interest rates, hedges, 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**  
**Third Quarter 2014**  
**October 24, 2014**