



Supplemental Earnings Presentation
Fourth Quarter & Full Year 2016
February 15, 2017

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 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 effect of actual or proposed actions of the U.S. Federal Reserve, 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 Q4 2016 Results



Performance Indicator	Current Quarter Q4 2016 Versus Prior Quarter Q3 2016
Yield Curve and Current Investment Environment	The near-term reinvestment outlook has improved as a result of a steepening yield curve during the fourth quarter of 2016 ("Fourth Quarter"), which resulted from the widely unanticipated outcome of the U.S. presidential election. During the Fourth Quarter the yield on the 10-year U.S. Treasury increased 85 bps. At current leverage levels, levered returns on our target assets ("ROE") are in the low to mid teens.
Book Value Per Common Share	At December 31, 2016, book value per common share of \$8.33 ⁽¹⁾ , a decrease of \$(1.46) per common share from the September 30, 2016 book value per common share of \$9.79 ⁽¹⁾ , after declaring a per share dividend of \$0.25 during the Fourth Quarter.
Dividends Per Common Share	Declared a quarterly dividend per common share of \$0.25 during the Fourth Quarter, unchanged from the prior quarter, representing an annualized dividend yield of 12.9% and 11.5%, based upon the closing price per common share of \$7.73 and \$8.72 at December 31, 2016 and September 30, 2016, respectively.
GAAP Net Income (Loss) Available to Common Shareholders	GAAP net income (loss) available to common stockholders of \$(185.4) million, or \$(1.23) per diluted common share, compared to net income (loss) of \$73.8 million, or \$0.49 per diluted common share for the previous quarter.
Core Earnings, Plus Drop Income	Core Earnings ⁽²⁾ plus Drop Income ⁽³⁾ of \$36.2 million (\$28.1 million Core Earnings and \$8.1 million Drop Income), or \$0.24 per diluted common share (\$0.19 Core Earnings and \$0.05 Drop Income), as compared to \$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) for the prior quarter.
Interest Rate Spread Net of Hedge, Including Drop Income	Interest rate spread net of hedge, including Drop Income, of 1.28% ⁽⁴⁾ , a decrease from 1.37% at September 30, 2016.
Operating Expense Ratio	Operating expense ratio of 1.26% ⁽⁵⁾ , as compared to 1.42% during the prior quarter. Excluding effects of a \$1.7 million non-recurring prior period tax charge, Q4 2016 operating expense ratio of 0.85%.
Weighted Average Amortized Cost	Weighted-average amortized cost of Agency RMBS and U.S. Treasuries ⁽⁶⁾ (collectively, "Debt Securities") of \$103.78 at December 31, 2016, compared to \$103.72 at September 30, 2016.
Leverage and Hedge Ratios	Leverage ratio ⁽⁷⁾ increased marginally to 7.06:1 at December 31, 2016 from 6.96:1 at September 30, 2016. Hedge ratio of 92% at December 31, 2016, relatively unchanged from 93% at September 30, 2016.
W.A. Quarterly Constant Prepayment Rate (CPR)	A weighted-average quarterly constant prepayment rate ("CPR") ⁽⁸⁾ of 14.2% for the Fourth Quarter, as compared to 14.0% during the prior quarter.
Share Repurchases	The Company did not repurchase any shares of its common stock during the Fourth Quarter or the prior quarter.
Total stockholder return (loss) on common equity	Total stockholder return on common equity ⁽⁹⁾ of (12.36)% and 5.13% for the Fourth Quarter and the prior quarter, respectively.

Footnotes appear on page 27.

Summary Full Year 2016 Results



Performance Indicator	2016 Versus 2015
Yield Curve	During 2016, the 10-year U.S Treasury yield increased 17 bps from 2.27% at December 31, 2015 to 2.44% at December 31, 2016.
Book Value Per Common Share	After declaring \$1.01 in dividends during 2016, book value declined by \$1.03 during 2016, from \$9.36 at December 31, 2015 to \$8.33 at December 31, 2016.
Dividends Per Common Share	Declared \$1.01 of dividends during 2016, a \$0.09 decrease from a total of \$1.10 of dividends in 2015.
GAAP Net Income (Loss) Available to Common Shareholders	GAAP net income (loss) available to common stockholders of \$(4.4) million, or \$(0.04) per common share in 2016 as compared to \$(25.6) million, or \$(0.17) per common share in 2015.
Core Earnings, Plus Drop Income	2016 Core Earnings plus Drop Income of \$154.3 million, (\$121.4 million Core Earnings and \$32.9 million Drop Income), or \$1.02 per common share (\$0.81 Core Earnings and \$0.21 Drop Income), as compared to \$176.8 million (\$144.2 million Core Earnings and \$32.6 million Drop Income), or \$1.13 per common share (\$0.92 Core Earnings and \$0.21 Drop Income) for 2015.
Interest Rate Spread Net of Hedge, Including Drop Income	1.37% in 2016, a marginal decrease from 1.40% in 2015.
Operating Expense Ratio	2016 operating expenses of \$23.6 million, or 1.39% of average stockholders' equity, an increase from \$20.8 million, or 1.12% for 2015. Excluding effects of \$2.6 million of non-recurring charges, 2016 operating expense ratio of 1.23%.
Asset Performance	2016 net realized and unrealized loss on investments of \$(113.0) million, a modest decrease of \$3.1 million from \$(116.1) million in 2015.
Swap Performance	A net realized and unrealized gain (loss) on swap and cap contracts of \$(11.5) million for 2016, a \$43.4 million gain relative to the \$(54.9) million in 2015.
Total stockholder return (loss) on common equity	2016 total stockholder return (loss) on common equity of (0.21%) as compared to (0.38%) for 2015.

Key Balance Sheet and Performance Metrics

Key Balance Sheet Metrics (in thousands)	Three Months Ended					
	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015
Average settled Debt Securities ⁽¹⁾	\$ 11,484,017	\$ 11,725,021	\$ 11,887,351	\$ 11,905,997	\$ 12,811,091	\$ 13,099,727
Average total Debt Securities ⁽²⁾	\$ 13,207,856	\$ 13,596,739	\$ 13,230,800	\$ 12,945,855	\$ 13,424,661	\$ 13,928,756
Average repurchase agreements and FHLBC Advances ⁽³⁾	\$ 9,905,199	\$ 10,223,051	\$ 10,412,784	\$ 10,492,636	\$ 11,309,499	\$ 11,557,064
Average Debt Securities liabilities ⁽⁴⁾	\$ 11,629,038	\$ 12,094,769	\$ 11,756,233	\$ 11,532,494	\$ 11,923,069	\$ 12,386,093
Average stockholders' equity ⁽⁵⁾	\$ 1,646,903	\$ 1,749,543	\$ 1,725,879	\$ 1,714,728	\$ 1,739,317	\$ 1,790,420
Average common shares outstanding ⁽⁶⁾	151,434	151,414	151,452	151,788	153,183	155,702
Leverage ratio (at period end) ⁽⁷⁾	7.06:1	6.96:1	6.91:1	6.76:1	6.77:1	6.87:1
Book value per common share (at period end) ⁽⁸⁾	\$8.33	\$9.79	\$9.55	\$9.46	\$9.36	\$9.59
Weighted average amortized cost of Agency RMBS and U.S. Treasuries ⁽⁹⁾	\$103.78	\$103.72	\$103.42	\$103.76	\$103.69	\$103.94

Key Performance Metrics*	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015
Average yield on settled Debt Securities ⁽¹⁰⁾	2.39%	2.38%	2.52%	2.74%	2.68%	2.56%
Average yield on total Debt Securities including Drop Income ⁽¹¹⁾	2.32%	2.36%	2.50%	2.71%	2.67%	2.59%
Average cost of funds ⁽¹²⁾	0.81%	0.68%	0.72%	0.68%	0.49%	0.42%
Average cost of funds and hedge ⁽¹³⁾	1.22%	1.17%	1.29%	1.39%	1.31%	1.28%
Adjusted average cost of funds and hedge ⁽¹⁴⁾	1.04%	0.99%	1.14%	1.26%	1.24%	1.19%
Interest rate spread net of hedge ⁽¹⁵⁾	1.17%	1.21%	1.23%	1.35%	1.37%	1.28%
Interest rate spread net of hedge including Drop Income ⁽¹⁶⁾	1.28%	1.37%	1.36%	1.45%	1.43%	1.40%
Operating expense ratio ⁽¹⁷⁾	1.26%	1.42%	1.36%	1.48%	0.75%	1.30%
Total stockholder return on common equity ⁽¹⁸⁾	(12.36%)	5.13%	3.59%	3.85%	0.31%	2.39%
CPR: weighted average experienced 1-month ⁽¹⁹⁾	14.2%	14.0%	12.9%	7.6%	8.1%	10.2%

Footnotes appear on page 27

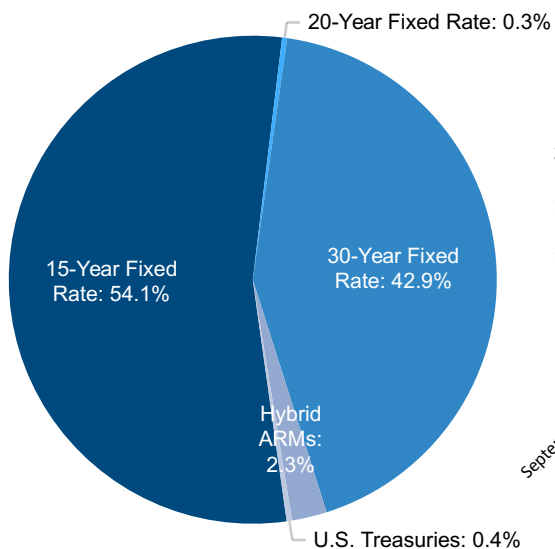
Q4 2016: Market Data

Security Type	9/30/2015	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016	Q3 2016 Δ to Q4 2016
15-Year Fannie Mae Fixed Rate MBS Prices							
2.5%	\$102.02	\$100.86	\$102.70	\$103.52	\$103.58	\$100.05	\$(3.53)
3.0%	\$104.17	\$103.08	\$104.52	\$104.86	\$104.98	\$102.48	\$(2.50)
3.5%	\$105.64	\$104.77	\$105.67	\$105.98	\$105.42	\$104.11	\$(1.31)
4.0%	\$104.73	\$104.17	\$104.20	\$103.73	\$103.20	\$102.95	\$(0.25)
30-Year Fannie Mae Fixed Rate MBS Prices							
3.0%	\$101.45	\$100.05	\$102.67	\$103.83	\$103.98	\$99.20	\$(4.78)
3.5%	\$104.39	\$103.23	\$104.92	\$105.55	\$105.55	\$102.33	\$(3.22)
4.0%	\$106.73	\$105.86	\$106.92	\$107.23	\$107.42	\$104.98	\$(2.44)
U.S. Treasuries ("UST") Rates							
2-Yr UST	0.63%	1.05%	0.72%	0.58%	0.76%	1.19%	0.43%
5-Yr UST	1.36%	1.76%	1.20%	1.00%	1.15%	1.93%	0.78%
7-Yr UST	1.74%	2.09%	1.53%	1.28%	1.42%	2.25%	0.83%
10-Yr UST	2.04%	2.27%	1.77%	1.47%	1.59%	2.44%	0.85%
2-Yr UST to 10-Yr UST Spread	1.41%	1.22%	1.05%	0.89%	0.83%	1.25%	0.42%
London Interbank Offered Rates ("LIBOR")							
1 Month LIBOR	0.19%	0.43%	0.44%	0.47%	0.53%	0.77%	0.24%
3 Month LIBOR	0.33%	0.61%	0.63%	0.65%	0.85%	1.00%	0.15%
Swap Rates							
2-Yr Swap	0.75%	1.18%	0.84%	0.73%	1.01%	1.45%	0.44%
5-Yr Swap	1.38%	1.74%	1.17%	0.98%	1.18%	1.98%	0.80%
7-Yr Swap	1.70%	1.95%	1.39%	1.15%	1.30%	2.16%	0.86%
10-Yr Swap	2.00%	2.19%	1.64%	1.36%	1.46%	2.34%	0.88%
30- and 15-Year Fannie Mae Yield Spread to Swap Rates							
30-Yr to 7-Yr Swap	1.10%	1.05%	1.18%	1.16%	1.06%	0.97%	(0.09)%
15-Yr to 5-Yr Swap	0.72%	0.57%	0.70%	0.71%	0.54%	0.50%	(0.04)%

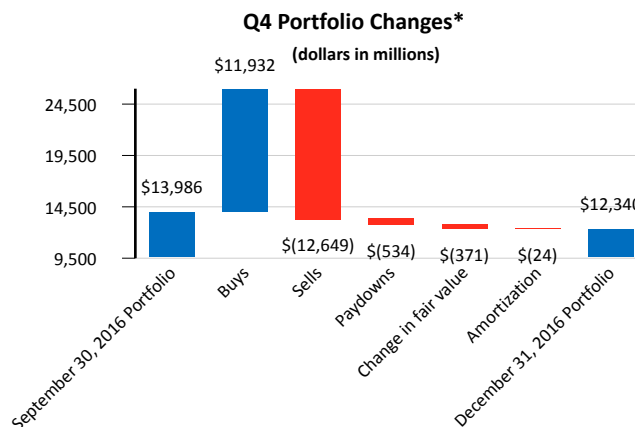
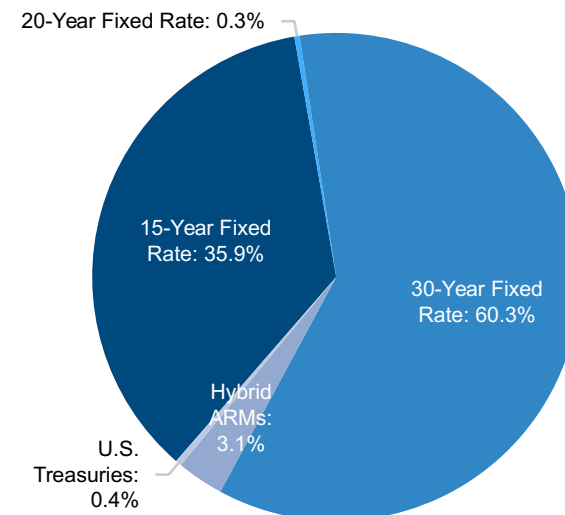
Source: Bloomberg

Portfolio at Fair Value

September 30, 2016
\$14.0B Portfolio*



December 31, 2016
\$12.3B Portfolio*



<i>(dollars in thousands)</i>	9/30/2016*	% of Portfolio	12/31/2016*	% of Portfolio	\$ Change	% Change
15-Year Fixed Rate	\$ 7,572,953	54.1%	\$ 4,443,735	35.9%	\$ (3,129,218)	-22%
20-Year Fixed Rate	46,353	0.3%	42,348	0.3%	(4,005)	0%
30-Year Fixed Rate	5,993,108	42.9%	7,418,624	60.3%	1,425,516	10%
Hybrid ARMs	323,851	2.3%	385,502	3.1%	61,651	0%
U.S. Treasuries	49,891	0.4%	49,686	0.4%	(205)	—%
Total	\$ 13,986,156	100.0%	\$ 12,339,895	100.0%	\$ (1,646,261)	-12.0%

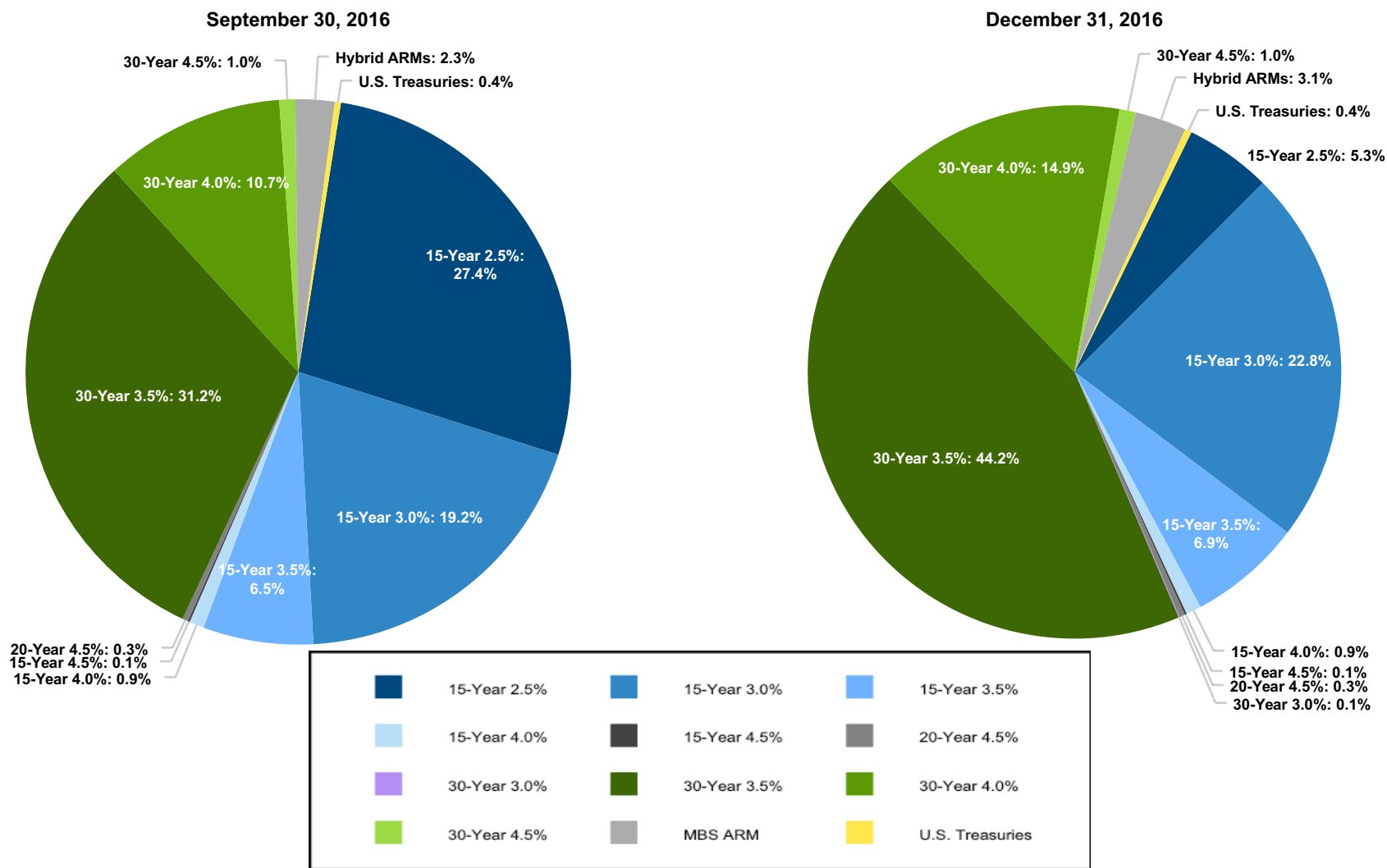
*Q4 portfolio changes include TBA dollar roll transactions whereby the Company is not contractually obligated to accept delivery on the settlement date ("TBA Derivatives") (\$7.3 billion, \$9.0 billion, and \$(47.1) million of buys, sells, and change in fair value, respectively). Fair value of net TBA Derivative positions at September 30, 2016 and December 31, 2016 was \$2.2 billion and \$(0.3) billion, respectively.

Portfolio Detail as of December 31, 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 RMBS							
Weighted-Average							
2.5%	\$1,046,887	\$1,049,504	\$102.78	\$276	4	5.4%	3.94
TBA 2.5%*	(400,000)	(400,633)	99.73	n/a	n/a	n/a	3.75
3.0%	2,540,786	2,610,678	102.68	263	27	13.0%	3.03
TBA 3.0%*	200,000	205,174	102.86	n/a	n/a	n/a	2.83
3.5%	813,323	849,549	102.98	215	52	14.6%	2.52
4.0%	108,173	114,207	101.03	167	70	14.7%	2.27
4.5%	14,439	15,256	102.23	240	83	19.3%	1.79
Subtotal	4,323,608	4,443,735	103.00	255	27	12.4%	3.05
20-Year Agency RMBS							
4.5%	39,328	42,348	102.66	209	77	19.6%	2.16
Subtotal	39,328	42,348	102.66	209	77	19.6%	2.16
30-Year Agency RMBS							
3.0%	1,776	1,802	104.51	130	43	0.2%	4.69
3.5%	4,934,357	5,062,330	104.48	338	8	9.5%	4.48
TBA 3.5%*	383,000	392,293	102.58	n/a	n/a	n/a	4.10
4.0%	1,247,116	1,314,969	104.93	244	30	22.0%	3.30
TBA 4.0%*	500,000	524,869	104.50	n/a	n/a	n/a	2.95
4.5%	113,274	122,361	106.63	282	68	21.7%	2.32
Subtotal	7,179,523	7,418,624	104.34	319	13	13.1%	4.12
Agency RMBS Hybrid							
2.8% ⁽⁴⁾	375,745	385,502	102.74	322	30	21.3%	2.16
Subtotal	375,745	385,502	102.74	322	30	21.3%	2.16
Agency RMBS Subtotal	11,918,204	12,290,209	103.80	293	20	13.1%	3.66
U.S. Treasuries							
0.6%	50,000	49,686	99.90	n/a	n/a	n/a	1.48
Subtotal	50,000	49,686	99.90	n/a	n/a	n/a	1.48
Portfolio Total	\$11,968,204	\$12,339,895	\$103.78	\$293	20	13.1%	3.66
As of September 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 RMBS	\$7,252,393	\$7,572,953	\$102.91	\$259	30	12.8%	2.51
20-Year Agency RMBS	42,226	46,353	102.70	214	74	19.2%	2.11
30-Year Agency RMBS	5,634,033	5,993,108	104.85	312	13	12.8%	2.75
Agency RMBS Hybrid ARMs	311,042	323,851	102.76	314	36	24.4%	1.64
U.S. Treasuries	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

*Includes fair value of net TBA Derivative positions of \$(0.3) billion and \$2.2 billion as of December 31, 2016 and September 30, 2016, respectively.

Portfolio Composition Summary*

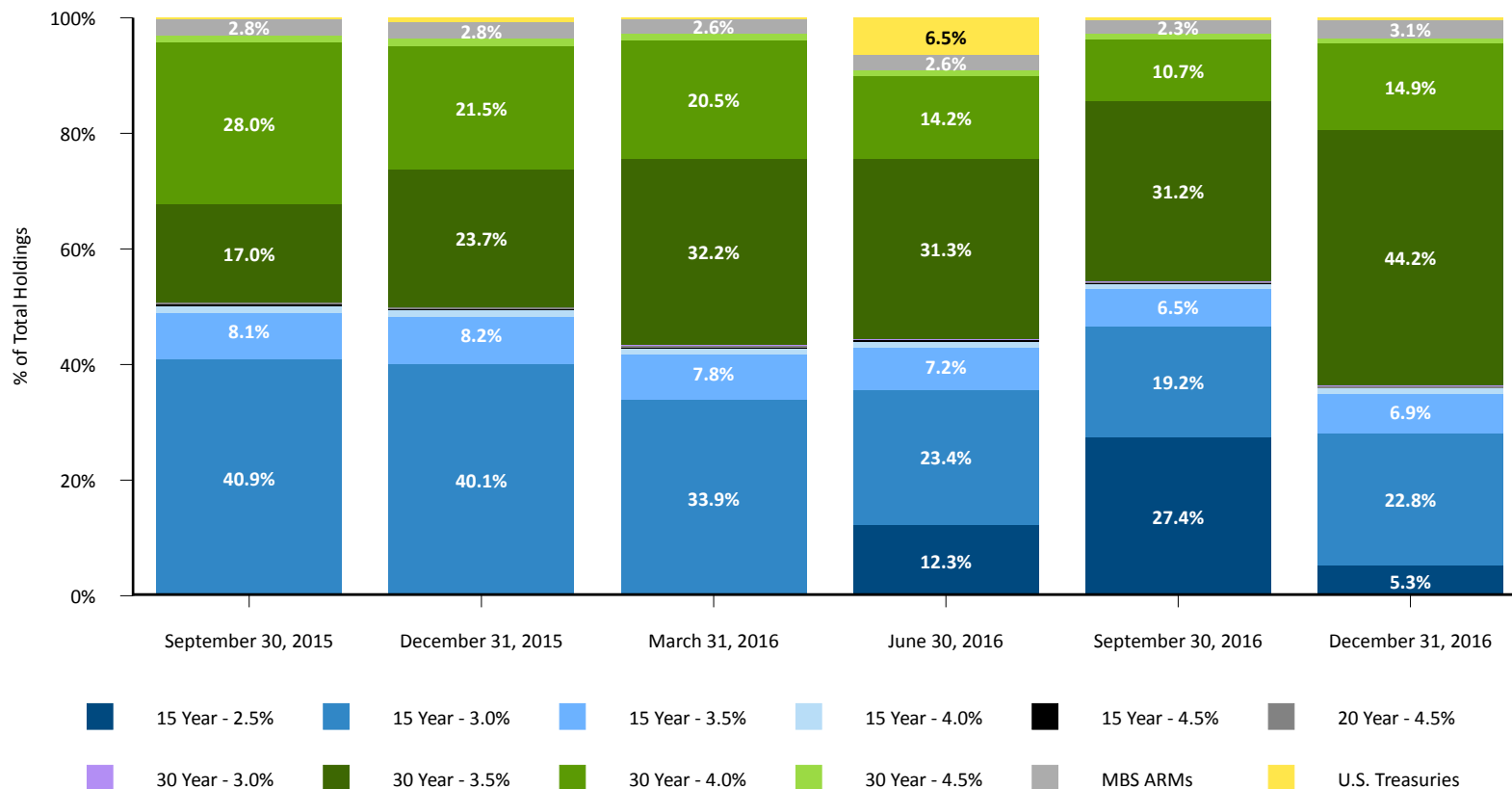


➤ In response to a steepening yield curve, the Company recycled out of lower coupon Agency RMBS into higher coupon Agency RMBS during the Fourth Quarter.

*Includes fair value of net TBA Derivative positions of \$2.2 billion and \$(0.3) billion as of September 30, 2016 and December 31, 2016, respectively.

Portfolio Composition Trends*

**CYS Portfolio Composition
Sept 2015 - Dec 2016**



*Includes fair value of net TBA Derivative positions of \$(0.3) billion, \$2.2 billion, \$0.8 million and \$0.3 million as of December 31, September 30, June 30, and March 31, 2016, respectively.

Hedging Summary: Interest Rate Swaps and Caps



Interest Rate Swaps												
December 31, 2016							September 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	\$6,675	(0.84)	0.93	0.92	0.01	\$ 2,500,000	\$707	(1.08)	0.93	0.80	0.13
> 3 to ≤ 5 Years	3,450,000	72,405	(3.73)	1.33	0.88	0.45	3,450,000	(25,240)	(4.08)	1.33	0.74	0.59
> 5 to ≤ 7 Years	500,000	1,528	(5.20)	1.98	0.88	1.10	500,000	(20,887)	(5.67)	1.98	0.78	1.20
Subtotal	\$ 6,450,000	\$80,608	(2.72)	1.23	0.89	0.34	\$ 6,450,000	\$(45,420)	(3.04)	1.23	0.77	0.46

Interest Rate Caps												
December 31, 2016							September 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	8,051	(1.46)	1.34	—	1.34	\$ 800,000	2,988	(1.01)	1.34	—	1.34
> 3 to ≤ 5 Years	1,700,000	34,481	(2.17)	1.25	—	1.25	1,700,000	12,929	(1.64)	1.25	—	1.25
> 5 to ≤ 7 Years	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	\$ 2,500,000	\$42,532	(1.94)	1.28	—	1.28	\$ 2,500,000	\$15,917	(1.44)	1.28	—	1.28

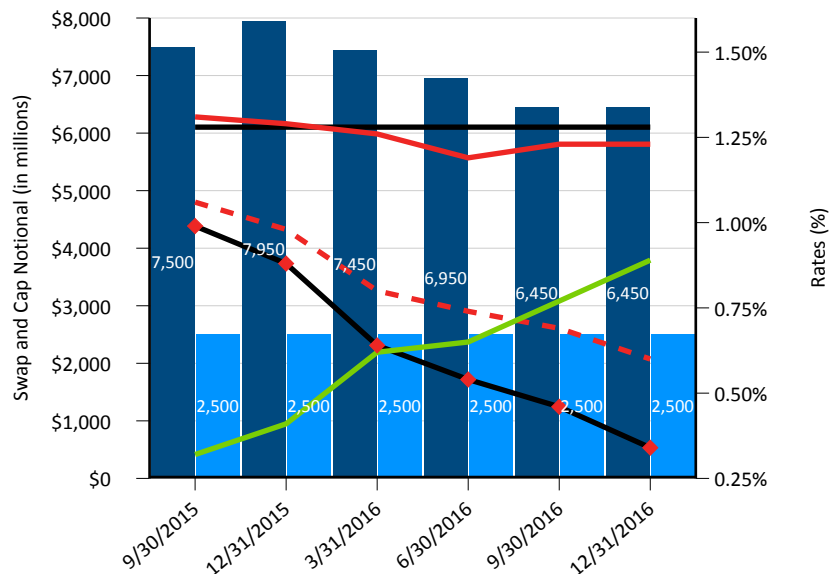
Total Interest Rate Swaps and Caps									
December 31, 2016					September 30, 2016				
	Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Net Swap and Cap Pay Rate	Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Net Swap and Cap Pay Rate	
Total	\$ 8,950,000	\$123,140	(2.50)	0.60	\$ 8,950,000	\$(29,503)	(2.59)	0.69	

- During the Fourth Quarter, we benefited from an increase in 3-Month LIBOR, which resulted in a decrease of the weighted-average net pay rate on swaps to 0.34%, from 0.46% in the prior quarter, while the fair value of swaps increased by approximately \$153 million during the Fourth Quarter.
- At December 31, 2016, the aggregate interest rate swaps and caps notional totaled approximately \$9.0 billion, constituting 92% of the Company's repurchase agreements and FHLBC Advances, compared to \$9.0 billion and 93%, respectively, at September 30, 2016.

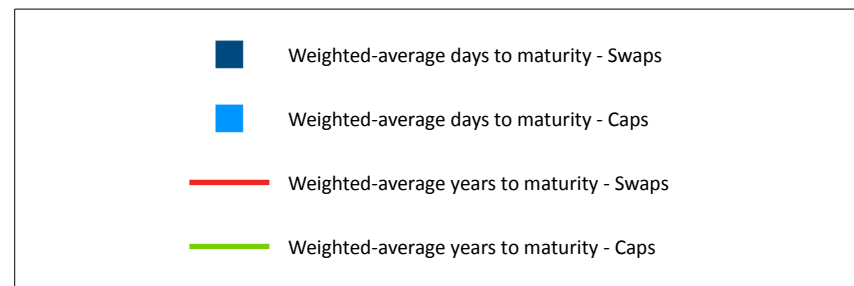
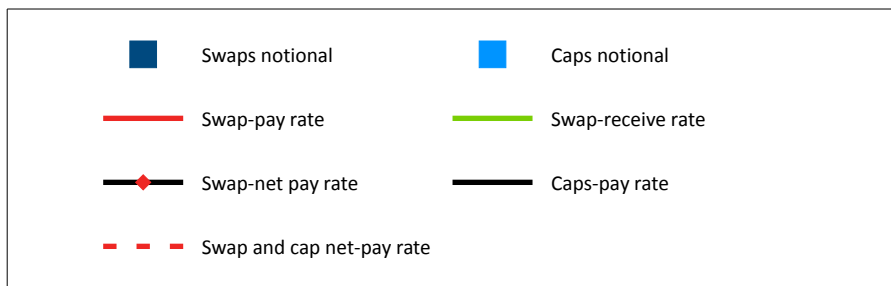
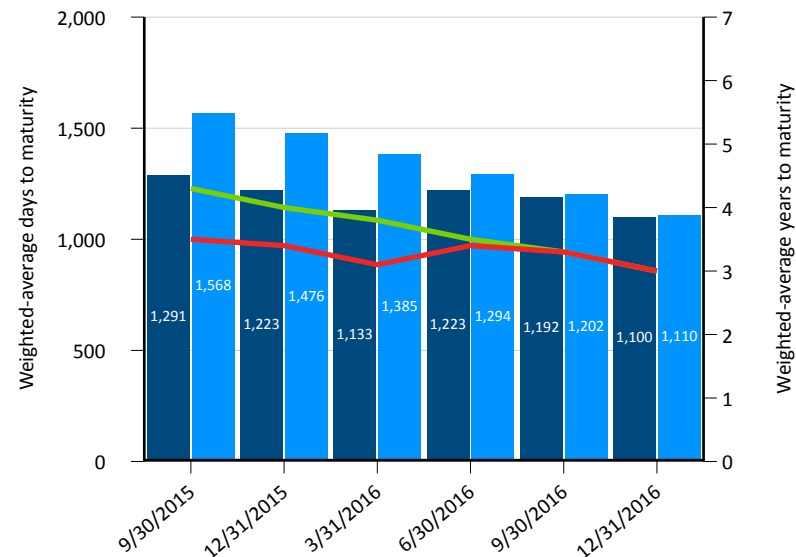
(1) Duration measures the market price volatility of financial instruments as interest rates change using DV01 methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for 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 Fourth Quarter, our overall net swap costs, as expressed by the swap and cap net-pay rate, decreased to 60 bps from 69 bps, primarily resulting from an increase in the receive leg of our swaps due to an increase in 3-Month LIBOR during the Fourth Quarter.
- The interest rate caps, notional and rate remained unchanged during the Fourth Quarter.

Sensitivity Analysis and Duration Gap

Interest Rate Sensitivity ⁽¹⁾					
December 31, 2016					
Interest Rate Change (bps)	Projected Change in Net Income		Projected Change in the Fair Value of Our Investments	Projected Change in Stockholders' Equity	Net Duration Gap ⁽⁴⁾
-75	19.81%	⁽²⁾⁽³⁾	0.71%	5.78%	0.01
-50	16.23%	⁽²⁾⁽³⁾	0.63%	5.13%	0.41
-25	12.20%	⁽²⁾⁽³⁾	0.38%	3.10%	0.76
—	—%		—%	—%	1.02
25	(10.08)%	⁽²⁾	(0.47)%	(3.83)%	1.21
50	(20.16)%	⁽²⁾	(1.01)%	(8.22)%	1.37
75	(30.24)%	⁽²⁾	(1.63)%	(13.21)%	1.54

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

- The Fed increased the Federal Funds Rate 25 bps during the Fourth Quarter and signaled three rate hikes in 2017.

Net Duration Gap

Net Duration Gap ⁽¹⁾					
(dollars in thousands)					
		As of December 31, 2016		As of September 30, 2016	
Component	Duration	Notional (Face Value)	Duration	Notional (Face Value)	
Interest rate swaps	(2.72)	\$ 6,450,000	(3.04)	\$ 6,450,000	
Interest rate caps	(1.94)	2,500,000	(1.44)	2,500,000	
Agency RMBS and U.S. Treasuries	3.66	11,968,204	2.59	13,289,694	
Net Duration Gap (years)	1.02		0.50		

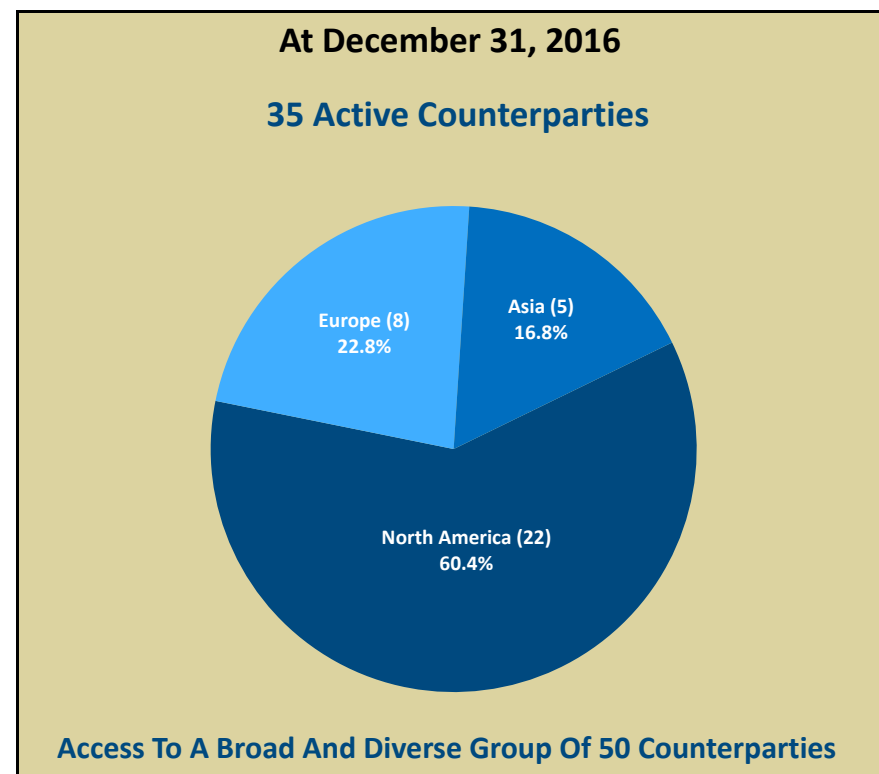
- The net duration gap increased to 1.02 at December 31, 2016 from 0.50 at September 30, 2016 as a direct result of an increase in interest rates during the Fourth Quarter.

(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.

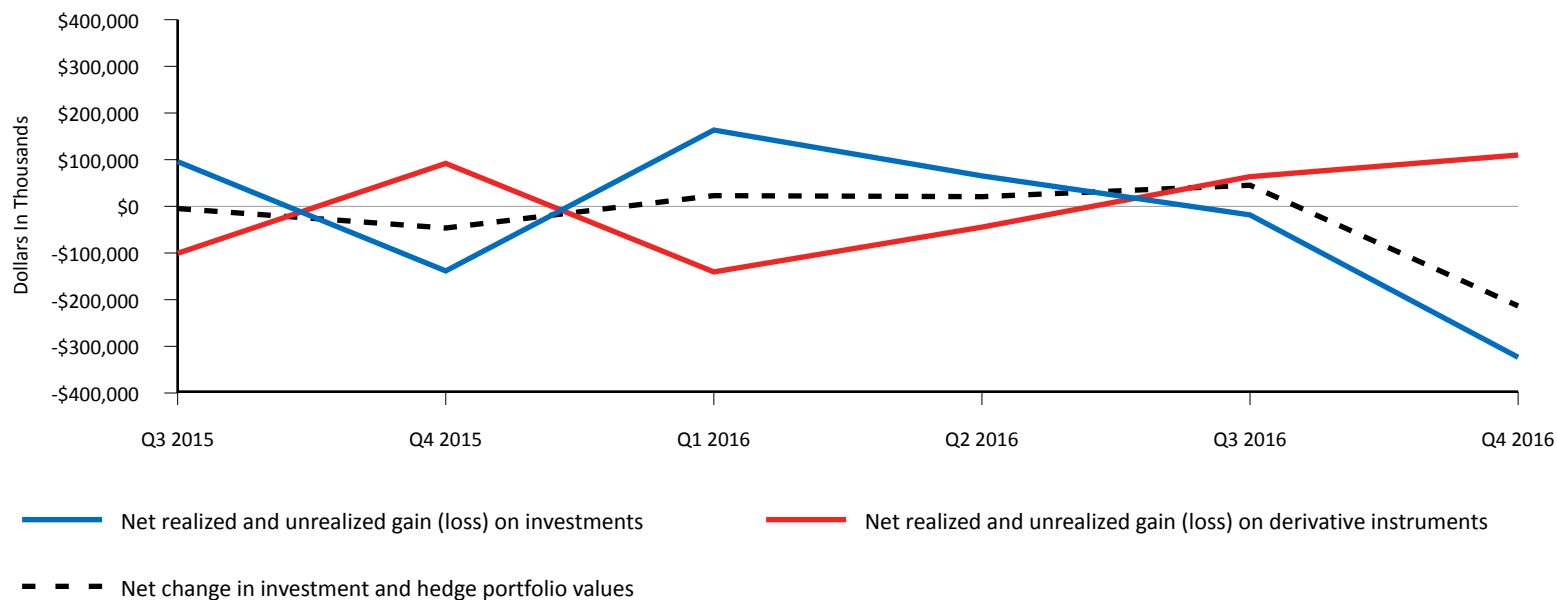
Financing Summary

Repo Borrowings Collateralized with Agency RMBS and U.S. Treasuries As of December 31, 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	\$ 651,032	7%	0.83%	5	11
> 30 to ≤ 60 Days	1,135,428	12%	0.89%	16	45
> 60 Days	7,905,084	81%	0.90%	63	139
Subtotal	\$ 9,691,544	100%	0.89%	53	119

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
Total/ Wtd.-Avg	\$ 9,620,641	100%	0.77%	68	103



- At December 31, 2016, the Company had borrowings from repurchase agreements ("repo borrowings") outstanding with 35 counterparties, and repo agreements in place with a total of 50 counterparties.
- Our average cost of funds during the Fourth Quarter increased to 0.81% with the increase in interest rates, from 0.68% during the prior quarter.
- At December 31, 2016, the weighted-average interest rate on outstanding repo borrowings was 0.89%, as compared to 0.77% at September 30, 2016.



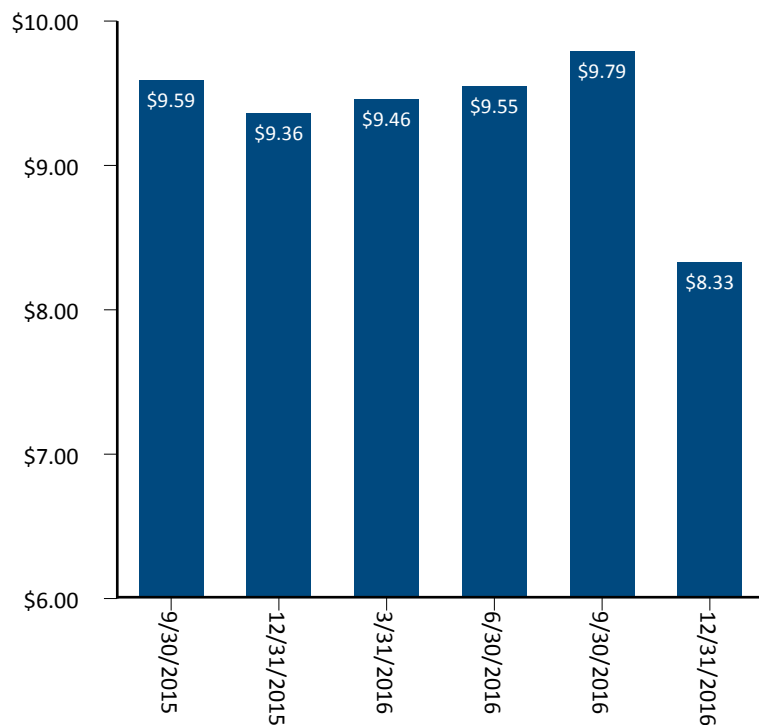
Net Change in Investment and Hedge Portfolio						
	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Net realized and unrealized gain (loss) on investments	\$95,822	\$(138,412)	\$163,488	\$65,274	\$(18,385)	\$(323,414)
Net realized and unrealized gain (loss) on derivative instruments*	(100,597)	91,986	(140,524)	(44,535)	63,625	109,951
Net change in investment and hedge portfolio	\$(4,775)	\$(46,426)	\$22,964	\$20,739	\$45,240	\$(213,463)

➤ The increase in interest rates during the Fourth Quarter caused a notable decrease in the value of our Investment portfolio, which was partially offset by an increase in the value of our derivatives.

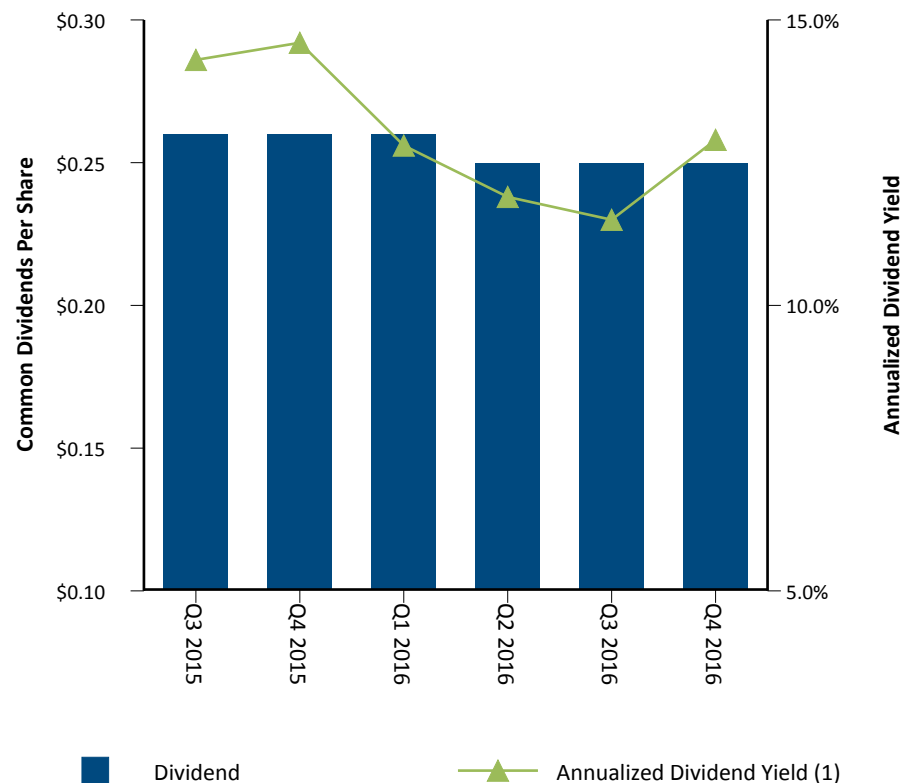
* Net realized and unrealized gain (loss) on derivative instruments includes net realized and unrealized gain (loss) on TBA Derivatives of \$(47.1) million, \$12.4 million, \$6.5 million and \$7.5 million in the Fourth Quarter, Q3 2016, Q2 2016, and Q1 2016, respectively.

Book Value and Common Stock Dividend Trends

Book Value Per Common Share



Common Stock Dividends

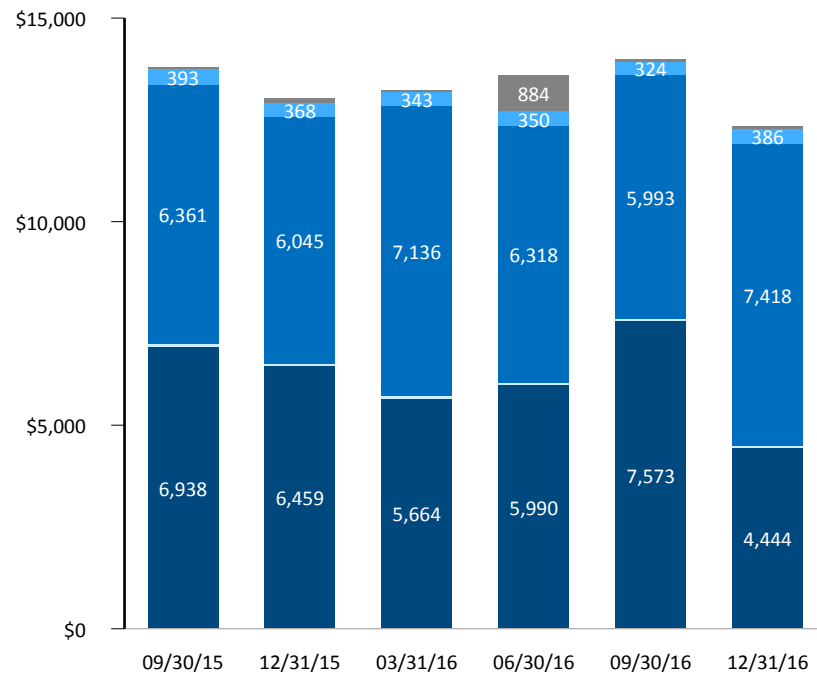


(1) The annualized dividend yield is calculated using the stock price at the respective quarter end.

Portfolio & Interest Rate Spread Trends

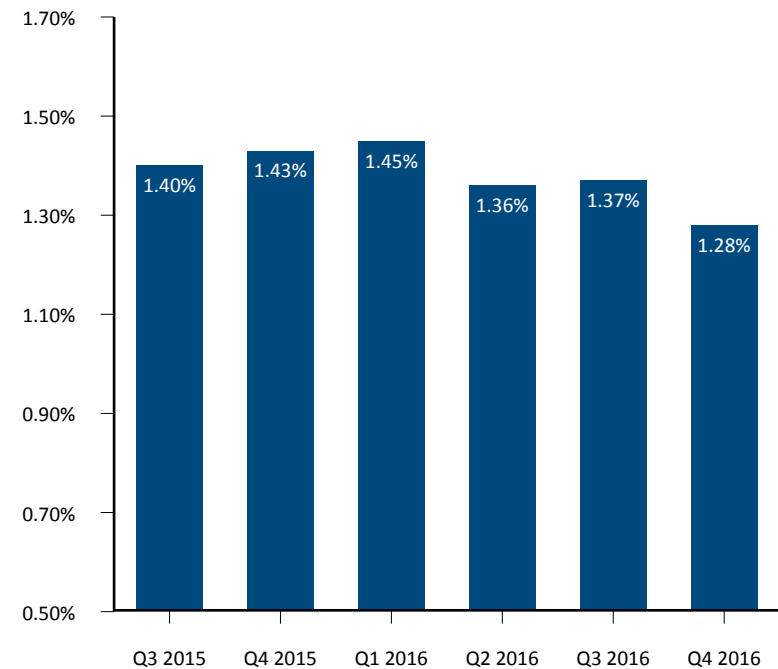
Debt Securities Portfolio at Fair Value

(dollars in millions)



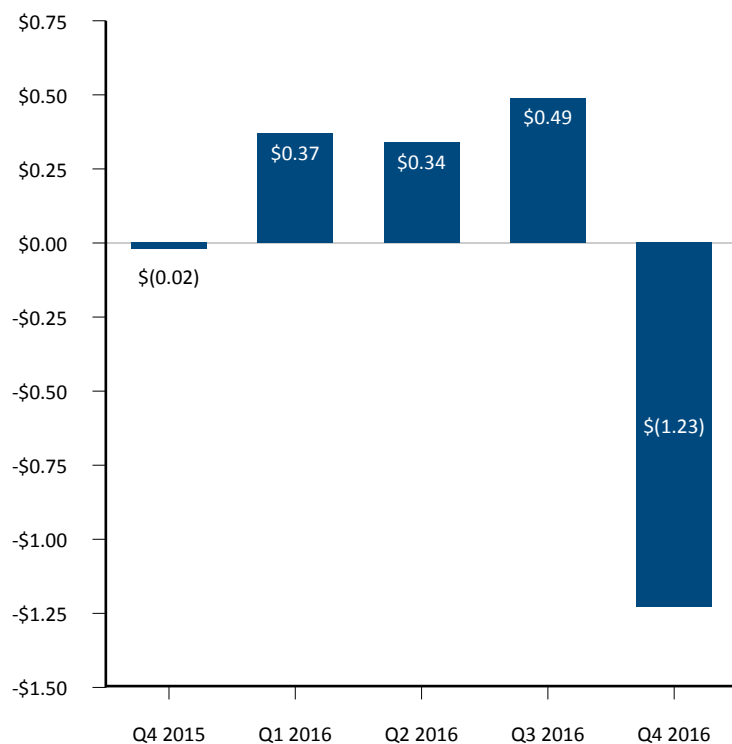
- 15-Year Agency RMBS
- 30-Year Agency RMBS
- Agency RMBS Hybrid ARMs
- U.S. Treasury Securities
- 20-Year Agency RMBS

Interest Rate Spread Net of Hedge Including Drop Income

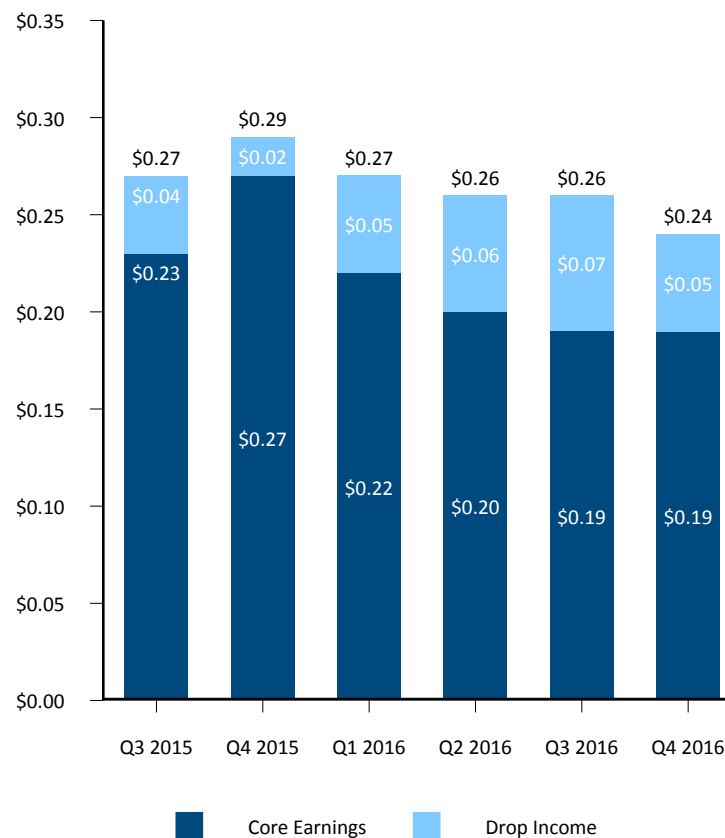


GAAP Net Income and Core Earnings Plus Drop Income

GAAP Net Income (Loss) Per Common Share

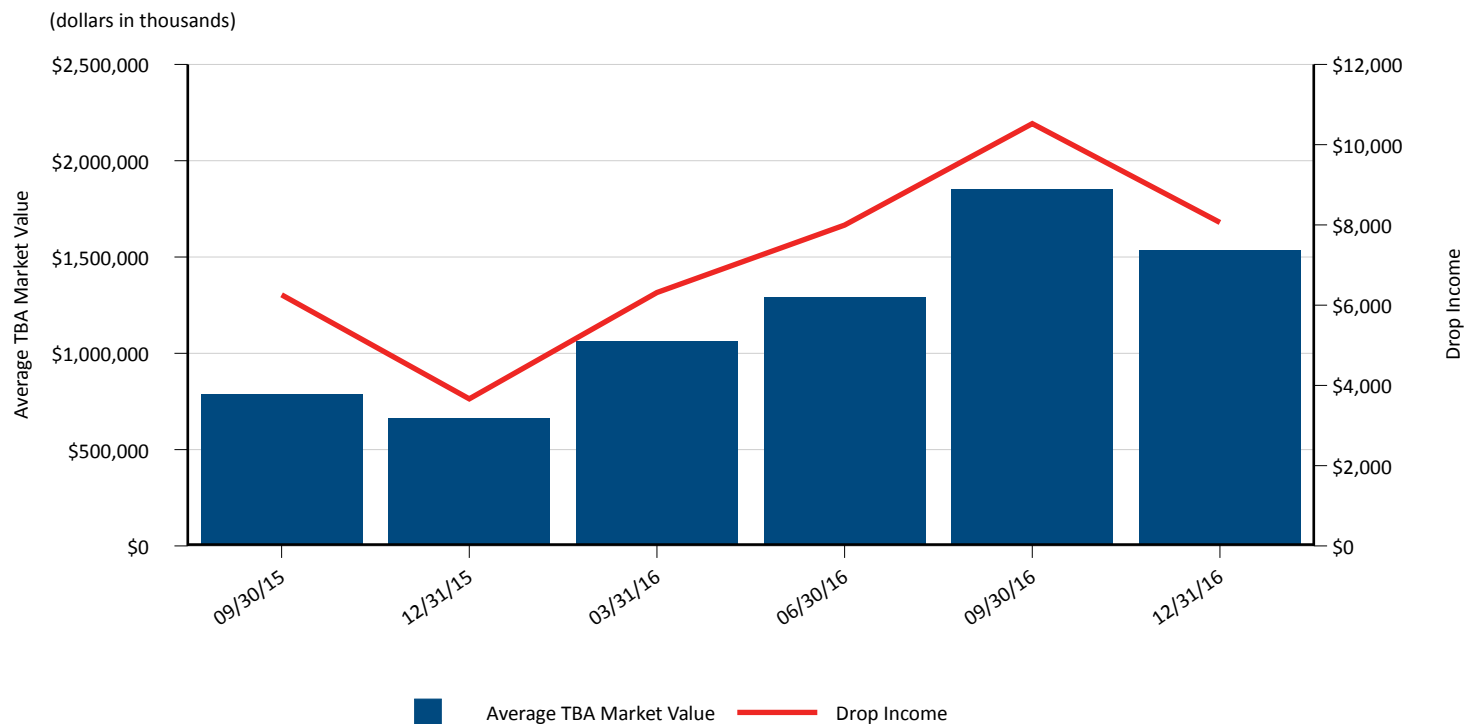


Core Earnings⁽¹⁾, Plus Drop Income Per Common Share



(1) A reconciliation of the non-GAAP financial measure Core Earnings can be found on page 25.

TBA and Drop Income Trends*

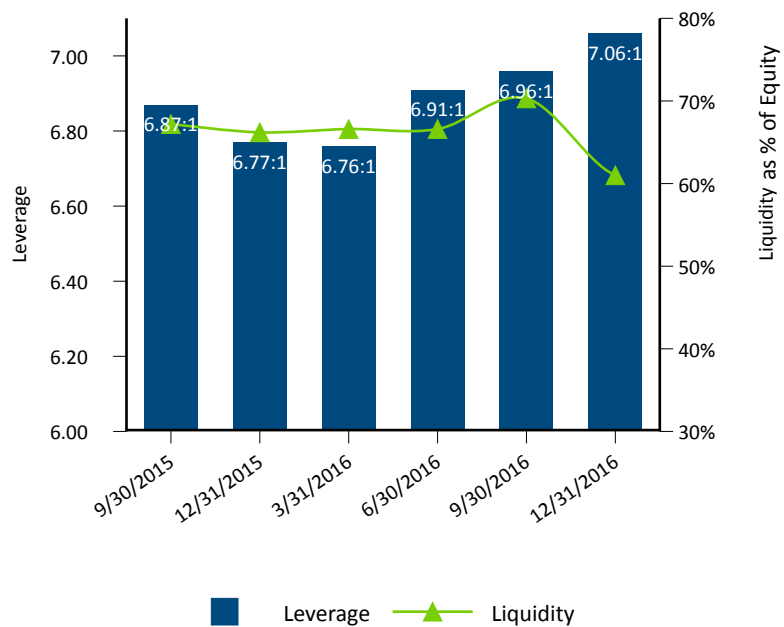


Average TBA Market Values and Drop Income						
(dollars in thousands)						
	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016*	Q4 2016*
Average TBA Market Value	\$ 787,630	\$ 661,319	\$ 1,060,866	\$ 1,290,798	\$ 1,851,353	\$ 1,534,878
Drop Income	\$ 6,258	\$ 3,665	\$ 6,315	\$ 7,996	\$ 10,524	\$ 8,061

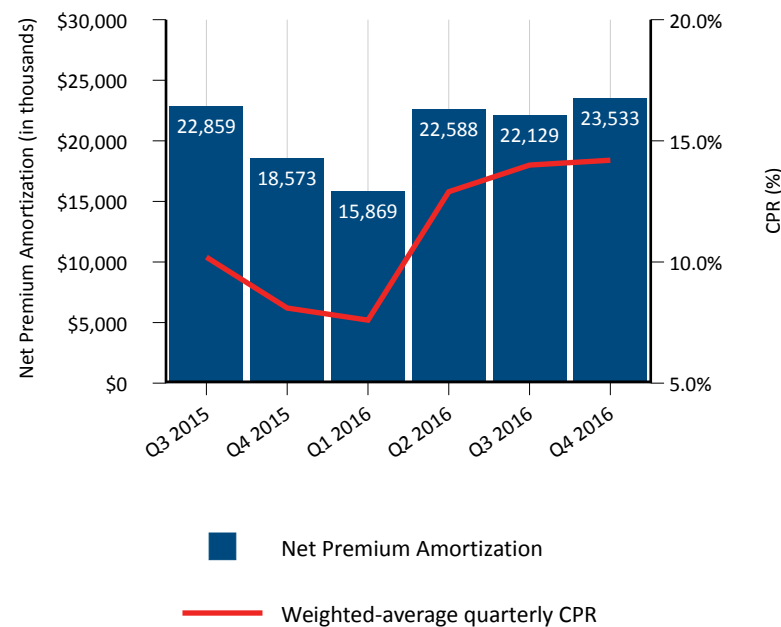
*Includes fair value of net TBA Derivative positions of \$(0.3) billion, \$2.2 billion, \$0.8 billion and \$0.3 billion as of December 31, September 30, June 30, and March 31, 2016, respectively.

Leverage, Liquidity, Amortization and CPR Trends

Leverage and Liquidity at Quarter-End*

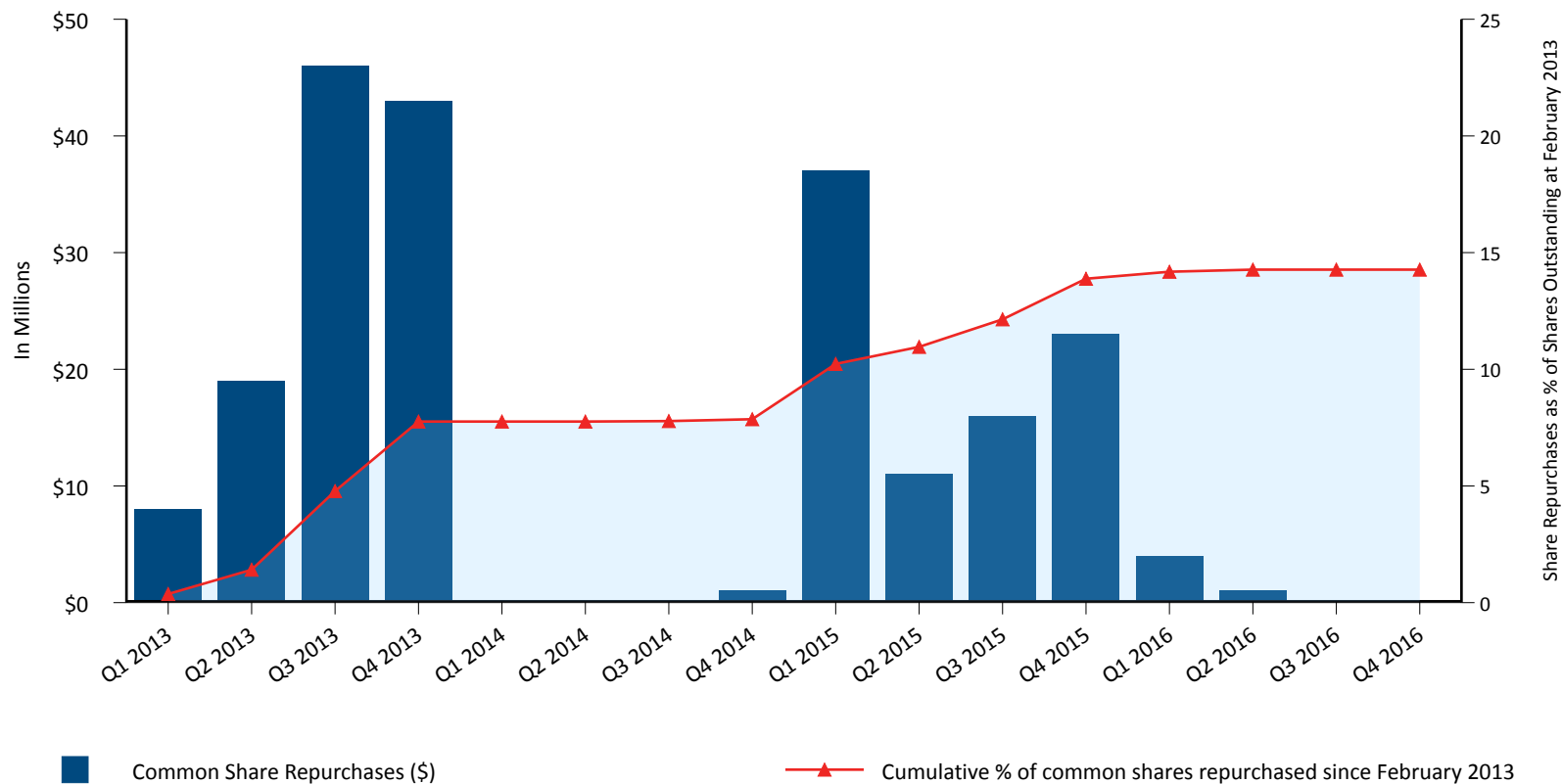


Amortization and CPR



* Leverage includes net TBA Derivative positions of \$(0.3) billion, \$2.2 billion, \$0.8 billion and \$0.3 billion as of December 31, September 30, June 30, and March 31, 2016, respectively.

Common Share Repurchase Activity



- During the Fourth Quarter, the Company did not repurchase any shares of its common stock.
- During 2016, the Company repurchased 673,166 shares of its common stock at a weighted-average price of \$7.85 per share.
- From inception of the share repurchase activity in February 2013 through December 31, 2016, the Company repurchased approximately 25.0 million shares of the Company's common stock, constituting 14.3% of the total shares outstanding at the time the share repurchase activity began, for approximately \$210.2 million.

Consolidated Balance Sheets

(dollars in 000's, except per share data)	As of					
	12/31/2016	9/30/2016	6/30/2016	03/31/2016	12/31/2015 ⁽¹⁾	9/30/2015
Assets:		(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)
Cash	\$ 1,260	\$ 2,192	\$ 13,182	\$ 6,262	\$ 9,982	\$ 28,622
Investments in securities, at fair value:						
Agency RMBS	12,599,045	11,742,018	11,879,933	12,888,430	12,927,996	13,752,033
U.S. Treasury securities	49,686	49,891	884,213	29,972	99,711	25,266
Receivable for securities sold and principal repayments	409,849	2,598	1,507	1,586	1,084,844	247,207
Receivable for cash pledged as collateral	600	63,464	97,309	85,097	21,751	71,655
Interest receivable	31,825	33,273	32,460	34,033	34,563	36,518
Derivative assets, at fair value	142,556	29,869	24,650	32,701	100,778	53,995
Other investments	8,028	8,028	31,028	34,028	50,028	50,028
Other assets	2,419	2,787	1,625	1,219	1,051	1,250
Total assets	\$ 13,245,268	\$ 11,934,120	\$ 12,965,907	\$ 13,113,328	\$ 14,330,704	\$ 14,266,574
Liabilities and stockholders' equity:						
Liabilities:						
Repurchase agreements	\$ 9,691,544	\$ 9,620,641	\$ 9,849,501	\$ 9,656,969	\$ 8,987,776	\$ 9,252,681
FHLBC Advances, at fair value	—	—	575,000	649,553	2,098,701	2,100,737
Payable for securities purchased	1,881,963	424,476	652,619	937,163	1,475,974	980,615
Payable for cash received as collateral	91,503	10,882	4,826	9,141	18,534	38,641
Accrued interest payable	27,908	21,521	20,307	20,020	32,588	18,453
Accrued expenses and other liabilities	6,170	6,111	4,857	3,113	4,083	5,647
Dividends payable	4,410	42,264	42,259	43,809	4,410	44,659
Derivative liabilities, at fair value	6,051	50,240	95,529	85,461	14,024	65,317
Total liabilities	11,709,549	10,176,135	11,244,898	11,405,229	12,636,090	12,506,750
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, 151M, 152M and 155M shares issued and outstanding, respectively)	1,514	1,514	1,514	1,515	1,517	1,548
Additional paid in capital	1,944,908	1,943,952	1,942,930	1,943,177	1,946,419	1,987,501
Retained earnings (accumulated deficit)	(676,603)	(453,381)	(489,335)	(502,493)	(519,222)	(495,125)
Total stockholders' equity	1,535,719	1,757,985	1,721,009	1,708,099	1,694,614	1,759,824
Total liabilities and stockholders' equity	\$ 13,245,268	\$ 11,934,120	\$ 12,965,907	\$ 13,113,328	\$ 14,330,704	\$ 14,266,574
Book value per common share	\$ 8.33	\$ 9.79	\$ 9.55	\$ 9.46	\$ 9.36	\$ 9.59

(1) Derived from audited consolidated financial statements.

Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended					
	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015
Interest income:						
Agency RMBS	\$ 66,996	\$ 68,602	\$ 74,176	\$ 81,323	\$ 84,831	\$ 83,816
Other	1,572	1,059	681	128	1,000	166
Total interest income	68,568	69,661	74,857	81,451	85,831	83,982
Interest expense:						
Repurchase agreements	20,168	17,265	16,910	15,886	11,250	10,232
FHLBC Advances	—	214	1,777	2,059	2,714	2,029
Total interest expense	20,168	17,479	18,687	17,945	13,964	12,261
Net interest income	48,400	52,182	56,170	63,506	71,867	71,721
Other income (loss):						
Net realized gain (loss) on investments	(36,253)	18,155	36,359	1,202	(3,704)	(10,332)
Net unrealized gain (loss) on investments	(287,161)	(36,540)	28,915	162,286	(134,708)	106,154
Net unrealized gain (loss) on FHLBC advances	—	—	(448)	(851)	2,036	(726)
Other income	203	308	387	463	409	300
Net realized and unrealized gain (loss) on investments, FHLBC Advances and other income	(323,211)	(18,077)	65,213	163,100	(135,967)	95,396
Swap and cap interest expense	(10,128)	(12,493)	(14,779)	(18,398)	(22,969)	(24,681)
Net realized and unrealized gain (loss) on derivative instruments	109,951	63,625	(44,535)	(140,524)	91,986	(100,597)
Net gain (loss) on derivative instruments	99,823	51,132	(59,314)	(158,922)	69,017	(125,278)
Total other income (loss)	(223,388)	33,055	5,899	4,178	(66,950)	(29,882)
Expenses:						
Compensation and benefits	1,885	3,619	3,565	3,865	1,200	3,655
General, administrative and other	3,287	2,608	2,294	2,488	2,069	2,157
Total operating expenses	5,172	6,227	5,859	6,353	3,269	5,812
Net income (loss)	\$ (180,160)	\$ 79,010	\$ 56,210	\$ 61,331	\$ 1,648	\$ 36,027
Dividends on preferred stock	(5,203)	(5,203)	(5,203)	(5,203)	(5,204)	(5,203)
Net income (loss) available to common stockholders	\$ (185,363)	\$ 73,807	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824
Net income (loss) per common share	\$ (1.23)	\$ 0.49	\$ 0.34	\$ 0.37	\$ (0.02)	\$ 0.20

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 Earnings, plus Drop Income for the periods presented.

(in 000's, except per share data) (Unaudited)	Three Months Ended					
	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015
Net income (loss) available to common stockholders	\$ (185,363)	\$ 73,807	\$ 51,007	\$ 56,128	\$ (3,556)	\$ 30,824
Net realized (gain) loss on investments	36,253	(18,155)	(36,359)	(1,202)	3,704	10,332
Net unrealized (gain) loss on investments	287,161	36,540	(28,915)	(162,286)	134,708	(106,154)
Net realized and unrealized (gain) loss on derivative instruments	(109,951)	(63,625)	44,535	140,524	(91,986)	100,597
Net unrealized (gain) loss on FHLBC Advances	—	—	448	851	(2,036)	726
Core Earnings ⁽¹⁾	\$ 28,100	\$ 28,567	\$ 30,716	\$ 34,015	\$ 40,834	\$ 36,325
Core Earnings per average share	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.22	\$ 0.27	\$ 0.23
Drop Income ⁽²⁾	8,061	10,524	7,996	6,315	3,665	6,258
Core Earnings plus Drop Income	\$ 36,161	\$ 39,091	\$ 38,712	\$ 40,330	\$ 44,499	\$ 42,583
Core Earnings plus Drop Income per share	\$ 0.24	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.29	\$ 0.27

Footnotes appear on page 29.

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					
	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015
Net interest income	\$ 48,400	\$ 52,182	\$ 56,170	\$ 63,506	\$ 71,867	\$ 71,721
Swap and cap interest expense	10,128	12,493	14,779	18,398	22,969	24,681
Economic Net Interest Income ⁽¹⁾	\$ 38,272	\$ 39,689	\$ 41,391	\$ 45,108	\$ 48,898	\$ 47,040
Total interest expense	\$ 20,168	\$ 17,479	\$ 18,687	\$ 17,945	\$ 13,964	\$ 12,261
Swap and cap interest expense ⁽²⁾	10,128	12,493	14,779	18,398	22,969	24,681
Economic Interest Expense ⁽³⁾	\$ 30,296	\$ 29,972	\$ 33,466	\$ 36,343	\$ 36,933	\$ 36,942

Footnotes appear on page 29.

Footnotes: Pages 3 and 5

Footnotes Page 3, Summary Q4 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, 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 25.
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, is 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 net TBA Derivative positions by (ii) stockholders' equity.
8. The CPR represents the weighted-average 1-month actual experienced 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 5, 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 net TBA Derivative 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 \$8.1 million, \$10.5 million, \$8.0 million, \$6.3 million, \$3.7 million and \$6.3 million and for Q4 2016, Q3 2016, Q2 2016, Q1 2016, Q4 2015, and Q3 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: Pages 8 and 12

Footnotes Page 8, Portfolio Detail as of December 31, 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 December 31, 2016 and September 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 13, 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 December 31, 2016 and September 30, 2016, we reduced 3-month LIBOR and our repo borrowing rates by 10, 20 and 30 bps and by 10, 20 and 25 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: Pages 25 and 26

Footnotes Page 25, 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. 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 portfolio structure. 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 26, 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. From the Company's inception through September 30, 2015, "Swap and cap interest expense" was recognized as a separate component of "Total interest expense" in the company's consolidated statements of operation. Effective October 1, 2015 "Swap and cap interest expense" is 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.
3. 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.