



Supplemental Earnings Presentation
Third Quarter 2017
October 25, 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, anticipated earnings, book value volatility, the effect of actual or proposed actions of the U.S. Federal Reserve (the "Fed"), changes in the constant prepayment rate ("CPR") experienced by the Company's agency residential mortgage-backed securities ("Agency RMBS"), the effects of interest rate swaps and caps, and various other risks and uncertainties related to our business and the economy, some of which are described in our filings with the Securities and Exchange Commission. Given these uncertainties, you should not rely on forward-looking information. Except as required by law, the Company undertakes no obligation to update any forward-looking information, whether as a result of new information, future events or otherwise.

Summary Q3 2017 Results



Performance Indicator	Current Quarter Q3 2017 Versus Prior Quarter Q2 2017
Yield Curve and Current Investment Environment	During the third quarter of 2017 (the "Third Quarter") Agency RMBS prices remained firm, despite the Fed's announced balance sheet normalization program. After 7 basis points ("bps") of flattening between 2-Year and 10-Year U.S. Treasuries during the Third Quarter, at current leverage and hedging levels, levered returns on our target assets currently range from the mid-single digits to low teens.
Book Value Per Common Share	At September 30, 2017, book value per common share of \$8.60 ⁽¹⁾ , an increase of \$0.29 per common share from the June 30, 2017 book value per common share of \$8.31 ⁽¹⁾ , after declaring a per share dividend of \$0.25 during the Third Quarter.
Dividends Per Common Share	Declared a quarterly dividend per common share of \$0.25 during the Third Quarter, unchanged from the Second Quarter of 2017 (the "Prior Quarter"), representing an annualized dividend yield of 11.6% and 11.9%, based upon the closing price per common share of \$8.64 and \$8.41 at September 30, 2017 and June 30, 2017, respectively.
GAAP Net Income (Loss) Available to Common Shareholders	GAAP net income (loss) available to common stockholders of \$83.0 million, or \$0.54 per diluted common share, compared to net income of \$45.0 million, or \$0.30 per diluted common share for the Prior Quarter.
Core Earnings, Plus Drop Income	Core Earnings ⁽²⁾ plus Drop Income ⁽³⁾ of \$37.0 million (\$29.8 million Core Earnings and \$7.2 million Drop Income), or \$0.24 per diluted common share (\$0.19 Core Earnings and \$0.05 Drop Income), as compared to \$40.6 million (\$31.9 million Core Earnings and \$8.7 million Drop Income), or \$0.27 per diluted common share (\$0.21 Core Earnings and \$0.06 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 1.32% ⁽⁴⁾ for the Third Quarter, a 17 bps decrease from 1.49% in the Prior Quarter.
Operating Expense Ratio	Operating expense ratio of 1.31% ⁽⁵⁾ , as compared to 1.40% during the Prior Quarter.
Weighted-Average Amortized Cost	Weighted-average amortized cost of Agency RMBS and U.S. Treasuries ⁽⁶⁾ (collectively, "Debt Securities") of \$103.01 at September 30, 2017, compared to \$103.31 at June 30, 2017.
Leverage and Hedge Ratios	Leverage ratio ⁽⁷⁾ decreased to 7.02:1 at September 30, 2017 from 7.20:1 at June 30, 2017. Hedge ratio decreased to 86% at September 30, 2017, from 97% at June 30, 2017.
Weighted-Average Quarterly Constant Prepayment Rate (CPR)	A weighted-average quarterly CPR ⁽⁸⁾ of 9.5% for the Third Quarter, as compared to 7.5% during the Prior Quarter.
Total Stockholder Return (Loss) on Common Equity	Total stockholder return on common equity ⁽⁹⁾ of 6.50% and 3.63% for the Third Quarter and the Prior Quarter, respectively.

Footnotes appear on page 25.

Key Balance Sheet and Performance Metrics

Key Balance Sheet Metrics (in thousands)	Three Months Ended					
	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Average settled Debt Securities ⁽¹⁾	\$ 11,335,599	\$ 10,796,064	\$ 10,819,433	\$ 11,484,017	\$ 11,725,021	\$ 11,887,351
Average total Debt Securities ⁽²⁾	\$ 12,722,188	\$ 12,479,401	\$ 12,485,920	\$ 13,207,856	\$ 13,596,739	\$ 13,230,800
Average repurchase agreements and FHLBC Advances ⁽³⁾	\$ 9,820,318	\$ 9,276,572	\$ 9,264,522	\$ 9,905,199	\$ 10,223,051	\$ 10,412,784
Average Debt Securities liabilities ⁽⁴⁾	\$ 11,206,907	\$ 10,959,909	\$ 10,931,009	\$ 11,629,038	\$ 12,094,769	\$ 11,756,233
Average stockholders' equity ⁽⁵⁾	\$ 1,570,974	\$ 1,550,906	\$ 1,539,245	\$ 1,646,903	\$ 1,749,543	\$ 1,725,879
Average common shares outstanding ⁽⁶⁾	152,487	151,729	151,572	151,434	151,414	151,452
Leverage ratio (at period end) ⁽⁷⁾	7.02:1	7.20:1	7.15:1	7.06:1	6.96:1	6.91:1
Hedge ratio ⁽⁸⁾	86%	97%	99%	92%	93%	91%
Book value per common share (at period end) ⁽⁹⁾	\$8.60	\$8.31	\$8.26	\$8.33	\$9.79	\$9.55
Weighted-average amortized cost of Agency RMBS and U.S. Treasuries ⁽¹⁰⁾	\$103.01	\$103.31	\$103.26	\$103.78	\$103.72	\$103.42

Key Performance Metrics*	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Average yield on settled Debt Securities ⁽¹¹⁾	2.79%	2.86%	2.71%	2.39%	2.38%	2.52%
Average yield on total Debt Securities including Drop Income ⁽¹²⁾	2.71%	2.75%	2.65%	2.32%	2.36%	2.50%
Average cost of funds ⁽¹³⁾	1.30%	1.13%	0.92%	0.81%	0.68%	0.72%
Average cost of funds and hedge ⁽¹⁴⁾	1.59%	1.49%	1.28%	1.22%	1.17%	1.29%
Adjusted average cost of funds and hedge ⁽¹⁵⁾	1.39%	1.26%	1.08%	1.04%	0.99%	1.14%
Interest rate spread net of hedge ⁽¹⁶⁾	1.20%	1.37%	1.43%	1.17%	1.21%	1.23%
Interest rate spread net of hedge including Drop Income ⁽¹⁷⁾	1.32%	1.49%	1.57%	1.28%	1.37%	1.36%
Operating expense ratio ⁽¹⁸⁾	1.31%	1.40%	1.61%	1.26%	1.42%	1.36%
Total stockholder return on common equity ⁽¹⁹⁾	6.50%	3.63%	2.16%	(12.36%)	5.13%	3.59%
CPR: weighted-average experienced 1-month ⁽²⁰⁾	9.5%	7.5%	8.1%	14.2%	14.0%	12.9%

Footnotes appear on page 25

* All percentages are annualized except total stockholder return on common equity.

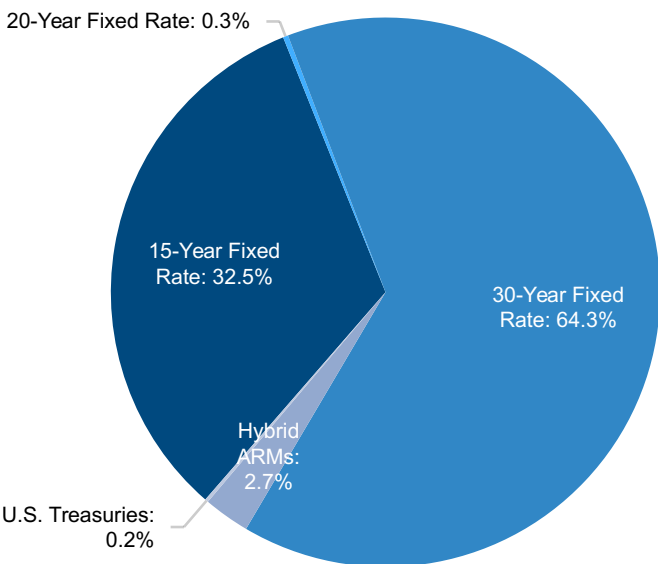
Q3 2017: Market Data

Security Type	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	Q2 2017 Δ to Q3 2017
15-Year Fannie Mae Fixed Rate MBS Prices							
2.5%	\$103.52	\$103.58	\$100.05	\$100.08	\$100.48	\$100.67	\$0.19
3.0%	\$104.86	\$104.98	\$102.48	\$102.55	\$102.61	\$102.73	\$0.12
3.5%	\$105.98	\$105.42	\$104.11	\$104.11	\$104.05	\$104.14	\$0.09
4.0%	\$103.73	\$103.20	\$102.95	\$103.36	\$103.45	\$103.27	\$(0.18)
30-Year Fannie Mae Fixed Rate MBS Prices							
3.0%	\$103.83	\$103.98	\$99.20	\$99.23	\$99.83	\$100.27	\$0.44
3.5%	\$105.55	\$105.55	\$102.33	\$102.36	\$102.67	\$103.05	\$0.38
4.0%	\$107.23	\$107.42	\$104.98	\$104.95	\$105.14	\$105.27	\$0.13
U.S. Treasuries ("UST") Yield							
2-Yr UST	0.58%	0.76%	1.19%	1.25%	1.38%	1.48%	0.10%
5-Yr UST	1.00%	1.15%	1.93%	1.92%	1.89%	1.94%	0.05%
7-Yr UST	1.28%	1.42%	2.25%	2.21%	2.14%	2.17%	0.03%
10-Yr UST	1.47%	1.59%	2.44%	2.39%	2.30%	2.33%	0.03%
2-Yr UST to 10-Yr UST Spread	0.89%	0.83%	1.25%	1.14%	0.92%	0.85%	(0.07)%
London Interbank Offered Rates ("LIBOR")							
1 Month LIBOR	0.47%	0.53%	0.77%	0.98%	1.22%	1.23%	0.01%
3 Month LIBOR	0.65%	0.85%	1.00%	1.15%	1.30%	1.33%	0.03%
Swap Rates							
2-Yr Swap	0.73%	1.01%	1.45%	1.62%	1.62%	1.74%	0.12%
5-Yr Swap	0.98%	1.18%	1.98%	2.05%	1.96%	2.00%	0.04%
7-Yr Swap	1.15%	1.30%	2.16%	2.22%	2.11%	2.14%	0.03%
10-Yr Swap	1.36%	1.46%	2.34%	2.38%	2.28%	2.29%	0.01%
30- and 15-Year Fannie Mae Yield Spread to Swap Rates							
30-Yr to 7-Yr Swap	1.16%	1.06%	0.97%	0.91%	0.92%	0.83%	(0.09)%
15-Yr to 5-Yr Swap	0.71%	0.54%	0.50%	0.43%	0.44%	0.34%	(0.10)%

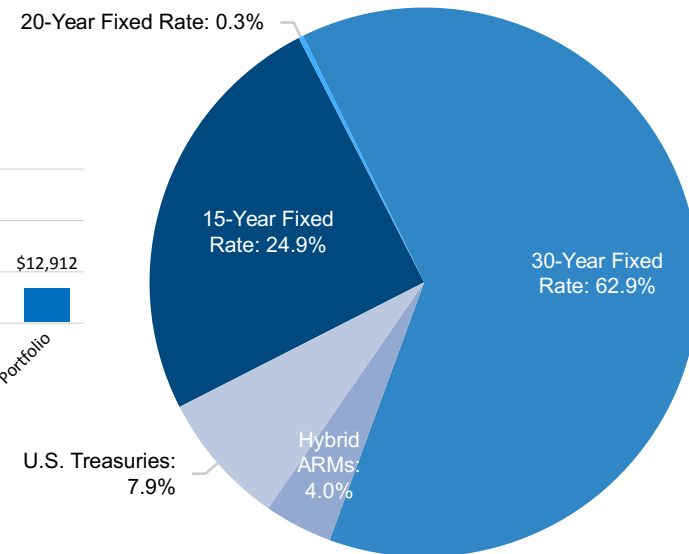
- Agency RMBS prices remained firm during the Third Quarter, despite a marginal increase in U.S. Treasury yields.
- There was minimal interest rate volatility during the Third Quarter. Agency RMBS outperformed both Treasury and swap yields.

Portfolio at Fair Value

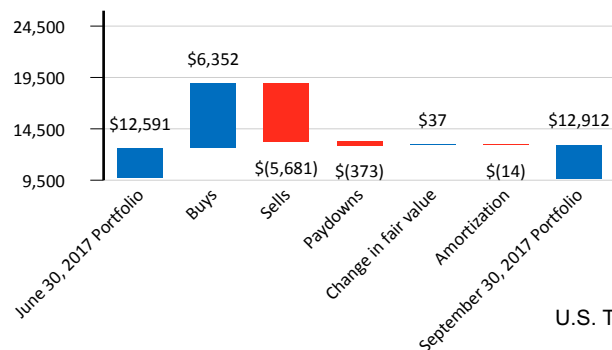
June 30, 2017
\$12.6B Portfolio*



September 30, 2017
\$12.9B Portfolio*



Q3 2017 Portfolio Changes*
(dollars in millions)



(dollars in thousands)	6/30/2017*	% of Portfolio	9/30/2017*	% of Portfolio	\$ Change	% Change
15-Year Fixed Rate	\$ 4,096,032	32.5%	\$ 3,221,097	24.9%	\$ (874,935)	(7)%
20-Year Fixed Rate	38,034	0.3%	35,930	0.3%	(2,104)	—%
30-Year Fixed Rate	8,090,392	64.3%	8,118,117	62.9%	27,725	—%
Hybrid ARMs	341,811	2.7%	518,786	4.0%	176,975	1%
U.S. Treasuries	24,841	0.2%	1,017,964	7.9%	993,123	8%
Total	\$ 12,591,110	100.0%	\$ 12,911,894	100.0%	\$ 320,784	2.0%

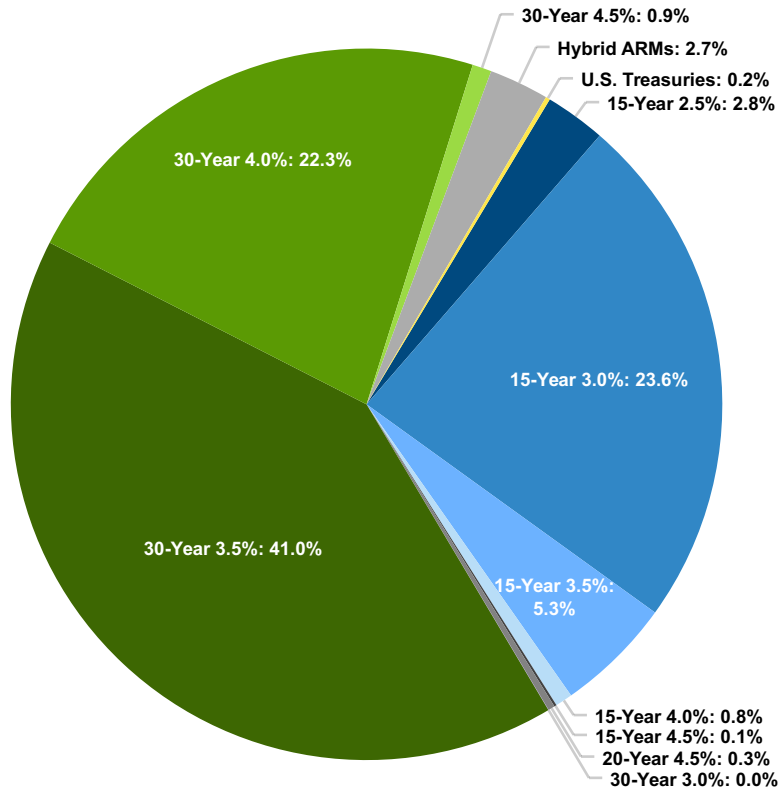
*Q3 2017 portfolio changes include to be announced ("TBA") dollar roll transactions whereby the Company is not contractually obligated to accept delivery on the settlement date ("TBA Derivatives") (\$3.6 billion, \$6.5 billion, and \$5.9 million of buys, sells, and change in fair value, respectively). Fair value of net TBA Derivative positions at June 30, 2017 and September 30, 2017 was \$0.9 billion and \$(0.2) billion, respectively.

Portfolio Detail as of September 30, 2017 and Prior Quarter Summary

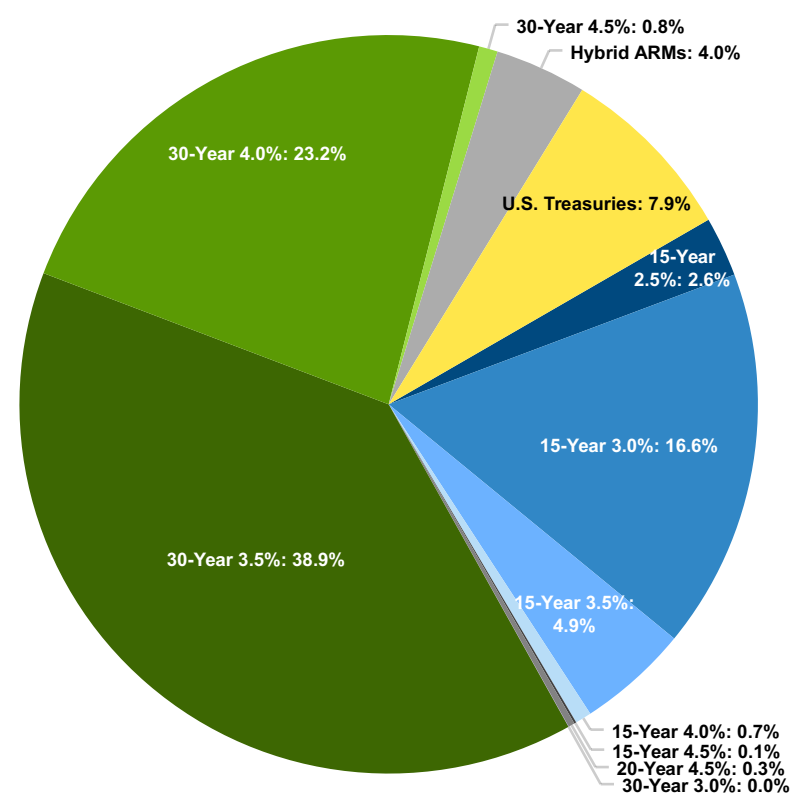
Coupon	Face Value (in 000's)	Fair Value (in 000's)*	Amortized Cost Basis as % of Face Value	Loan Balance ⁽¹⁾ (in 000's)	Loan Age ⁽¹⁾ (in months)	3-Month CPR ^{(1) (2)}	Duration ⁽³⁾
15-Year Agency RMBS							
Weighted-Average							
2.5%	\$215,565	\$217,225	\$102.38	\$194	11	5.9%	4.19
TBA 2.5%*	120,000	120,816	101.14	n/a	n/a	n/a	3.80
3.0%	2,396,000	2,465,126	102.35	278	25	9.9%	3.13
TBA 3.0%*	(307,000)	(315,439)	102.73	n/a	n/a	n/a	3.10
3.5%	602,514	629,357	102.61	203	64	14.2%	2.65
4.0%	87,765	92,220	100.96	167	79	15.0%	2.48
4.5%	11,209	11,792	102.05	242	92	28.5%	1.88
Subtotal	3,126,053	3,221,097	102.28	256	33	10.6%	3.12
20-Year Agency RMBS							
4.5%	33,370	35,930	102.58	205	86	15.6%	2.27
30-Year Agency RMBS							
3.0%	1,546	1,577	104.42	132	52	24.8%	5.26
3.5%	4,806,409	4,963,099	102.99	334	10	6.8%	4.18
TBA 3.5%*	55,000	56,634	103.69	n/a	n/a	n/a	3.64
4.0%	2,301,698	2,431,007	104.90	300	21	13.0%	2.72
TBA 4.0%*	532,000	559,742	105.45	n/a	n/a	n/a	2.62
4.5%	97,963	106,058	106.51	282	77	11.9%	2.37
Subtotal	7,794,616	8,118,117	103.82	322	15	8.8%	3.61
Agency RMBS Hybrid ARMs							
3.0%	505,528	518,786	102.44	325	24	15.6%	2.33
Agency RMBS Subtotal	11,459,567	11,893,930	103.34	302	21	9.7%	3.42
U.S. Treasuries							
1.4%	1,025,000	1,017,964	99.42	n/a	n/a	n/a	2.82
Portfolio Total	\$12,484,567	\$12,911,894	\$103.01	\$302	21	9.7%	3.37
As of June 30, 2017							
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	\$3,982,575	\$4,096,032	\$102.48	\$249	30	8.8%	3.21
20-Year Agency RMBS	35,368	38,034	102.61	205	83	13.9%	2.32
30-Year Agency RMBS	7,797,427	8,090,392	103.77	319	14	6.2%	4.04
Agency RMBS Hybrid ARMs	332,190	341,811	102.64	315	44	19.5%	2.07
U.S. Treasuries	25,000	24,841	99.94	n/a	n/a	n/a	0.99
Portfolio Total	\$12,172,560	\$12,591,110	\$103.31	\$294	21	7.5%	3.70

*Includes fair value of net TBA Derivative positions of \$(0.2) billion and \$0.9 billion as of September 30, 2017 and June 30, 2017, respectively.

June 30, 2017



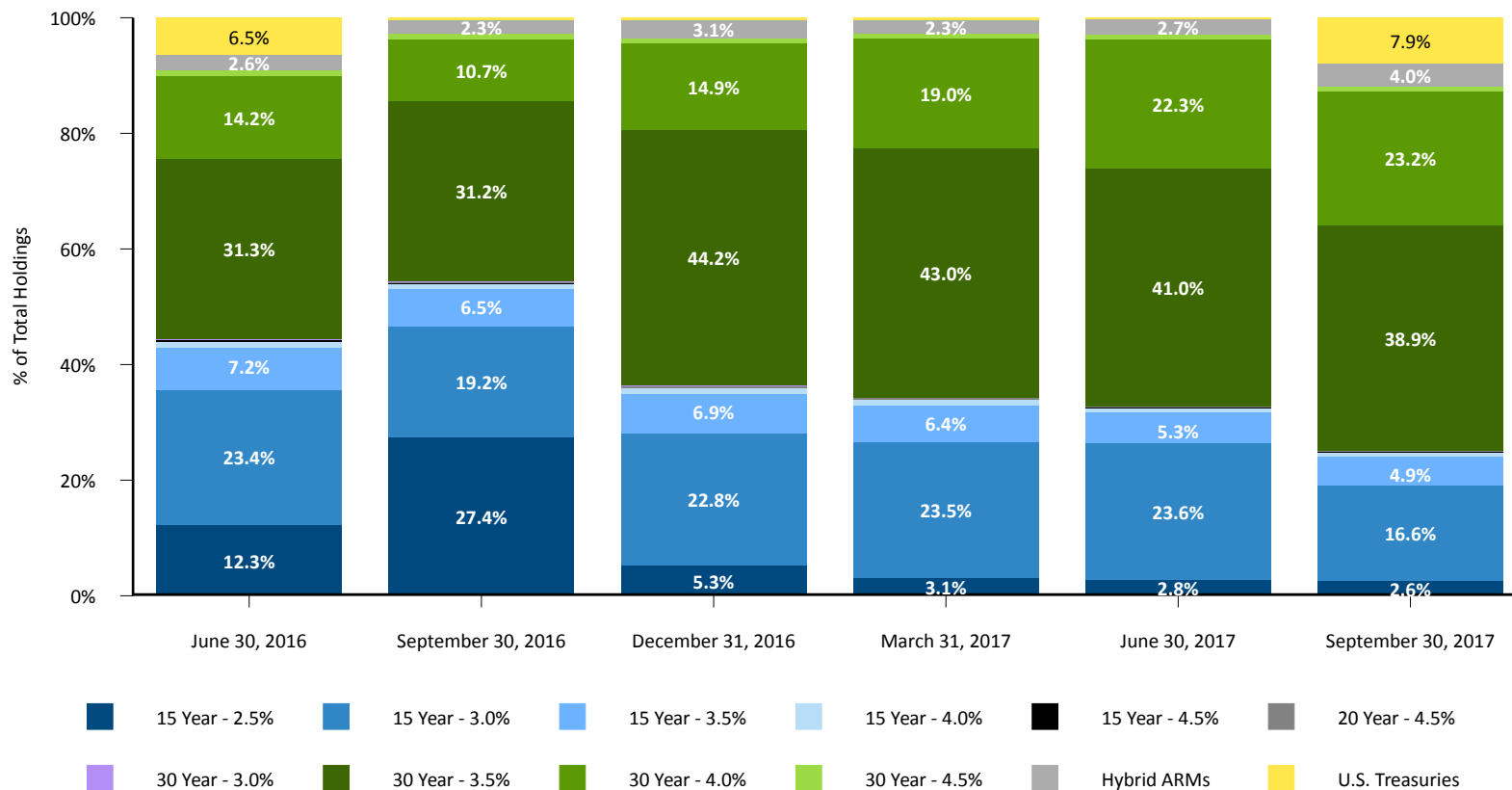
September 30, 2017



- During the Third Quarter, we replaced some of our 15-Year Agency RMBS holdings with 3-Year U.S. Treasuries, offering higher interest income as a result of special financing and lower price volatility.

*Includes fair value of net TBA Derivative positions of \$0.9 billion and \$(0.2) billion as of June 30, 2017 and September 30, 2017, respectively.

Portfolio Composition Trends*



*Includes fair value of net TBA Derivative positions of \$(0.2) billion, \$0.9 billion, \$1.4 billion, \$(0.3) billion, \$2.2 billion and \$0.8 billion as of September 30, 2017, June 30, 2017, March 31, 2017, December 31, September 30 and June 30, 2016, respectively.

Hedging Summary: Interest Rate Swaps and Caps



Interest Rate Swaps												
September 30, 2017							June 30, 2017					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Weighted-Average				Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Pay Rate	Receive Rate	Net Pay Rate
			Duration ⁽¹⁾	Pay Rate	Receive Rate	Net Pay Rate						
≤ 3 Years	\$ 1,500,000	\$2,950	(0.25)	1.00	1.32	(0.32)	\$ 1,500,000	\$4,037	(0.49)	1.00	1.18	(0.18)
> 3 to ≤ 5 Years	3,950,000	62,259	(3.21)	1.42	1.31	0.11	3,450,000	57,976	(3.26)	1.33	1.17	0.16
> 5 to ≤ 7 Years	625,000	10,650	(6.21)	1.88	1.32	0.56	1,500,000	439	(3.72)	2.27	1.17	1.10
> 7 to ≤ 10 Years	400,000	3,441	(8.65)	2.21	1.32	0.89	100,000	1,178	(8.70)	2.16	1.27	0.89
Subtotal	\$ 6,475,000	\$79,300	(3.15)	1.41	1.31	0.10	\$ 6,550,000	\$63,630	(2.82)	1.48	1.17	0.31

Interest Rate Caps												
September 30, 2017							June 30, 2017					
Maturity	Notional Amount (in 000's)	Fair Value (in 000's)	Weighted-Average				Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Cap Rate	Receive Rate	Net Cap Pay Rate
			Duration ⁽¹⁾	Cap Rate	Receive Rate	Net Cap Pay Rate						
≤ 3 Years	\$ 2,500,000	\$27,860	(1.89)	1.28	1.16	0.12	\$ 2,500,000	\$27,731	(1.94)	1.28	0.62	0.66

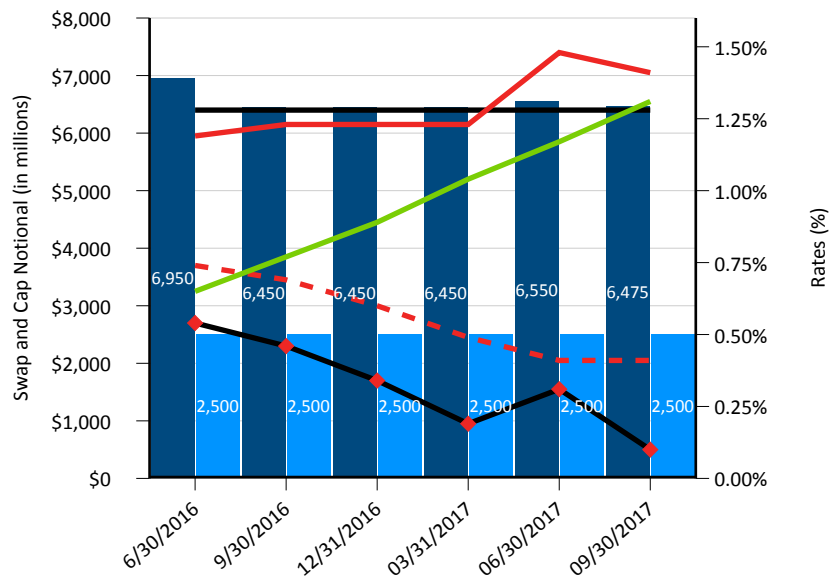
Total Interest Rate Swaps and Caps												
September 30, 2017							June 30, 2017					
Total	Notional Amount (in 000's)	Fair Value (in 000's)	Weighted-Average				Notional Amount (in 000's)	Fair Value (in 000's)	Duration ⁽¹⁾	Weighted-Average		
			Duration ⁽¹⁾	Net Swap and Cap Pay Rate						Duration ⁽¹⁾	Net Swap and Cap Pay Rate	
Total	\$ 8,975,000	\$107,160	(2.80)	0.11			\$ 9,050,000	\$91,361	(2.57)	0.41		

- During the Third Quarter, we took advantage of the low interest rates and rebalanced a portion of our hedge portfolio by terminating \$1 billion in notional of 7-year cancelable swaps and replaced them with \$925 million in notional 7-year and 10-year interest rate swaps.
- The rebalancing of a portion of our hedge portfolio during the Third Quarter extended the duration of our hedge portfolio and meaningfully reduced our hedging costs.

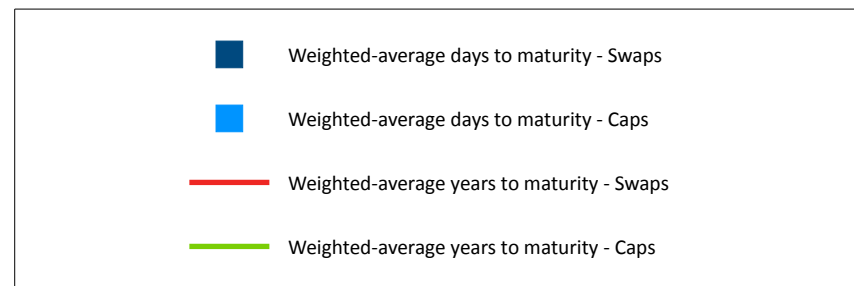
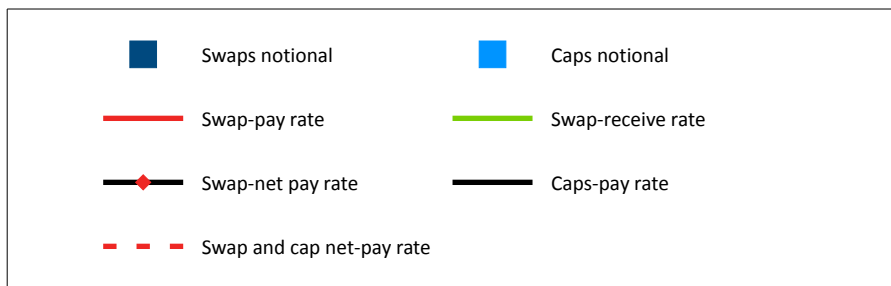
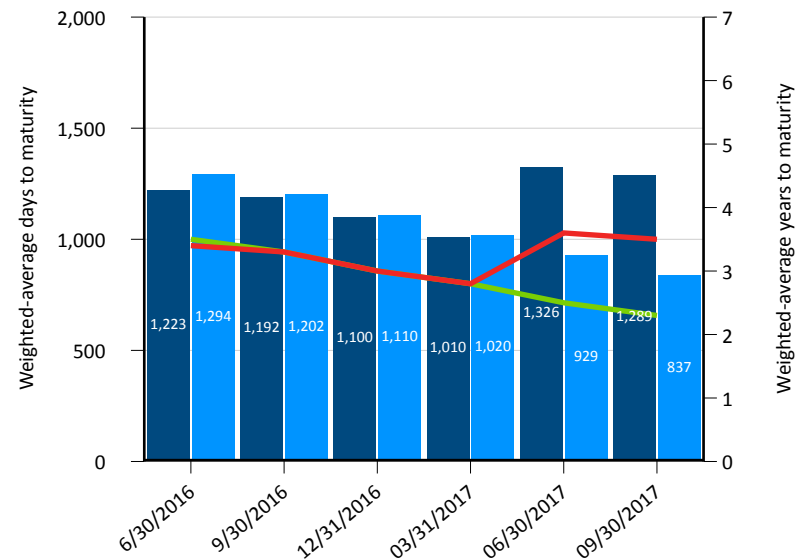
(1) Duration measures the market price volatility of financial instruments as interest rates change using DV01 methodology. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for the same securities. Duration estimates in the table are calculated utilizing Yield Book® software and may reflect adjustments based on our judgment.

Hedge Notional, Cost and Maturity Trends

Hedge Notional and Cost Trends



Maturity Trends



- During the Third Quarter, we continued to benefit from an increase in 3-month LIBOR, resulting in a 14 bps increase in the receive-leg of our swaps. In addition, during the Prior Quarter, 3-month LIBOR exceeded the cap rate of 1.25% on four of our caps, and these were cash flow positive to us.
- Collectively, the hedge portfolio rebalancing and increase in 3-Month Libor resulted in a 30 bps decrease in the net swap and cap pay rate during the Third Quarter to 11 bps from 41 bps, while we simultaneously increased the duration of the hedge portfolio.

Sensitivity Analysis and Duration Gap

Interest Rate Sensitivity ⁽¹⁾					
September 30, 2017					
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	21.47%	⁽²⁾⁽³⁾	0.35%	2.84%	(0.14)
-50	17.18%	⁽²⁾⁽³⁾	0.36%	2.92%	0.13
-25	8.59%	⁽²⁾⁽³⁾	0.25%	2.03%	0.45
—	—%		—%	—%	0.79
25	(10.74)%	⁽²⁾	(0.40)%	(3.21)%	1.11
50	(21.47)%	⁽²⁾	(0.92)%	(7.45)%	1.39
75	(32.21)%	⁽²⁾	(1.55)%	(12.56)%	1.62

Interest Rate Sensitivity ⁽¹⁾					
June 30, 2017					
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	21.07%	⁽²⁾⁽³⁾	0.72%	5.97%	0.14
-50	16.86%	⁽²⁾⁽³⁾	0.61%	5.03%	0.43
-25	8.43%	⁽²⁾⁽³⁾	0.37%	3.05%	0.73
—	—%		—%	—%	1.03
25	(11.05)%	⁽²⁾	(0.49)%	(4.02)%	1.28
50	(18.26)%	⁽²⁾	(1.08)%	(8.91)%	1.51
75	(32.12)%	⁽²⁾	(1.75)%	(14.50)%	1.69

- The net duration gap decreased to 0.79 in the Third Quarter as a result of asset and hedge portfolio rebalancing, resulting in higher anticipated earnings and less book value volatility in a rising rate environment.
- During the Third Quarter, the Fed continued to signal an additional rate hike in December 2017.

Footnotes appear on page 26.

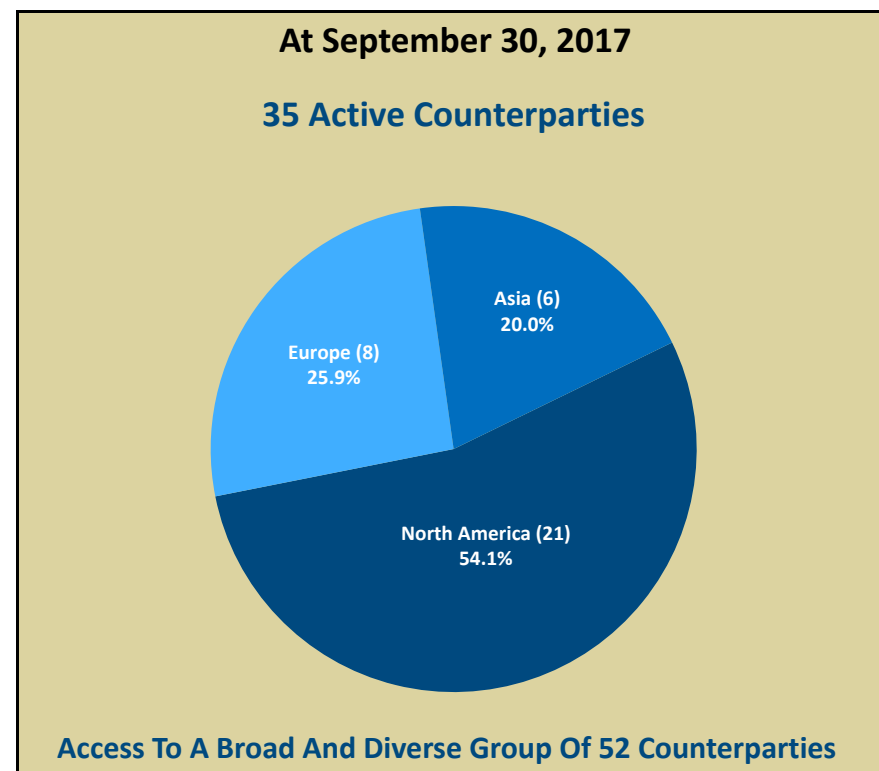
Net Duration Gap ⁽¹⁾					
(dollars in thousands)					
September 30, 2017			June 30, 2017		
Component	Duration	Notional (Face Value)	Duration	Notional (Face Value)	
Interest rate swaps	(3.15)	\$ 6,475,000	(2.82)	\$ 6,550,000	
Interest rate caps	(1.89)	2,500,000	(1.94)	2,500,000	
Agency RMBS and U.S. Treasuries	3.37	12,484,567	3.70	12,172,560	
Net Duration Gap (years)	0.79		1.03		

- The net duration gap decreased to 0.79 at September 30, 2017 from 1.03 at June 30, 2017 as a direct result of asset and hedge portfolio rebalancing during the Third Quarter. We sold \$0.9 billion of 15-year Agency RMBS and replaced them with a comparable amount of 3-year U.S. Treasuries. We also terminated \$1 billion in notional of 7-year cancelable swaps and replaced them with \$925 million in notional of 7-year and 10-year swaps.

(1) Net duration gap is calculated as a weighted-average of the total portfolio including the aggregate notional amount on our interest rate swaps and caps using DV01 methodology. Duration estimates in the table are calculated utilizing Yield Book® software and may reflect adjustments based on our judgment.

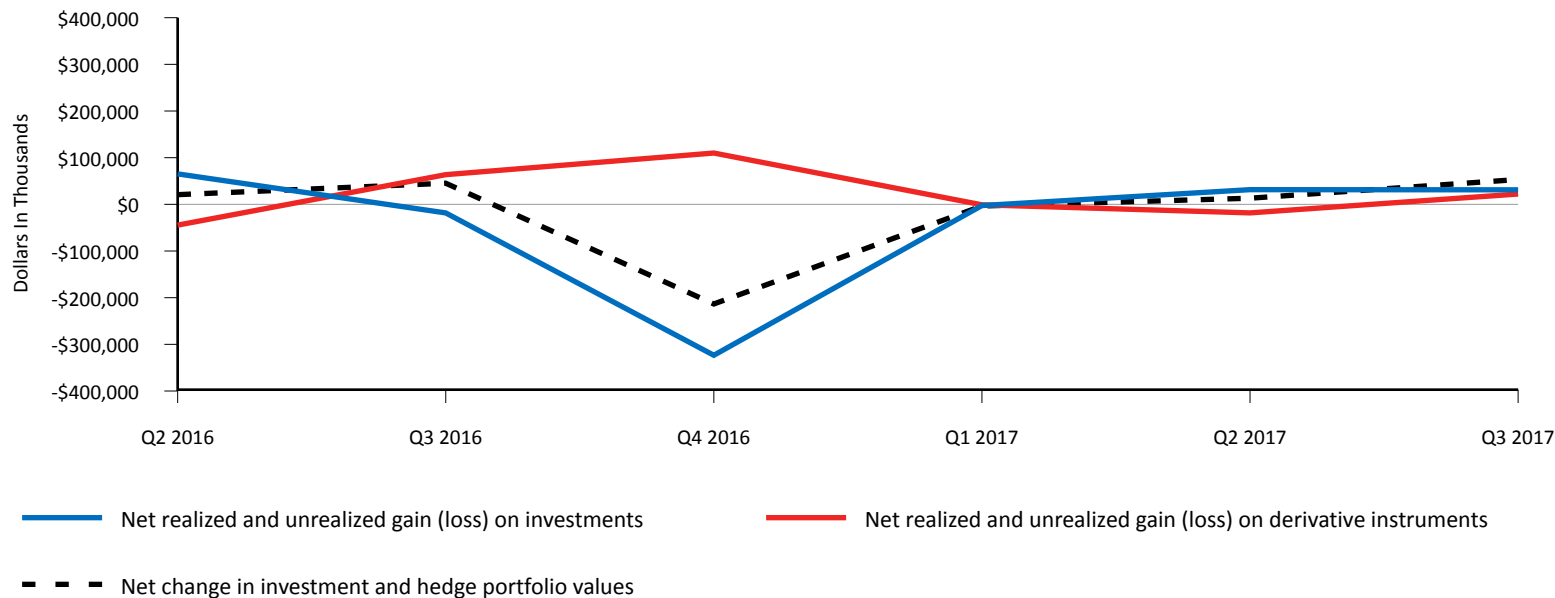
Financing Summary

Repo Borrowings Collateralized with Agency RMBS and U.S. Treasuries As of September 30, 2017					
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	\$ 2,522,264	24%	1.31%	14	26
> 30 to ≤ 60 Days	458,851	4%	1.28%	7	44
> 60 Days	6,805,151	66%	1.34%	88	179
Subtotal	\$ 9,786,266	94%	1.33%	65	133
U.S. Treasuries					
≤ 30 Days	596,960	6%	0.33%	9	12
Total/ Wtd.-Avg.	\$ 10,383,226	100%	1.27%	62	126
As of June 30, 2017					
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.	\$ 9,370,845	100%	1.23%	80	138



- At September 30, 2017, the Company had borrowings from repurchase agreements ("repo borrowings") outstanding with 35 counterparties and repurchase agreements in place with a total of 52 counterparties.
- The weighted-average interest rate on outstanding repo borrowings was 1.27% at September 30, 2017, a 4 bps increase from 1.23% at June 30, 2017.

Investment and Hedge Portfolio Performance Trends



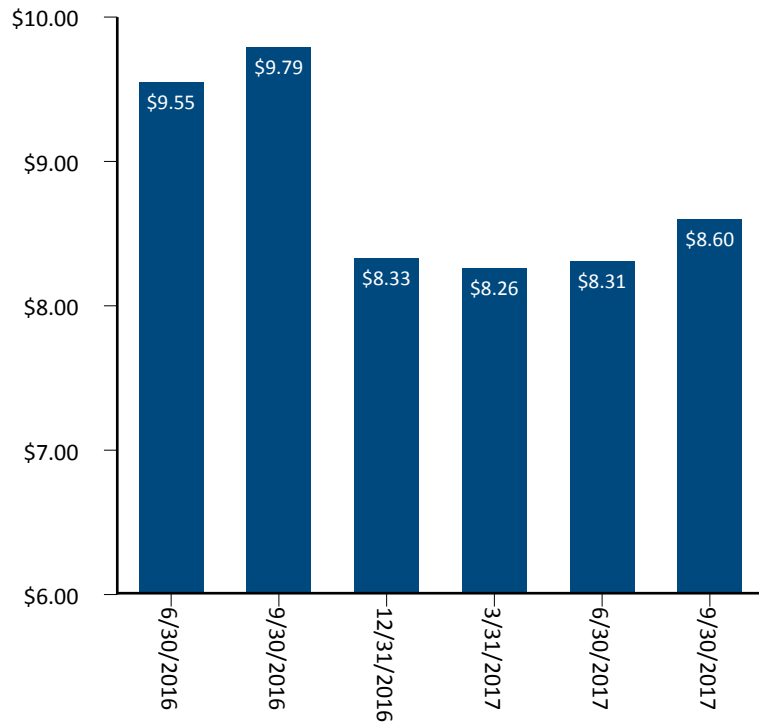
Net Change in Investment and Hedge Portfolio						
(dollars in thousands)	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Net realized and unrealized gain (loss) on investments	\$65,274	\$(18,385)	\$(323,414)	\$(2,566)	\$31,468	\$31,122
Net realized and unrealized gain (loss) on derivative instruments*	(44,535)	63,625	109,951	(1,012)	(18,324)	22,117
Net change in investment and hedge portfolio	\$20,739	\$45,240	\$(213,463)	\$(3,578)	\$13,144	\$53,239

- During the Third Quarter, Agency RMBS prices remained firm, despite the Fed's announcement of its balance sheet normalization program.
- Agency RMBS outperformed swaps during the the Third Quarter.

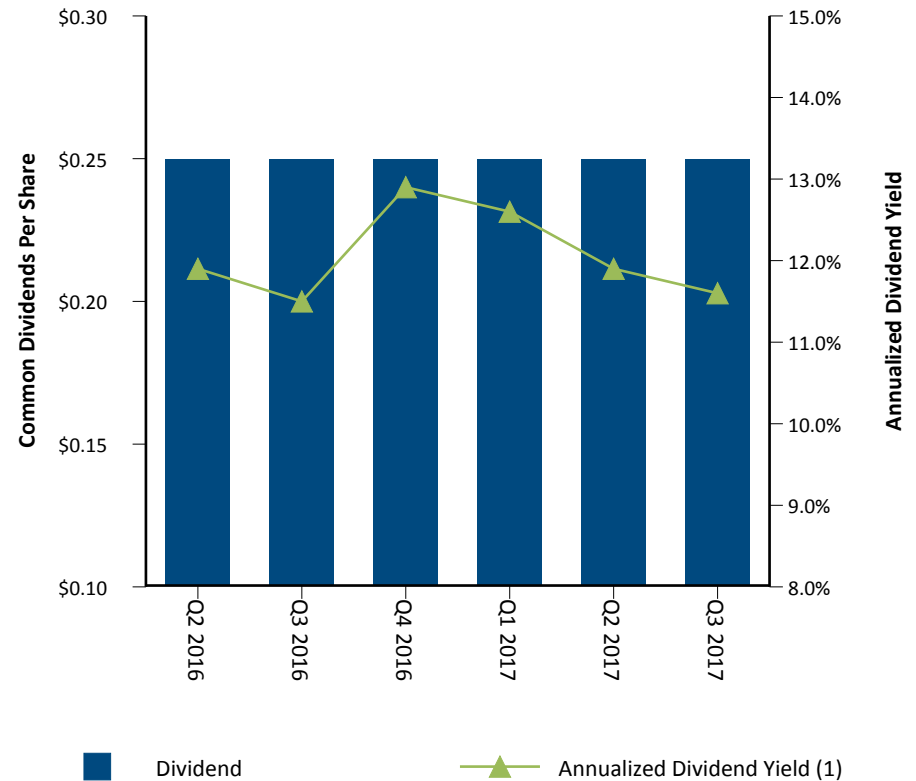
* Net realized and unrealized gain (loss) on derivative instruments includes net realized and unrealized gain (loss) on TBA Derivatives of \$5.9 million, \$10.1 million, \$(8.2) million, \$(47.1) million, \$12.4 million and \$6.5 million in the Third Quarter, Q2 2017, Q1 2017, Q4 2016, Q3 2016 and Q2 2016, respectively.

Book Value and Common Stock Dividend Trends

Book Value Per Common Share



Common Stock Dividends

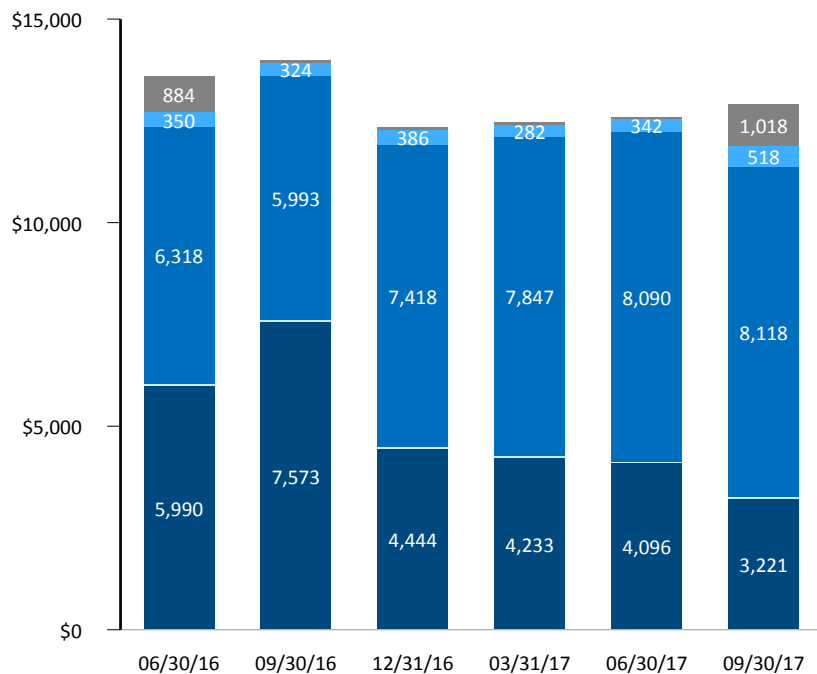


(1) The annualized dividend yield is calculated using the stock price at the respective quarter end.

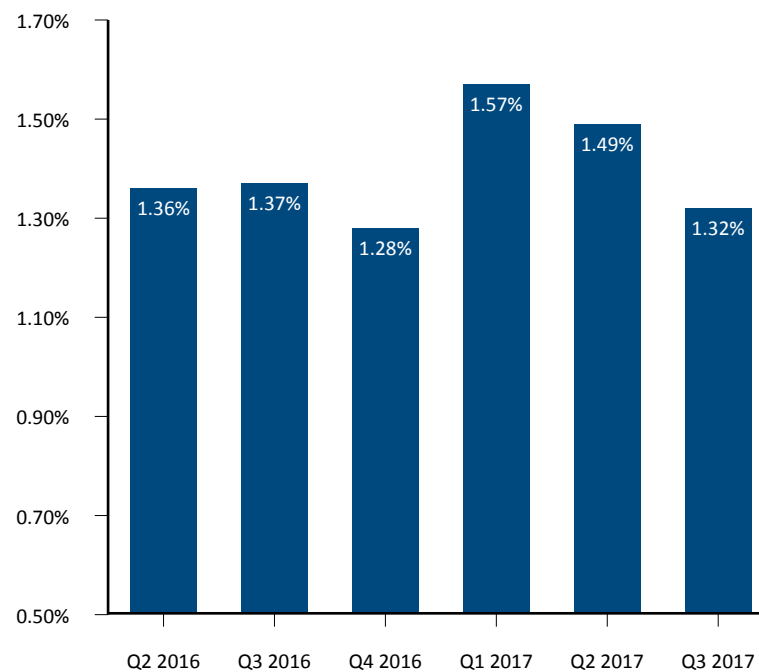
Portfolio & Interest Rate Spread Trends

Debt Securities Portfolio at Fair Value

(dollars in millions)

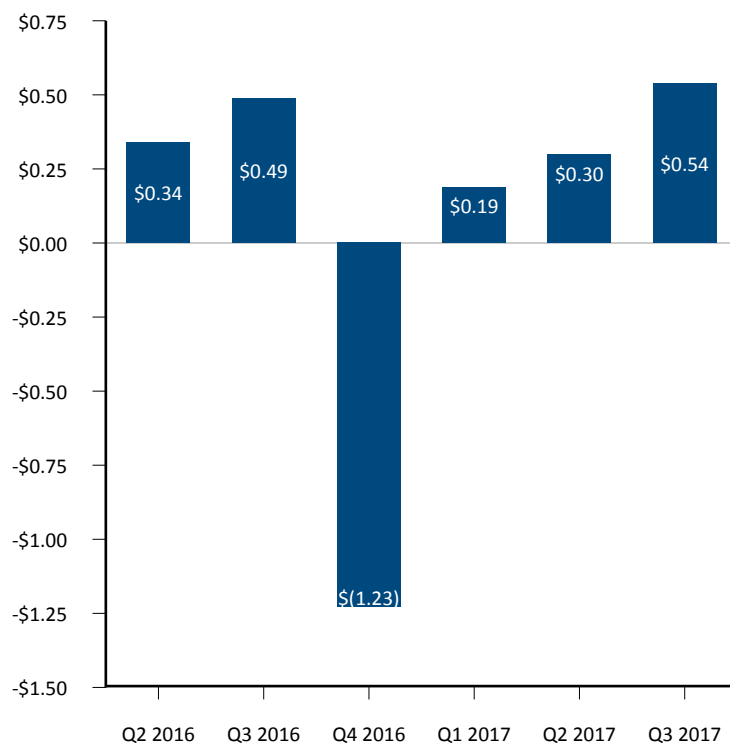


Interest Rate Spread Net of Hedge Including Drop Income

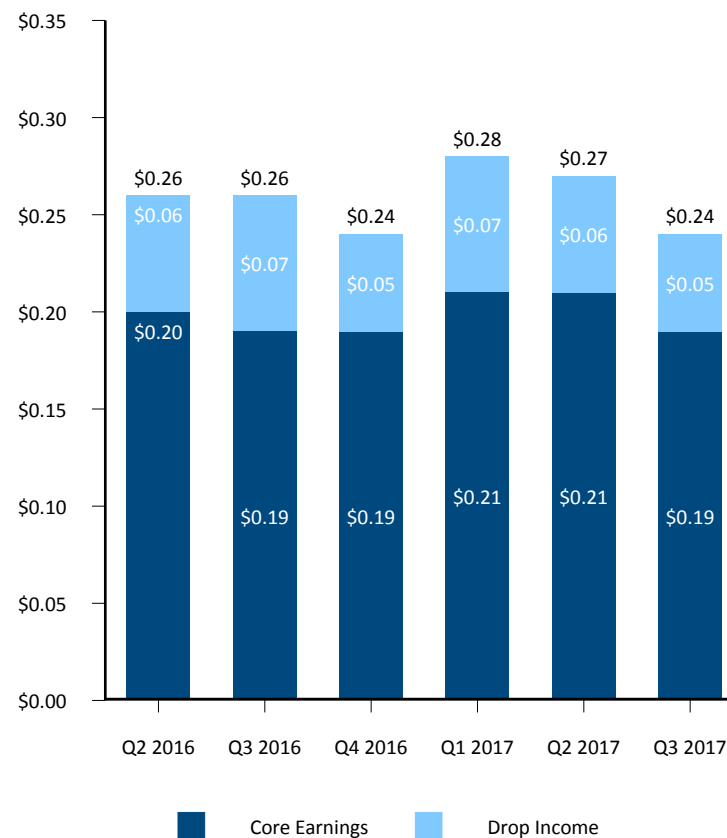


GAAP Net Income and Core Earnings Plus Drop Income

GAAP Net Income (Loss) Per Common Share

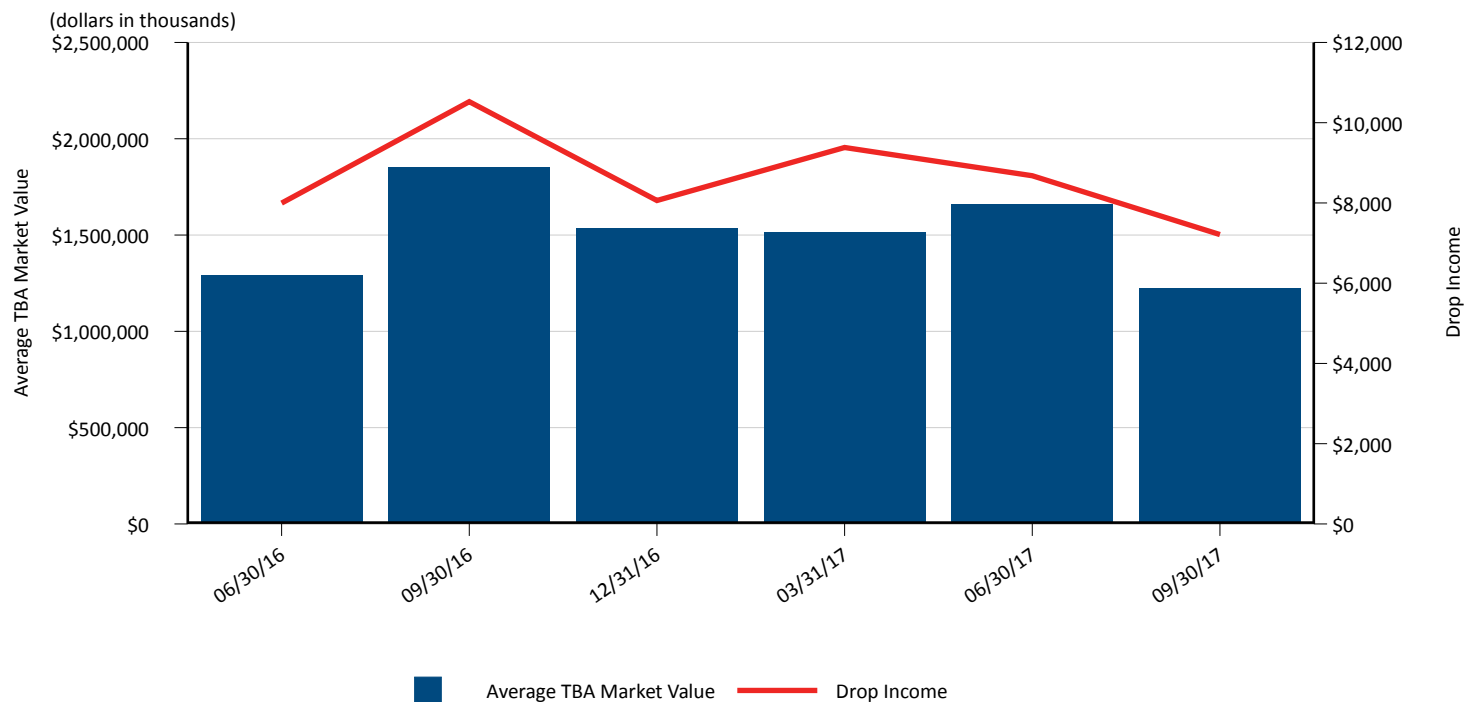


Core Earnings⁽¹⁾, Plus Drop Income Per Common Share



(1) A reconciliation of the non-GAAP financial measure Core Earnings can be found on page 23.

TBA and Drop Income Trends*



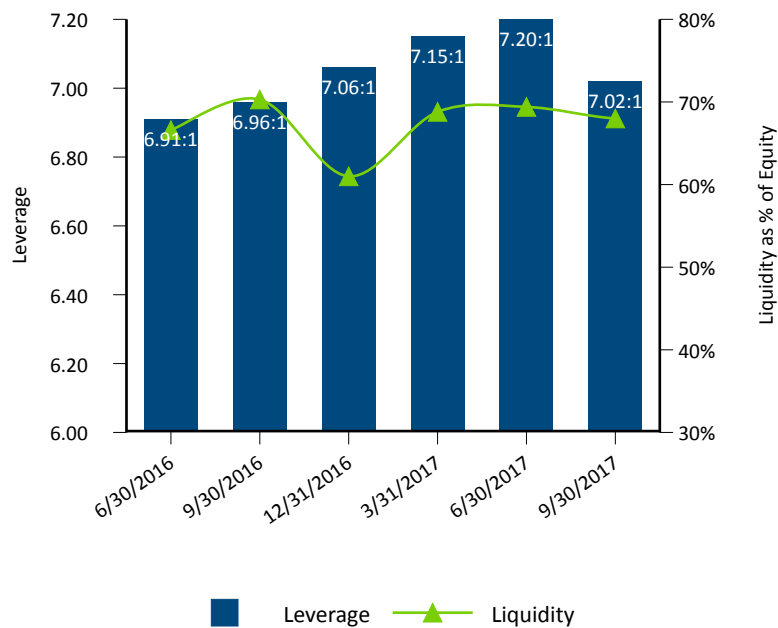
Average TBA Market Values and Drop Income						
(dollars in thousands)						
	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Average TBA Market Value*	\$ 1,290,798	\$ 1,851,353	\$ 1,534,878	\$ 1,513,532	\$ 1,657,271	\$ 1,224,175
Drop Income	\$ 7,996	\$ 10,524	\$ 8,061	\$ 9,382	\$ 8,678	\$ 7,212

➤ The decrease in Drop Income during the Third Quarter was directly attributable to the decrease in TBA activity during the period.

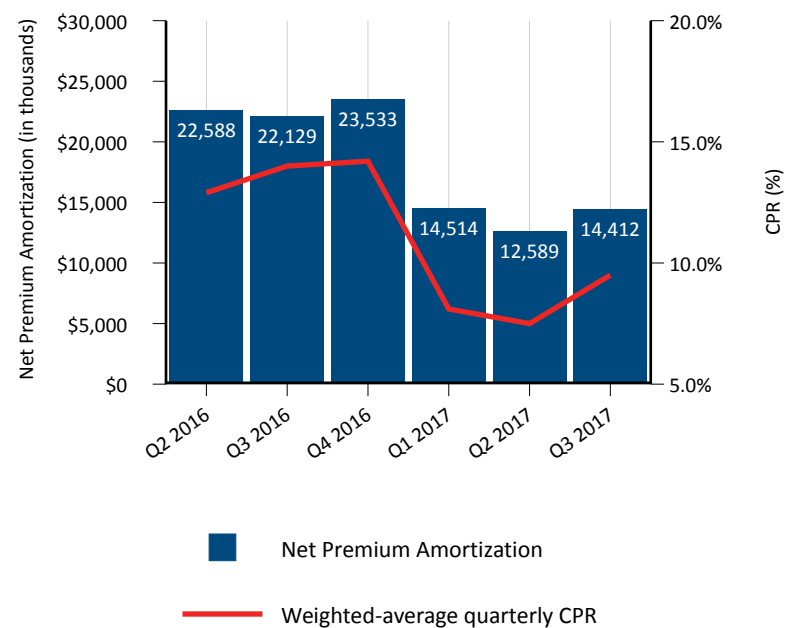
*Includes fair value of net TBA Derivative positions of \$(0.2) billion, \$0.9 billion, \$1.4 billion, \$(0.3) billion, \$2.2 billion and \$0.8 billion as of September 30, 2017, June 30, 2017, March 31, 2017, December 31, September 30 and June 30, 2016, respectively.

Leverage, Liquidity, Amortization and CPR Trends

Leverage and Liquidity at Quarter-End*



Amortization and CPR



* Leverage includes net TBA Derivative positions of \$(0.2) billion, \$0.9 billion, \$1.4 billion, \$(0.3) billion, \$2.2 billion and \$0.8 billion as of September 30, 2017, June 30, 2017, March 31, 2017, December 31, September 30 and June 30, 2016, respectively.

Consolidated Balance Sheets

(dollars in 000's, except per share data)	As of					
	9/30/2017	6/30/2017	3/31/2017	12/31/2016 ⁽¹⁾	9/30/2016	6/30/2016
Assets:	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
Cash	\$ 804	\$ 1,264	\$ 584	\$ 1,260	\$ 2,192	\$ 13,182
Investments in securities, at fair value:						
Agency RMBS	12,092,527	11,705,696	11,011,163	12,599,045	11,742,018	11,879,933
U.S. Treasury securities	1,017,964	24,841	49,688	49,686	49,891	884,213
Receivable for securities sold and principal repayments	157,730	689	573	409,849	2,598	1,507
Receivable for cash pledged as collateral	—	—	—	600	63,464	97,309
Interest receivable	33,385	32,340	31,401	31,825	33,273	32,460
Derivative assets, at fair value	107,588	92,520	136,552	142,556	29,869	24,650
Other investments	8,028	8,028	8,028	8,028	8,028	31,028
Other assets	3,511	4,038	2,929	2,419	2,787	1,625
Total assets	\$ 13,421,537	\$ 11,869,416	\$ 11,240,918	\$ 13,245,268	\$ 11,934,120	\$ 12,965,907
Liabilities and stockholders' equity:						
Liabilities:						
Repurchase agreements	\$ 10,383,226	\$ 9,370,845	\$ 9,015,594	\$ 9,691,544	\$ 9,620,641	\$ 9,849,501
FHLBC Advances, at fair value	—	—	—	—	—	575,000
Payable for securities purchased	1,264,639	817,597	524,482	1,881,963	424,476	652,619
Payable for cash received as collateral	77,326	64,402	101,819	91,503	10,882	4,826
Accrued interest payable	34,007	28,810	25,457	27,908	21,521	20,307
Accrued expenses and other liabilities	4,058	3,045	3,559	6,170	6,111	4,857
Dividends payable	43,158	42,342	42,337	4,410	42,264	42,259
Derivative liabilities, at fair value	6,586	6,725	—	6,051	50,240	95,529
Total liabilities	\$ 11,813,000	10,333,766	9,713,248	11,709,549	10,176,135	11,244,898
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 (155M, 152M, 152M, 151M, 151M and 151M shares issued and outstanding, respectively)	1,550	1,517	1,517	1,514	1,514	1,514
Additional paid in capital	1,975,476	1,946,856	1,945,966	1,944,908	1,943,952	1,942,930
Retained earnings (accumulated deficit)	(634,389)	(678,623)	(685,713)	(676,603)	(453,381)	(489,335)
Total stockholders' equity	1,608,537	1,535,650	1,527,670	1,535,719	1,757,985	1,721,009
Total liabilities and stockholders' equity	\$ 13,421,537	\$ 11,869,416	\$ 11,240,918	\$ 13,245,268	\$ 11,934,120	\$ 12,965,907
Book value per common share	\$ 8.60	\$ 8.31	\$ 8.26	\$ 8.33	\$ 9.79	\$ 9.55

(1) Derived from audited consolidated financial statements.

Consolidated Statements of Operations



(in 000's, except per share data) (Unaudited)	Three Months Ended					
	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Interest income:						
Agency RMBS	\$ 78,809	\$ 77,027	\$ 73,227	\$ 66,996	\$ 68,602	\$ 74,176
Other	152	61	86	1,572	1,059	681
Total interest income	78,961	77,088	73,313	68,568	69,661	74,857
Interest expense:						
Repurchase agreements	31,971	26,182	21,221	20,168	17,265	16,910
FHLBC Advances	—	—	—	—	214	1,777
Total interest expense	31,971	26,182	21,221	20,168	17,479	18,687
Net interest income	46,990	50,906	52,092	48,400	52,182	56,170
Other income (loss):						
Net realized gain (loss) on investments	(5,215)	(19,831)	(66,044)	(36,253)	18,155	36,359
Net unrealized gain (loss) on investments	36,337	51,299	63,478	(287,161)	(36,540)	28,915
Net unrealized gain (loss) on FHLBC Advances	—	—	—	—	—	(448)
Other income	38	39	47	203	308	387
Net realized and unrealized gain (loss) on investments, FHLBC Advances and other income	31,160	31,507	(2,519)	(323,211)	(18,077)	65,213
Swap and cap interest expense	(6,948)	(8,434)	(8,327)	(10,128)	(12,493)	(14,779)
Net realized and unrealized gain (loss) on derivative instruments	22,117	(18,324)	(1,012)	109,951	63,625	(44,535)
Net gain (loss) on derivative instruments	15,169	(26,758)	(9,339)	99,823	51,132	(59,314)
Total other income (loss)	46,329	4,749	(11,858)	(223,388)	33,055	5,899
Expenses:						
Compensation and benefits	2,994	3,004	3,776	1,885	3,619	3,565
General, administrative and other	2,140	2,426	2,438	3,287	2,608	2,294
Total operating expenses	5,134	5,430	6,214	5,172	6,227	5,859
Net income (loss)	\$ 88,185	\$ 50,225	\$ 34,020	\$ (180,160)	\$ 79,010	\$ 56,210
Dividends on preferred stock	(5,203)	(5,203)	(5,203)	(5,203)	(5,203)	(5,203)
Net income (loss) available to common stockholders	\$ 82,982	\$ 45,022	\$ 28,817	\$ (185,363)	\$ 73,807	\$ 51,007
Net income (loss) per common share	\$ 0.54	\$ 0.30	\$ 0.19	\$ (1.23)	\$ 0.49	\$ 0.34

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					
	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Net income (loss) available to common stockholders	\$ 82,982	\$ 45,022	\$ 28,817	\$ (185,363)	\$ 73,807	\$ 51,007
Net realized (gain) loss on investments	5,215	19,831	66,044	36,253	(18,155)	(36,359)
Net unrealized (gain) loss on investments	(36,337)	(51,299)	(63,478)	287,161	36,540	(28,915)
Net realized and unrealized (gain) loss on derivative instruments	(22,117)	18,324	1,012	(109,951)	(63,625)	44,535
Net unrealized (gain) loss on FHLBC Advances	—	—	—	—	—	448
Core Earnings ⁽¹⁾	\$ 29,743	\$ 31,878	\$ 32,395	\$ 28,100	\$ 28,567	\$ 30,716
Core Earnings per average share	\$ 0.19	\$ 0.21	\$ 0.21	\$ 0.19	\$ 0.19	\$ 0.20
Drop Income ⁽²⁾	7,212	8,678	9,382	8,061	10,524	7,996
Drop Income per average share	\$ 0.05	\$ 0.06	\$ 0.07	\$ 0.05	\$ 0.07	\$ 0.06
Core Earnings plus Drop Income	\$ 36,955	\$ 40,556	\$ 41,777	\$ 36,161	\$ 39,091	\$ 38,712
Core Earnings plus Drop Income per share	\$ 0.24	\$ 0.27	\$ 0.28	\$ 0.24	\$ 0.26	\$ 0.26

Footnotes appear on page 27.

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



Economic Net Interest Income and Economic Interest Expense:

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

(in 000's) (Unaudited)	Three Months Ended					
	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Net interest income	\$ 46,990	\$ 50,906	\$ 52,092	\$ 48,400	\$ 52,182	\$ 56,170
Swap and cap interest expense	6,948	8,434	8,327	10,128	12,493	14,779
Economic Net Interest Income ⁽¹⁾	\$ 40,042	\$ 42,472	\$ 43,765	\$ 38,272	\$ 39,689	\$ 41,391
Total interest expense	\$ 31,971	\$ 26,182	\$ 21,221	\$ 20,168	\$ 17,479	\$ 18,687
Swap and cap interest expense ⁽²⁾	6,948	8,434	8,327	10,128	12,493	14,779
Economic Interest Expense ⁽³⁾	\$ 38,919	\$ 34,616	\$ 29,548	\$ 30,296	\$ 29,972	\$ 33,466

Footnotes appear on page 27.

Footnotes: Pages 3 and 4

Footnotes Page 3, Summary Q3 2017 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. See reconciliation of net income (loss) to Core Earnings on page 24.
3. Drop Income is a component of our net realized and unrealized gain (loss) on investments and derivative instruments on our consolidated statements of operations and, therefore, is excluded from 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 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 4, Key Balance Sheet & Performance Metrics

1. The average settled Debt Securities is calculated by averaging the month-end cost basis of settled Debt Securities during the period.
2. The average total Debt Securities is calculated by averaging the month-end cost basis of total Debt Securities and unsettled Debt Securities (inclusive of TBA Derivatives) 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. The Hedge ratio for the period is calculated by dividing Interest Rate Swaps and Interest Rate Caps notional amount by repurchase agreements and FHLBC advances.
9. 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.
10. 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.
11. The average yield on settled Debt Securities for the period is calculated by dividing total interest income by average settled Debt Securities.
12. 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 \$7.2 million, \$8.7 million, \$9.4 million, \$8.1 million, \$10.5 million and \$8.0 million for Q3 2017, Q2 2017, Q1 2017, Q4 2016, Q3 2016 and Q2 2016, 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.
13. 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.
14. 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.
15. 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.
16. 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.
17. 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.
18. The operating expense ratio for the period is calculated by dividing operating expenses by average stockholders' equity.
19. 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 beginning of the period.
20. CPR represents the weighted-average 1-month CPR of the Company's Agency RMBS during the period.

Footnotes: Pages 7 and 12

Footnotes Page 7, Portfolio Detail as of September 30, 2017 and Prior Quarter Summary

1. TBA securities are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
2. Represents the historical experienced 3-month CPR of the Company's Agency RMBS portfolio at September 30, 2017 and June 30, 2017, 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. Duration estimates in the table are calculated utilizing Yield Book® software and may reflect adjustments based on our judgment.
4. Represents the weighted-average coupon of Hybrid ARMs.

Footnotes Page 12, Sensitivity Analysis and Duration Gap

1. The interest rate sensitivity analysis shows the estimated impact interest rate changes would have on net income, the fair value of the Company's investments, stockholders' equity and net duration gap, using DV01 methodology, and assuming a static portfolio and yield curve with rates instantaneously falling or rising 25, 50 and 75 bps.
2. Immediate impact estimated over 12 month period.
3. Given the historically low level of interest rates at September 30, 2017 and June 30, 2017, we reduced 3-month LIBOR and our repo borrowing rates by 20, 40 and 50 bps for the 25, 50, and 75 bps down net income scenarios, respectively. All other interest rate-sensitive instruments were calculated in accordance with the table.
4. Net duration gap calculated as a weighted-average of the total portfolio including the aggregate notional amount on our interest rate swaps and caps using DV01 methodology. Duration estimates in the table are calculated utilizing Yield Book® software and may reflect adjustments based on our judgment.

Footnotes: Pages 23 and 24

Footnotes Page 23, Reconciliation of Non-GAAP Measure Core Earnings, Plus Drop Income

1. "Core Earnings" represents a non-GAAP financial measure and is defined as net income (loss) available to common stockholders excluding net realized and unrealized gain (loss) on investments and derivative instruments and net unrealized gain (loss) on FHLBC Advances. Management uses Core Earnings to evaluate the effective yield of the portfolio after operating expenses. The Company believes that providing users of the Company's financial information with such measures, in addition to related GAAP measures, gives investors additional 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 and derivative investments, and net unrealized gain (loss) on FHLBC Advances. 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 24, 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.