

### MARKET STATISTICS

Exchange / Symbol:	NYSE: AI
Price:	\$11.64
Market Cap (\$mm):	\$327.6
Shares Outstanding (mm):	28.1
Float (%):	97.7
Volume (3-month avg.):	462,600
52 Week Range:	\$10.93-\$15.51
Industry:	Financial Services

### CONDENSED BALANCE SHEET

(\$mm, except per share data)

Balance Sheet Date:	9/30/2017
Cash & Cash Equivalent:	\$26.4
Cash/Common Share:	\$0.94
LT Debt:	\$73.82
Equity (Book Value):	\$385.7
Equity/Common Share:	\$13.71

### CONDENSED INCOME STATEMENTS

(\$mm, except per share data)

FY - 12/31	Interest Inc	Net Int. Income	EPS GAAP	EPS Core
FY15	\$121.3	\$102.4	\$(3.02)	\$4.09
FY16	\$105.3	\$76.1	\$(1.79)	\$2.75
FY17E	\$120.5	\$69.8	\$0.79	\$2.28
Fy18E	\$125.0	\$57.2	\$0.77	\$2.40

### LARGEST SHAREHOLDERS

American Money Management Corp	1,403,848
Invesco PowerShares Capital	1,260,419
BlackRock, Inc.	1,219,528
The Vanguard Group, Inc.	1,140,480
Wolverine Asset Management, LLC	1,081,363
State Street Global Advisors, Inc.	526,163
Citadel LLC	483,852
Columbia Management Investment	361,606
Tonkel Jr., J. Rock	327,132
BNY Mellon Asset Management	275,961

### STOCK CHART



### COMPANY DESCRIPTION

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of residential mortgage-backed securities (RMBS), consisting of agency MBS and private-label MBS. The Company acquires residential mortgage backed securities from U.S. government agency or government sponsored enterprises (GSE), such as Federal National Mortgage Association and Federal Home Loan Mortgage. Importantly, agency MBS are guaranteed as to principal and interest by the U.S. government agency or U.S. government sponsored enterprise; whereas, private label MBS or non-agency MBS and are not backed by a GSE or U.S. government. Currently, the Company's investment capital is allocated to agency MBS. Arlington Asset Investment Corp. is a Virginia corporation and taxed as a C corporation for U.S. federal tax purposes. Additionally, it is an internally managed company and does not have an external investment advisor. The Company is headquartered in Arlington, VA.

### SUMMARY

Arlington Asset Investment Corp. ("Arlington") is an internally managed investment firm focused on acquiring and holding a levered portfolio of RMBS. Using its long-term investment strategy, coupled with its hedging strategy, the Company is focused on maintaining its net interest income spread return and its consistency over an extended period of time. The Company believes this focus should drive a high return on capital and support a consistent dividend. We note the following for Arlington:

- It has a flexible investment approach to seek highest risk-adjusted returns
- The Company invests in highly liquid assets with substantial interest rate hedges
- AI has diversified repo funding sources to enable its RMBS investment strategy
- Arlington also has access to longer-term funding sources from its equity and preferred ATMs
- At Q317, its portfolio was substantially hedge at 78%, helping mitigate impacts from rising interest rates
- The Company is not a REIT but is structured as a C-corp to provide tax benefits to shareholders
- Dividends from C-corp are classified as qualified dividends and taxed at a maximum 23.8% federal income tax rate vs. REIT dividends that are subject to the higher 33.4% maximum effective ordinary income tax rate, starting in 2018
- Reported for Q317, the Company had \$70M net operating losses, \$310M net capital losses, and a \$9M ATM carry forwards that should help mitigate taxable impacts
- Its internally managed investment structure provides operating leverage to the Company
- Arlington's internally managed structure also better aligns management's interests as compensation is based on the Company and stock performance rather than capital raising and portfolio growth

We employ a comparison analysis using a P/B framework. Using current comps, along with historical valuation ranges, we believe using a P/B multiple range of 0.80x to 1.20x is reasonable. Using this P/B range, we arrive at a valuation range of ~\$11.00 to ~\$16.50 with a mid-point of ~\$13.75.

We also note that the FY18 \$2.20 per share annual dividend appears well supported by our core EPS forecast of \$2.40 per share. Additional valuation details are on page 7.

## BUSINESS OVERVIEW

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of residential mortgage-backed securities (MBS), consisting of agency MBS and private-label MBS. The Company acquires residential mortgage backed securities from U.S. government agencies or government sponsored enterprises (GSE), such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage (Freddie Mac). Importantly, the agency residential MBS are guaranteed as to principal and interest by the U.S. government agency or GSE. Private label MBS or non-agency MBS are not backed by a GSE or U.S. government. Currently, the Company's investment capital is allocated to agency MBS.

Arlington Asset Investment Corp. uses leverage to increase potential returns to shareholders. The Company funds its investments primarily through short-term financing agreements and enters into various hedging transactions to mitigate interest rate sensitivity of its borrowing costs and the value of the MBS portfolio.

The Company is a Virginia corporation and taxed as a C corporation for U.S. federal tax purposes. This is an important distinction as its dividends to shareholders are thus classified as qualified dividends and taxed at a maximum 23.8% federal income tax rate. This compares to similar dividends of REITs, which are non-qualified dividends, and are subject to the higher 33.4% maximum federal effective income tax rate on ordinary income, starting in 2018.

Additionally, Arlington Asset Investment Corp. is an internally managed company and does not have an external investment advisor. The Company is headquartered in Arlington, VA.

### Exhibit 1: Arlington Asset Investment Capital Structure



Source: Company Reports; Stonegate Capital Partners

## INVESTMENT STRATEGY

Arlington's investment strategy is focused on obtaining a high risk-adjusted return on capital. The Company starts its process by evaluating the rates of return that can be attained in each asset class and each individual security within an asset class. Next, the Company evaluates the set of opportunities against returns available in other investment alternatives. Subsequently, the Company will

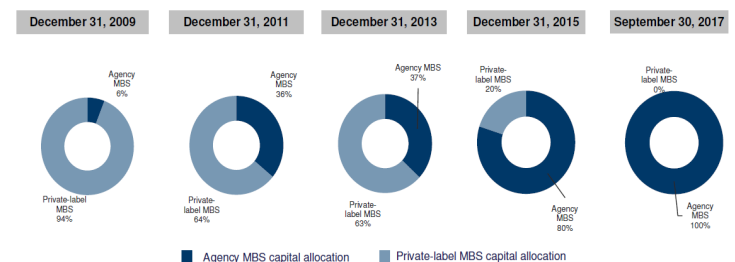
attempt to allocate its assets and capital toward what it believes to be the highest risk-adjusted return available. As result of this strategy, the portfolio will have different allocations of capital and leverage in different market environments.

We note that Arlington Asset Investment Corp. may invest in other types of assets such as:

- residential mortgage loans
- mortgage servicing rights
- GSE credit risk transfer securities
- commercial MBS
- asset backed securities
- commercial mortgage loans
- commercial loans
- other real estate related loans and securities
- other structured securities

Currently, the Company believes its MBS portfolio provides it with the highest relative risk-adjusted return. As a result, the Company has maintained a high allocation of its portfolio toward this sector. Within the MBS investment portfolio, the Company has also gradually increased its exposure to agency MBS vs. private label MBS.

### Exhibit 2: Investment Portfolio Historical Changes



Source: Company Reports; Stonegate Capital Partners

Arlington Asset Investment Corp. may purchase MBS securities either in initial offerings or in the secondary market. Importantly, the Company may also use "to-be-announced" (TBA) forward contracts to invest in agency MBS or to hedge investments. A TBA security is a forward contract for the purchase or sale of agency securities at a predetermined price, face amount, issuer, coupon, and stated maturity on an agreed upon future date. However, the specific agency securities to be delivered against the forward contract are not identified until shortly before the settlement date.

## FINANCING STRATEGY

As mentioned, the Company uses leverage to finance a portion of its MBS portfolio and to increase potential returns. Arlington typically uses short-term financing, which primarily consist of repurchase agreements or repos. The Company's funding sources are well diversified as it has 16 counterparties with access to 19 total counterparties. Additionally, we note that less than 10% of equity is at risk with any one counterparty.

From time-to-time the Company has, and may continue to use, long-term notes as an additional financing source. Additionally, the Company uses TBA dollar rolls to finance part of its MBS portfolio.

### Repurchase Agreements

The Company's repo agreements are typically in the 30 days to 90 days range, but can be as short as one day or as long as a year. Arlington Asset Investment will sell securities to the counterparty in the repo agreement and will receive cash in return. Additionally, the counterparty is obligated to resell the same securities back to Arlington Asset Investment at the end of the repo term. Under the repo agreements, the Company typically pays a floating rate based on LIBOR, plus or minus a fixed spread. All these transactions are reflected on the balance sheet.

### TBA Dollar Roll

As mentioned above in the investment strategy section, Arlington invests in TBA forward contracts. TBA forward contracts can settle either by (1) taking physical delivery of a MBS security, or (2) by entering into an offsetting position and net settle the paired off position in cash. Historically, the Company has settled its TBA trades by method 2.

### Exhibit 3: Illustrative TBA Dollar Roll Example

Hypothetical dollar roll with Freddie Mac, 30-year, 3.5% coupon TBA security:

	Trade Date	Settlement Date	Buy / Sell	Notional	Price	Cash Net Settlement
①	August 17	September 13	Buy	\$50,000,000	\$103.45	
②	September 11	September 13	Sell	\$50,000,000	\$103.75	\$ 150,000
	September 11	October 12	Buy	\$50,000,000	\$103.58	
③	October 6	October 12	Sell	\$50,000,000	\$103.46	\$ (60,000)
						\$ 90,000

Source: Company Reports; Stonegate Capital Partners

As illustrated above, the Company makes an initial purchase of a TBA at step 1. Prior to the settlement date, (step 2 above) the Company "rolls" the contract forward by executing a sale of a similar contract purchased at step 1, and purchasing another TBA contract with a later settlement date. The final step 3, then closes the dollar roll trade. We note that during step 2, the contract purchased for a forward settlement is normally priced at a discount to the contract sold. This discount is called the "price drop". The "price drop" is economically equivalent to the expected net interest income (interest income minus financing costs) that is earned from a direct investment in an agency MBS (think repo financing).

Importantly, dollar roll transactions are a form of off-balance sheet financing. Over the past few years, these transactions have become more pervasive due to the implied net interest income (price drop), being higher than the net interest income earned from purchasing a specific agency MBS financed via a repo agreement. The Fed's quantitative easing has been a key driver of this trend.

### Exhibit 4: Repo Financing vs. TBA Dollar Roll Illustrative Example

	Agency MBS Funded with Repo <sup>(1)</sup>	TBA Dollar Roll <sup>(3)</sup>	Dollar Roll Advantage
Agency MBS yield / dollar roll net interest spread	3.00%	2.04%	
Financing cost of agency MBS funded with repo <sup>(2)</sup>	-1.31%	-	
<b>Economic net interest spread <sup>(4)</sup></b>	<b>1.69%</b>	<b>2.04%</b>	<b>0.35%</b>

(1) Assumes agency MBS effective interest earned is 3.00% inclusive of premium amortization based on expected prepayments

(2) Assumes agency MBS is financed 100% with a 30-day repurchase agreement at financing cost of 1.31%

(3) TBA dollar roll assumes a "price drop" of \$0.17 which equates to an annualized net interest spread of 2.04% on a cost basis of \$103.45

(4) Economic net interest spread excludes any costs associated with interest rate hedges

Source: Company Reports; Stonegate Capital Partners

### Other Financing

As illustrated in Exhibit 1, Arlington Asset Investment has also used other long-term sources of financing for its operations. These include offering common stock, preferred stock, and debt securities. Currently, the Company has an ATM (at-the-market) equity agreement to offer, from time to time, up to 6M shares of its Class A common stock. It entered into the newest ATM on February 22, 2017. As of Q317, the Company has 1.6M share remaining on its equity ATM agreement.

Additionally, on May 16, 2017, the Company entered into a Series B Preferred Equity Distribution agreement to sell, from time to time, up to 1.865M shares of its Series B Preferred stock. As of Q317, the Company had 1.7M shares remaining on its preferred ATM agreement.

## RISK MANAGEMENT STRATEGY

Arlington Asset Investment uses a variety of strategies to hedge a portion of its portfolio. The main risks that the Company is looking to hedge or manage include:

- (1) interest rate risk
- (2) prepayment risk
- (3) spread risk
- (4) extension risk
- (5) credit risk
- (6) liquidity risk
- (7) and regulatory risks

The Company's hedging instruments include interest rate swaps, interest rate swap futures, U.S. Treasury note futures, Eurodollar futures, and options on U.S. Treasury note futures. As expected, the Company will hedge when it believes the hedge is prudent given its investment strategy and the cost of the hedge. Also, some of the risks above may remain unhedged if the Company believes that bearing the risk will enhance its return relative to its risk/return targets. It's important to note that the Company's hedging activities are designed to minimize certain risk exposures but not eliminate them.

Given Arlington's use of short-term financing (repos) to purchase long-term investments (MBS), the Company primarily uses interest rate swaps to hedge interest rate sensitivity of the financing cost and to protect the value of the MBS portfolio. Therefore, the Company is looking to lock in a portion of the net interest income spread (interest income on MBS less financing costs) and to protect book value. Importantly, the Company's focus on hedging is to maintain this net interest income spread return and its consistency over a long period of time. The Company believes this focus should drive a high return on capital and support a consistent dividend.

Arlington also uses asset selection to help mitigate risks such as prepayment risk. Thus, the Company aims to invest in MBS securities that have a lower probability of prepayment. Typical characteristics of these MBS securities might include mortgages with (1) low remaining balances, (2) have high loan-to-value ratios, (3) credit scores of borrowers are on the lower end of the range for GSE underwriting standards, (4) certain geographic areas, and (5) loans originated through certain government programs.

## RISKS

**Interest rate risk** – The Company's portfolio primarily consists of long-term, fixed rate agency MBS and finances its purchases through short-term rep agreements tied to floating rates based on LIBOR. Any unexpected changes in interest rates may cause asset values, financing costs, and hedging strategies to perform differently than planned. Changes in the yield curve could also negatively affect the Company's portfolio and earnings.

**Prepayment risk** – Arlington's MBS portfolio receives income derived from payments made by borrowers of the underlying mortgage loans. If borrowers prepay loans at a faster rate than anticipated, the MBS portfolio may be reinvested in lower yielding securities. If rates rise, prepayment trends would likely extend causing the Company to hold lower yielding securities. Additionally, if prepayments are greater than expected, the Company may be required to increase the premium amortization of its assets, which would negatively impact net interest income.

**Leverage risk** – The Company's investment strategy relies on short-term debt. If the cost of this financing increases or becomes unavailable, the Company's financial results would be negatively impacted.

**Liquidity risk** – Arlington's strategy is reliant on liquidity. This liquidity comes in the form of access to funds to implement its strategy, and in the Company's ability to sell investments if necessary. Any changes to market liquidity, or perceived liquidity issues of the Company would negatively impact financial results.

## RECENT RESULTS

At Q317 end, the Company's book value was \$13.71/ common share compared to \$13.48/common share at Q217 end, representing an increase of 1.7%. Tangible book value (book value less deferred tax asset and preferred stock liquidation preference) also increased 2.6% from \$12.55/common share in Q217 to \$12.88/common share in Q317. The increase in tangible book value combined with AI's declared dividend of \$0.55/share helped drive a 28% annualized economic return (quarterly change in book value + dividend).

### Exhibit 5: Non-GAAP Core Operating Income

(In thousands, except per share amounts)

	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
GAAP net interest income	\$ 14,867	\$ 18,833	\$ 20,277	\$ 16,141
TBA dollar roll income	6,424	4,298	3,398	6,426
Interest rate swap net interest expense	(4,198)	(5,293)	(5,409)	(4,326)
Economic net interest income	17,093	17,938	18,266	18,241
Core general and administrative expenses	(3,171)	(3,681)	(4,024)	(3,326)
Preferred stock dividend	(83)	(35)	—	—
Non-GAAP core operating income	\$ 13,839	\$ 14,222	\$ 14,242	\$ 14,915
Non-GAAP core operating income per diluted common share	\$ 0.52	\$ 0.58	\$ 0.60	\$ 0.64
Weighted average diluted common shares outstanding	26,856	24,552	23,897	23,343

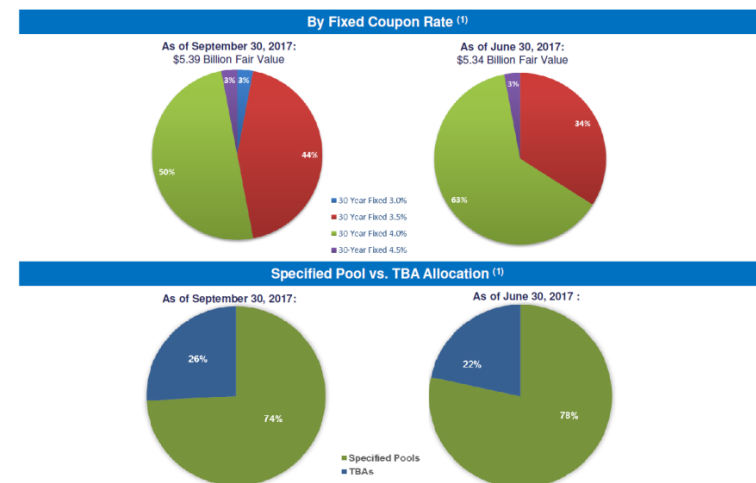
Source: Company Reports; Stonegate Capital Partners

For Q317, Arlington generated GAAP net income of \$0.85/share compared to a GAAP net loss of \$(0.74)/share in the Q217. Core EPS for Q317 was \$0.52/share compared to \$0.58/share in Q217. Q317 net interest income and core operating income were negatively impacted by higher prepayments, lower asset yields, lower weighted average leverage, lower investment volumes, and higher financing costs. Core EPS or core operating income is a non-GAAP figure that captures the net swap interest costs, which is excluded from net interest income but shown as a loss on derivatives for GAAP. We note that the figure is a better indicator of dividend capacity compared to GAAP income or GAAP EPS.

The Company's actual constant prepayment rate for its agency MBS increased to 10.29% in Q317 compared to 9.03% in Q217. The average agency MBS yield was 2.80% in Q317 versus 2.85% in Q217. Additionally, the Company's average cost of its repo agreements was 1.31% in Q317, compared to 1.08% in Q217. The 23-basis point increase quarter over quarter was driven by the increase in benchmark short-term interest rates, which was driven by the Federal Reserve's 25 basis point increase in June 2017.

As of Q317, Arlington Asset Investment Corporation's portfolio totaled \$5,389M, comprised of \$3,994M specified agency MBS and \$1,395M net long TBA agency MBS.

### Exhibit 6: Investment Portfolio Allocation



Source: Company Reports; Stonegate Capital Partners



During the quarter, the Company increased its allocation to TBAs while decreasing its specified agency MBS allocation as the implied net interest rate spread return on TBA dollar rolls was moderately higher than the net interest rate spread on specified agency MBS financed with repos.

Arlington also lowered its allocation to agency MBS investments in 4.0% coupon securities, while also increasing its allocation toward 3.0% and 3.5% coupon securities. The Company made this shift to capture higher expected return opportunities.

The Company also maintained a substantial hedge position, which included primarily interest rate swaps as illustrated in Exhibit 7 below.

### Exhibit 7: Hedging Portfolio Summary

Interest Rate Swaps as of September 30, 2017 (dollars in thousands):

	Weighted-average					
	Notional Amount	Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)	Duration <sup>(1)</sup>
<b>Interest rate swaps currently effective:</b>						
Less than 3 years to maturity	\$ 1,300,000	1.26%	1.32%	0.06%	1.7	(1.5)
3 to less than 7 years to maturity	700,000	1.87%	1.32%	(0.55)%	4.1	(3.5)
7 to 10 years to maturity	1,600,000	1.90%	1.32%	(0.58)%	8.5	(7.6)
Total / weighted average	\$ 3,600,000	1.68%	1.32%	(0.34)%	5.2	(4.6)
<b>Forward starting interest rate swaps:</b>						
Effective October 2017	\$ 250,000	1.12%	—	—	2.0	(1.7)
						(4.5)

Other Hedges as of September 30, 2017 (dollars in thousands):

<b>Futures:</b>				<b>Options:</b>		
<b>10-year U.S. Treasury Note Futures</b>				<b>Purchased Call Options on 10-year U.S. Treasury Note Futures</b>		
Maturity Date	Notional Amount	Weighted-average Implied Rate	Duration <sup>(1)</sup>	Expiration Date	Notional Amount	Implied Strike Rate <sup>(2)</sup>
December 2017	\$ 350,000	2.10%	(7.8)	October 2017	\$ 150,000	1.49%
				<b>Purchased Put Options on Agency MBS</b>		
Expiration Date	Notional Amount	Underlying Agency MBS Coupon	Weighted-average Strike Price			
October 2017	\$ 500,000	4.0%	\$ 102.5			
November 2017	200,000	4.0%	103.5			
Total	\$ 700,000	4.0%	\$ 102.8			

(1) Duration is calculated based upon each interest rate swap's "DV01" (a valuation metric: the dollar value of a one basis point increase in interest rates) as reported by the Chicago Mercantile Exchange, the clearinghouse through which these instruments were centrally cleared. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a particular manner.

(2) The implied strike rate is estimated based upon the weighted average strike price per option contract and the price of an equivalent 10-year U.S. Treasury note futures contract.

Source: Company Reports; Stonegate Capital Partners

We also note that the Company's average notional amount of its hedge instruments as a percentage of its average repo agreement financing and TBA commitments increased to 78% in Q317 compared to 74% in Q217 (Exhibit 8).

### Exhibit 8: Portfolio Weighted Average Statistics

(dollars in thousands)	2017		2016	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
<b>Specified agency MBS:</b>				
Constant prepayment rate	10.29%	9.03%	8.17%	12.90%
GAAP asset yield	2.80%	2.85%	2.85%	2.55%
Weighted average GAAP amortized cost basis	\$ 4,104,083	\$ 4,404,798	\$ 4,250,758	\$ 3,774,344
<b>TBA dollar rolls:</b>				
Implied net interest spread	2.10%	2.42%	2.45%	2.36%
Weighted average implied cost basis	\$ 1,225,131	\$ 711,190	\$ 554,846	\$ 1,087,337
<b>Total agency MBS weighted average cost basis</b>	<b>\$ 5,329,214</b>	<b>\$ 5,115,988</b>	<b>\$ 4,805,604</b>	<b>\$ 4,861,680</b>
Specified agency MBS allocation	77%	86%	88%	78%
TBA dollar roll allocation	23%	14%	12%	22%
<b>Repurchase agreements:</b>				
Weighted average financing rate	1.31%	1.08%	0.90%	0.80%
Weighted average balance	\$ 3,819,095	\$ 4,125,631	\$ 3,925,011	\$ 3,552,597
<b>Interest rate swaps:</b>				
Weighted average fixed pay rate	(1.74)%	(1.76)%	(1.69)%	(1.53)%
Weighted average variable receive rate	1.27%	1.14%	1.03%	0.90%
Weighted average net pay rate	(0.47)%	(0.62)%	(0.66)%	(0.63)%
Weighted average notional amount	\$ 3,561,667	\$ 3,342,473	\$ 3,211,944	\$ 2,754,839
Interest rate hedge notional / repo and TBA ratio <sup>(1)</sup>	78%	74%	72%	59%
<b>Total agency MBS economic net interest margin <sup>(2)</sup></b>	<b>1.37%</b>	<b>1.49%</b>	<b>1.62%</b>	<b>1.56%</b>

(1) For the third and second quarters of 2017, includes a weighted average notional of futures on 10-year U.S. Treasury Notes of \$300,000 and \$294,722, respectively.  
 (2) Calculated as the ratio of the following, expressed as an annualized percentage of the total agency MBS weighted average cost basis for the period: GAAP interest income from agency MBS, plus TBA dollar roll income, less agency MBS repurchase agreement interest expense, less interest rate swap net interest expense.

Source: Company Reports; Stonegate Capital Partners

Additionally, we note that Arlington publishes a sensitivity analysis for changes in book value for given changes in interest rates, which we illustrate in Exhibit 9.

### Exhibit 9: Interest Rate Sensitivity Analysis

Interest Rate Sensitivity as of September 30, 2017 <sup>(1)</sup>	
Interest Rate Change (bps)	Estimated Change in Book Value Per Common Share
-100	-15.9%
-50	-3.2%
+50	-6.1%
+100	-16.5%

(1) Interest rate sensitivity of agency MBS and TBA commitments is derived from The Yield Book, a third-party model

Source: Company Reports; Stonegate Capital Partners

Lastly, the Company also publishes a sensitivity analysis for spread risk changes to book value.

### Exhibit 10: Spread Risk Sensitivity Analysis

Agency MBS Spread Sensitivity as of September 30, 2017 <sup>(2)</sup>	
Agency MBS Spread Change (bps)	Estimated Change in Book Value Per Common Share
-25	18.9%
-10	7.6%
+10	-7.1%
+25	-18.3%

(2) Agency MBS spread sensitivity is derived from The Yield Book, a third-party model

Source: Company Reports; Stonegate Capital Partners

## MARKET TRENDS AND OUTLOOK

Through mid Q317, market conditions caused investors to readjust their expectations on the timing of the Federal Reserve's interest rate hikes. Weakening inflation expectations, rising geopolitical risk, and falling expectations on the likelihood of pro-economic growth policies coming from Washington DC drove the bond market to rally.

The US treasury yield curve continued to flatten during Q317 as the 2 to 10-year treasury spread narrowed 8 bps. The spread between the 10-year US Treasury and the 10-year swap also narrowed modestly by 1 bps.

While the FOMC (Federal Open Market Committee) kept rates steady at its September 20, 2017 meeting (Fed fund rate range of 1.00% to 1.25%), the FOMC commented that it continues to expect to make gradual adjustments to monetary policy and that economic activity will expand at a moderate pace, and the labor market will strengthen a bit further. Additionally, and importantly, the FOMC stated that beginning in October 2017, it will initiate its previously announced "balance sheet normalization program." This means that the FOMC will start to gradually reduce its reinvestment of principal payments from US Treasuries and agency MBS.

At its December 13, 2017 meeting, the FOMC raised its target rates by 25 basis points (Fed Fund rate range of 1.25% to 1.50%) as widely expected by the market.

Given the above, Arlington Asset Investment Corp. appears to have positioned the portfolio to a relatively flat yield curve environment as evidence by management commentary, the rate sensitivity analysis above and its current hedge position.

We note that the Mortgage Bankers Association (MBA) also projects a somewhat flat yield curve in FY18, as can be seen in Exhibit 11 below.

**Exhibit 11: MBA Economic Forecast**

	2017				2018				2019				2016	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019	2020
<b>Housing Measures</b>																	
Housing Starts (SAAR, Thous)	1,238	1,167	1,165	1,250	1,260	1,290	1,300	1,305	1,340	1,370	1,390	1,405	1,177	1,195	1,289	1,376	1,435
Single-Family	859	825	846	870	890	910	920	935	950	980	1,000	1,015	784	842	914	966	1,060
Two or More	399	342	319	380	370	380	380	370	390	390	390	390	393	352	375	390	375
Home Sales (SAAR, Thous)																	
Total Existing Homes	5,620	5,563	5,393	5,394	5,484	5,604	5,702	5,725	5,754	5,793	5,818	5,848	5,440	5,492	5,629	5,803	5,978
New Homes	617	605	603	591	593	624	635	640	650	661	667	671	561	604	623	642	694
FHFA US House Price Index (YOY % Change)	5.7	6.4	6.4	6.2	5.9	5.6	5.3	4.9	4.6	4.2	3.9	3.6	5.7	6.2	5.4	4.1	2.9
Median Price of Total Existing Homes (Thous \$)	230.7	253.6	252.1	244.5	252.8	252.9	253.5	250.4	255.1	260.2	261.4	258.5	232.1	245.2	252.4	258.8	265.4
Median Price of New Homes (Thous \$)	311.6	316.6	315.7	316.8	328.4	330.1	331.5	327.6	334.3	340.5	341.8	338.1	306.5	315.2	329.4	338.6	346.4
<b>Interest Rates</b>																	
30-Year Fixed Rate Mortgage (%)	4.2	4.0	3.9	4.0	4.3	4.5	4.7	4.8	4.8	4.9	5.0	5.1	3.6	4.0	4.6	4.9	5.3
10-Year Treasury Yield (%)	2.4	2.3	2.2	2.4	2.5	2.7	2.8	2.9	2.9	3.0	3.1	3.2	1.8	2.3	2.7	3.0	3.5
<b>Mortgage Originations</b>																	
Total 1- to 4-Family (\$B \$)	361	463	471	415	362	450	450	352	355	460	460	365	2,051	1,710	1,614	1,440	1,712
Purchase	212	316	320	262	237	345	350	252	255	340	340	270	1,062	1,110	1,184	1,245	1,317
Refinance	149	147	151	153	125	105	100	100	100	100	100	95	999	600	430	395	395
Refinance Share (%)	41	32	32	37	35	23	22	28	28	22	22	26	49	35	27	24	23
<b>Mortgage Debt Outstanding</b>																	
1- to 4-Family (\$B \$)	9,770	9,840	9,930	10,010	10,090	10,180	10,280	10,370	10,460	10,560	10,670	10,760	9,710	10,010	10,370	10,760	11,130

Source: Company Reports; Stonegate Capital Partners

We note that the MBA expected the Fed to raise rates in December 2017. This was to be followed by three hikes in 2018 and two hikes in 2019.

## VALUATION

We are using a comparison analysis to value Arlington Asset Investment Corp. Our comparison companies include other mortgage REITs that primarily invest in agency mortgage backed securities.

## COMPARATIVE COMPANY ANALYSIS

Arlington Asset Investment Corp. (NYSE: AI)  
 (all figures in \$M except per share information)

Name	Ticker	Price (1)	S/O	Mkt Cap	MRQ			EPS (3)			P/E		P/BV	P/TBV	Annual Dividend (4)	Dividend Yield (%)	Leverage Ratio (5)
					Assets	BV/sh	TBV/sh (2)	2016	2017E	2018E	2017E	2018E					
Annaly Capital Management, Inc.	NLY	\$ 11.22	1,159.5	\$ 13,010.1	97,574	\$ 11.42	\$ 11.33	\$ 1.39	\$ 1.21	\$ 1.19	9.3x	9.4x	0.98x	0.99x	\$ 1.20	10.7%	5.5x
AGNC Investment Corp.	AGNC	\$ 19.69	391.3	\$ 7,704.6	65,490	\$ 21.23	\$ 19.82	\$ 1.79	\$ 2.54	\$ 2.37	7.8x	8.3x	0.93x	0.99x	\$ 2.16	11.0%	4.9x
CYS Investments, Inc.	CYS	\$ 7.47	155.0	\$ 1,157.9	13,422	\$ 8.66	\$ 8.66	\$ (0.04)	\$ 1.03	\$ 0.94	7.3x	7.9x	0.86x	0.86x	\$ 1.00	13.4%	7.7x
Capstead Mortgage Corporation	CMO	\$ 8.73	96.1	\$ 839.0	13,902	\$ 10.64	\$ 10.64	\$ 0.70	\$ 0.63	\$ 0.62	13.9x	14.1x	0.82x	0.82x	\$ 0.76	8.7%	12.2x
Anworth Mortgage Asset Corporation	ANH	\$ 5.24	98.1	\$ 514.1	5,784	\$ 6.07	\$ 6.07	\$ 0.17	\$ 0.54	\$ 0.52	9.7x	10.1x	0.86x	0.86x	\$ 0.60	11.5%	7.3x
Orchid Island Capital, Inc.	ORC	\$ 8.15	53.1	\$ 432.5	4,144	\$ 9.15	\$ 9.15	\$ 0.08	\$ 2.01	\$ 1.55	4.1x	5.3x	0.89x	0.89x	\$ 1.68	20.6%	9.0x
Ellington Residential Mortgage REIT	EARN	\$ 11.86	13.3	\$ 158.2	1,934	\$ 14.76	\$ 14.76	\$ 1.31	\$ 1.84	\$ 1.63	6.4x	7.3x	0.80x	0.80x	\$ 1.60	13.5%	8.4x
								Average	\$ 0.77	\$ 1.40	\$ 1.26	8.3x	8.9x	0.88x	0.89x	12.8%	7.9x
								Median	\$ 0.70	\$ 1.21	\$ 1.19	7.8x	8.3x	0.86x	0.86x	11.5%	7.7x
Arlington Asset Investment Corp.	AI	\$11.64	28.1	\$ 327.6	4,216	\$ 13.71	\$ 12.88	\$ 2.75	\$ 2.28	\$ 2.40	5.1x	4.8x	0.85x	0.90x	\$ 2.20	18.9%	9.6x

- (1) Previous day's closing price  
 (2) TBV is calculated as Common Equity less intangible assets less deferred tax assets  
 (3) Estimates are from CapitalIQ except for AI which are Stonegate estimates  
 (4) Dividend is the MRQ dividend annualized  
 (5) Leverage ratio is st debt or portfolio debt to common equity

Source: Company Reports, Capital IQ, Stonegate Capital Partners

## Price / Book

As seen above, Arlington Asset Investment Corp. is trading a P/BV 0.85x and has a dividend yield of 18.9%. Considering current and historical trading ranges of comps and AI, as well historical industry multiples, we believe using a P/B multiple range of 0.80x to 1.20x is reasonable. Therefore, using the 0.80x to 1.20x P/B range, we arrive at a valuation range of ~\$11.00 to ~\$16.50 with a mid-point of ~\$13.75.

## Price / Earnings

Based on our FY18 EPS estimate, Arlington is trading a P/E ratio of 4.8x vs. median comparables at 8.3x. Considering current and 3-year historical trading ranges of AI and comps, we believe using a P/E multiple range of 3.0x to 8.0x is reasonable. Using the range on our FY18 EPS estimate, we arrive at a valuation range of ~\$7.00 to ~\$19.00 with a mid-point of ~\$13.00

## Dividend yield

Currently, Arlington Asset Investment Corp. is trading a dividend yield of 18.9% vs. median comps at 11.5%. Most mortgage REITs typically trade on dividend yield expectations. The higher yield may indicate that investors are concerned with Arlington's dividend. We note that our FY18 core EPS of \$2.40 supports the current annual dividend of \$2.20.

## INCOME STATEMENT

Arlington Asset Investment Corp. (NYSE: AI)  
 Consolidated Statements of Income (in thousands \$, except per share amounts)  
 Fiscal Year: December

	FY 2015	FY 2016	FY 2017E	FY 2018E
<b>Interest Income</b>				
Agency mortgage-backed securities	\$ 105,914	\$ 97,053	\$ 120,209	\$ 124,703
Private label mortgage backed securities	15,342	7,910	82	-
Other	7	373	175	250
<b>Total Interest Income</b>	<b>121,263</b>	<b>105,336</b>	<b>120,466</b>	<b>124,953</b>
<b>Interest Expense</b>				
Short-term debt	14,701	24,433	45,803	62,901
Long-term debt	4,188	4,789	4,861	4,861
<b>Total Interest Expense</b>	<b>18,889</b>	<b>29,222</b>	<b>50,664</b>	<b>67,762</b>
<b>Net Interest Income</b>	<b>102,374</b>	<b>76,114</b>	<b>69,802</b>	<b>57,190</b>
<b>Investment loss, net</b>				
Realized gain on sale of AFS, net	17,725	4,777	-	-
Other-than-temporary impairment charges	(2,417)	(1,737)	-	-
(Loss) gain on trading investments, net	(31,058)	(41,249)	25,632	-
Loss from derivative instruments, net	(104,743)	(31,660)	(29,945)	-
Other, net	2,064	551	(51)	-
<b>Total investment loss, net</b>	<b>(118,429)</b>	<b>(69,318)</b>	<b>(4,364)</b>	<b>-</b>
<b>General and administrative expenses</b>				
Compensation and benefits	9,719	11,526	12,500	12,500
Other general and administrative expenses	5,068	9,230	5,200	5,200
<b>Total general and administrative expenses</b>	<b>14,787</b>	<b>20,756</b>	<b>17,700</b>	<b>17,700</b>
<b>(Loss) income before income taxes</b>	<b>(30,842)</b>	<b>(13,960)</b>	<b>47,738</b>	<b>39,490</b>
Income tax provision (benefit)	38,561	27,387	27,000	17,031
Preferred stock dividend	-	-	239	484
<b>Net (loss) income</b>	<b>\$ (69,403)</b>	<b>\$ (41,347)</b>	<b>\$ 20,499</b>	<b>\$ 21,975</b>
<b>Basic EPS - GAAP</b>	<b>\$ (3.02)</b>	<b>\$ (1.79)</b>	<b>\$ 0.79</b>	<b>\$ 0.77</b>
<b>Diluted EPS - GAAP</b>	<b>\$ (3.02)</b>	<b>\$ (1.79)</b>	<b>\$ 0.79</b>	<b>\$ 0.77</b>
Weighted average shares outstanding				
Basic	23,002	23,051	26,000	28,600
Diluted	23,002	23,051	26,000	28,600
<b>Core Operating Income</b>				
GAAP net interest income	102,374	76,114	69,802	57,190
TBA dollar roll income	6,743	19,261	21,011	25,085
Interest rate swap net interest expense	(1,282)	(17,825)	(16,276)	2,035
Economic net interest income	107,835	77,550	74,537	84,310
Core general and administrative expense	13,642	13,802	15,072	15,072
Preferred stock dividend	-	-	239	484
<b>Core operating income</b>	<b>\$ 94,193</b>	<b>\$ 63,748</b>	<b>\$ 59,226</b>	<b>\$ 68,754</b>
<b>Core operating income/share</b>	<b>\$ 4.09</b>	<b>\$ 2.75</b>	<b>\$ 2.28</b>	<b>\$ 2.40</b>
Weighted average diluted shares outstanding	23,088	23,202	26,000	28,600
<b>Dividend per share</b>	<b>\$ 3.00</b>	<b>\$ 2.50</b>	<b>\$ 2.28</b>	<b>\$ 2.20</b>



## BALANCE SHEETS

Arlington Asset Investment Corp. (NYSE: AI)

Consolidated Balance Sheets (in thousands \$, except per share amounts)

Fiscal Year: December

	FY 2015	FY 2016	MRQ 9/30/17
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 36,987	\$ 54,794	\$ 26,368
Interest receivables	11,936	11,646	12,428
Mortgage-backed securities, at fair value agency			
Agency	3,865,316	3,911,375	3,994,515
Private label	130,553	1,266	54
Derivative assets, at fair value	12,991	74,889	4,177
Deferred tax asset-net	72,927	48,829	23,453
Deposits	29,429	11,149	59,317
Other assets	18,197	3,003	95,287
<b>Total Assets</b>	<b>\$ 4,178,336</b>	<b>\$ 4,116,951</b>	<b>\$ 4,215,599</b>
<b>Liabilities</b>			
Repurchase agreements	\$ 2,834,780	\$ 3,649,102	\$ 3,694,838
Federal home loan bank advances	786,900	-	-
Interest payable	2,436	3,434	2,813
Accrued compensation and benefits	5,170	5,406	4,210
Dividend payable	14,504	15,739	17,044
Derivative liabilities, at fair value	553	9,554	7,146
Other liabilities	1,132	1,247	23,152
Long-term debt	73,433	73,656	73,824
<b>Total Liabilities</b>	<b>3,718,908</b>	<b>3,758,138</b>	<b>3,823,027</b>
<b>Shareholders' Equity</b>			
Preferred stock	-	-	6,904
Class A common stock - par value	229	236	280
Class B common stock - par value	1	-	-
Additional paid in capital	1,898,085	1,910,284	1,972,463
Accumulated other comprehensive income	12,371	-	-
Accumulated deficit/retained earnings	(1,451,258)	(1,551,707)	(1,587,075)
<b>Total Shareholders Equity</b>	<b>459,428</b>	<b>358,813</b>	<b>392,572</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>\$ 4,178,336</b>	<b>\$ 4,116,951</b>	<b>\$ 4,215,599</b>
Book value per common share	\$ 20.00	\$ 15.19	\$ 13.71
Tangible book value per common share	\$ 16.82	\$ 13.12	\$ 12.88

## RECENT EVENTS

**December 14, 2017** - Arlington Asset Investment Corp. declares \$0.55 per common share dividend for fourth quarter of 2017

**November 30, 2017** - Arlington Asset Investment Corp. declares dividend on its series B preferred stock for the fourth quarter of 2-17

**October 24, 2017** - Arlington Asset Investment Corp. reports third quarter 2017 financial results.

**September 14, 2017** - Arlington Asset Investment Corp. declares \$0.55 per common share dividend for the third quarter of 2017.

**September 6, 2017** - Arlington Asset Investment Corp. declares dividend on its series B preferred stock for the third quarter 2017.

**July 24, 2017** - Arlington Asset Investment Corp. reports second quarter 2017 financial results.

**June 16, 2017** - Arlington Asset Investment Corp. declares \$0.55 per common share dividend for the second quarter of 2017.

**June 7, 2017** - Arlington Asset Investment Corp. declares initial dividend on its series B preferred stock.

**April 25, 2017** - Arlington Asset Investment Corp. reports first quarter 2017 financial results.

**March 14, 2017** - Arlington Asset Investment Corp. declares \$0.625 per share dividend for the first quarter of 2017.

**March 3, 2017** - Arlington Asset Investment Corp. corrects erroneous third-party reports misstating Arlington's dividend.

**February 7, 2017** - Arlington Asset Investment Corp. reports fourth quarter and full year 2016 financial results.

**December 16, 2016** - Arlington Asset Investment Corp. declares \$0.625 per share dividend for the fourth quarter of 2016.

## CORPORATE GOVERNANCE

**Eric F. Billings, Executive Chairman** – Mr. Billings co-founded the company in 1989, and established the company's principal investing unit as FBR Asset Investment Corp. in 1997. Mr. Billings served as Chairman of FBR & Co., a publicly-traded investment banking, institutional brokerage and asset management firm, a position he held since its formation in 2006 until his retirement in 2012. From 2006 to 2008, Mr. Billings also served as the Chief Executive Officer of FBR & Co. In addition, he concurrently holds the position of Senior Managing Partner and Co-Portfolio Manager of Billings Capital Management, LLC, an investment management company he runs with his sons. Mr. Billings began his 30-year investment career at Legg Mason, Inc. as an investment analyst and salesperson in the Institutional Brokerage division. In 1983 he joined Johnston Lemon Corp. where he built and managed their Washington, DC institutional brokerage group until 1989. He was born in Boston, MA and is a graduate of the University of Maryland with a B.A. in Economics and Finance.

**J. Rock Tonkel, Jr., President, CEO**, - Prior to his current position, he was the company's President and COO, a position he held since 2007. Prior to 2007, he was President and Head of Investment Banking at FBR Capital Markets & Co. Mr. Tonkel joined FBR Capital Markets & Co. in 1994 as Head of Investment Banking's Financial Institutions Group. Prior to joining FBR Capital Markets & Co., Mr. Tonkel served as Special Assistant to the Director of the Office of Thrift Supervision, the regulatory agency for the savings and loan industry. At the Office of Thrift Supervision, Mr. Tonkel oversaw the restructuring of many of the nation's largest troubled thrifts and savings banks. Mr. Tonkel received his Bachelor of Arts degree in economics from Amherst College.

**Richard Konzmann, EVP, CFO** – Prior to joining the Company in March 2015, Mr. Konzmann was employed by American Capital, Ltd., a publicly traded private equity firm and global asset manager, from 2002 until March 2015. In 2006, he became Senior Vice President, Accounting of American Capital, Ltd. where he was responsible for all accounting, financial reporting, loan servicing and tax compliance for the alternative asset management company and its funds under management, including publicly traded mortgage real estate investment trusts, publicly traded business development companies and private equity funds. Prior to joining American Capital, Ltd., Mr. Konzmann served in various controllership, finance and asset management roles with Crestline Capital Corporation and Host Marriott Corporation and began his career with the public accounting firm Deloitte and Touche LLP. Mr. Konzmann graduated from Pennsylvania State University with a Bachelor of Science in Accounting and is a Certified Public Accountant and Certified Valuation Analyst.

**Brian J. Bowers, CIO, Portfolio Manager**– Mr. Bowers is responsible for the principal investing activities of the firm's portfolio, overseeing the daily investing operations and the direction of the portfolio. Mr. Bowers joined the Company in 2000, and has over 20 years of fixed income experience, portfolio analysis and management. Previously, he was the Chief Portfolio Strategies for BB&T Capital Markets and the Portfolio Manager/Plan Sponsor of CareFirst, Inc. Mr. Bowers earned a Bachelor of Science in Finance from the University of Maryland and an M.B.A. from Loyola College.

### Board of Directors:

**Eric F. Billings** – *Executive Chairman*

**Anthony P. Nader, III** - *Director*

**Daniel J. Altobello** – *Director*

**Daniel E. Berce** – *Director*

**David W. Faeder** – *Director*

**J. Rock Tonkel, Jr.** – *Director*

**Peter A. Gallagher** – *Director*

**Ralph S. Michael, III** – *Director*

## KEY TERMS AND METRICS

**Net interest income** – This represents “revenue” and is the difference between the income generated from interest bearing assets less the financing costs associated with acquiring the assets.

**Net interest margin** – Measurement that represents how successful a firm is at investing its capital in comparison to the total amount of capital employed. It is calculated as net interest income divided by earning assets.

**Economic net interest income** – This is a non-GAAP financial measure. Arlington calculates the figure as GAAP net interest income plus TBA dollar roll income less net interest expenses from interest rate swap agreements.

**Core operating income / EPS** - Core EPS or core operating income is a non-GAAP figure that often excludes “non-core” items such as gains and losses from investments. Arlington calculates core operating income as economic net interest income less core G&A expenses. Core G&A expenses typically exclude stock option expense. Management uses this figure to evaluate the performance of the investment strategy and core business over time.

**Book value** – Book value is calculated as total equity less preferred stock.

**Tangible book value** – Mortgage REITS or other mortgage investing entities calculate tangible book value as book value less deferred tax asset.

**Mortgage Backed Security (MBS)** – A MBS is a type of asset backed bond that is secured by a mortgage or pool of mortgages. These mortgages are sold to entities that “package” the loans together into a security for investors to buy. The investor in a MBS security receives interest and principal payments that are “passed-through” when borrowers pay their mortgages.

**Agency MBS** – An agency MBS is issued by a government entity or government sponsored entity such as Federal National Mortgage (Fannie Mae or FNMA), Federal Home Loan Mortgage Corp. (Freddie Mac) and/or Government National Mortgage Association (Ginnie Mae or GNMA). GNMA's are backed by the full faith and credit of the US government. FNMA and Freddie Mac securities offer an implicit guarantee from the US Government. What this means is that investors believe that should something happen to FNMA or Freddie Mac, the US government would act and guarantee these securities. As the guarantee is “implicit” and not a direct guarantee of the US government, the securities offer higher yields than treasury securities.

**Private label MBS** – Private label MBS or non-agency MBS are mortgage backed securities that are issued by private entities such as a financial institution. Private label MBS have a higher credit risk than agency MBS as private label MBS are guaranteed by the private entity. As a result, private label MBS will typically offer a higher yield to compensate for higher risk.

**TBA security** – A TBA (to-be-announced) is a forward contract for the purchase or sale of a MBS security with predetermined features such as: (1) price, (2) face amount, (3) issuer, (4) coupon, and (5) stated maturity. However, the specific agency securities to be delivered against the forward contract are not identified until shortly before the settlement date. The Federal Reserve estimates that over 90% of MBS trading occurs in the TBA market.

**TBA dollar roll** – This is a form of short-term financing using the TBA market. A dollar roll transaction combines the sale of a TBA with current month settlement with a simultaneous purchase of a similar TBA with settlement in the next month. The purchase price is normally lower than the sale price and is referred to as dollar roll or drop. This dollar roll or price drop is the implied net interest income earned from TBA dollar roll transactions.

**Interest rate swap** – This is an agreement between two counterparties where one stream of future interest payments is swapped in exchange for another based on a specific principal amount (notional amount). Interest rate swaps typically involve the exchange of a variable interest rate for a fixed interest rate or vice versa. Entities enter into swaps to help reduce or increase exposure to fluctuations in interest rates.

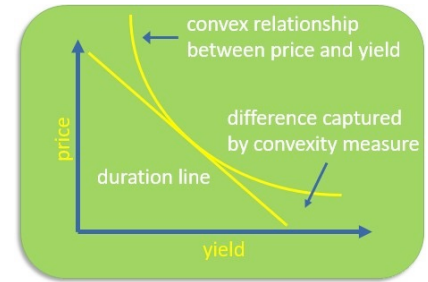
**Notional amount** – The notional amount is the total value of a contract or financial instrument that is used to calculate payments made on that contract or financial instrument. The amount used does not change.

**Repurchase agreement** - This is a form of short-term borrowing and is also known as a repo. In a repo, one party sells a security (aka collateral) to another party in exchange for cash and a promise to repurchase the exact same security in the future. The cash received will typically have a “hair-cut” to the actual value of the security being sold. The size of the haircut is dependent on the collateral and the perceived risk of the collateral falling in value.

**Constant prepayment rate (CPR)** - This measure is an annualized estimate of mortgage prepayments that is expected over the next year. The measurement helps model the risk of prepayments. A CPR of 10% means that 10% of the MBS pool of loans is likely to prepay in the next year.

**Duration** – Duration is a measure of the sensitivity of the price of a bond to a change in interest rates. Duration is measured in years and is a linear measure. The higher the duration number, the larger the potential the swing in the price of the bond. For example, if a bond has a duration of 8.0, then this means if interest rates drop by 1.0%, the price of the bond will increase 8.0%. While duration is a linear measure, the actual changes to the bond price is unlikely to change in a linear manner.

**Convexity** – Convexity measures the curvature of a bond price and yield relationship. It is a “second derivative”, which essentially means it measures the rate of change in change. While duration is a linear measure, convexity is a non-linear measure and when used along with duration, helps investors better understand an approximate change in bond price given the change in interest rates. The higher the convexity of a bond, the more sensitive it is to interest rate fluctuations.



**Prepayment risk** – This is the risk that borrowers will repay a loan before its maturity. While this provides higher payments that are passed through to the investors of mortgage backed securities, it also presents a risk. First, prepayments are generally higher when interest rates are dropping as borrowers are more apt to refinance and the volume of home sales/purchases is likely to increase as well. As a result, the owner of a MBS will receive more income that will likely need to be reinvested at lower interest rates. Additionally, GAAP requires investors to amortize premium and/or discounts paid for MBS into the income statement over time. The amortization of a premium reduces net income. Therefore, if prepayments accelerate, net income will experience pressure.

**Interest rate risk** – Bond values move inversely to interest rate changes. Thus, if interest rates increase, bond prices decline and vice versa. How sensitive a bond is to fluctuating interest rates is dependent on numerous factors such the maturity date of the bond and the coupon rate.

**Spread risk** – This is also referred to as basis risk and is the risk of an increase in the spread between US treasury bonds and a debt security (i.e. MBS) with similar maturity. When spreads increase, this is typically a sign that investors are demanding a higher risk premium vs. risk free securities. As such a widening of spreads could send MBS securities down in value.

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### CONTACT INFORMATION

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